PKF

worldwide tax guide

2018-19

FOREWORD

A country's tax regime is always a key factor for any business considering moving into new markets. What is the corporate tax rate? Are there any incentives for overseas businesses? Are there double tax treaties in place? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide international businesses with the answers to these key tax questions.

As you will appreciate, the production of the WWTG is a huge team effort and we would like to thank all tax experts within PKF member firms who gave up their time to contribute the vital information on their country's taxes that forms the heart of this publication.

The PKF Worldwide Tax Guide 2018/19 (WWTG) is an annual publication that provides an overview of the taxation and business regulation regimes of the world's most significant trading countries.

On a country-by-country basis, each summary addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country's personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not to be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

Services provided by member firms include:

- Assurance & Advisory;
- Tax Advisory & Compliance;
- Financial Planning / Wealth Management;
- Corporate Finance;
- Management Consultancy;
- IT Consultancy;
- Insolvency - Corporate and Personal;
- Forensic Accounting; and,
- Hotel Consultancy.

In addition to the printed version of the WWTG, individual country taxation guides are available in PDF format which can be downloaded from the PKF website at www.pkf.com

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STRUCTURE OF COUNTRY DESCRIPTIONS

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AFGHANISTAN

MEMBER FIRM

City	Name	Contact Information
Kabul	Qamar Ali Mumtaz	+93 799 195344 qamar@pkf.com.pk

BASIC FACTS

Full name:	Islamic Republic of Afghanistan
Capital:	Kabul
Main languages:	Pashto, Dari
Population:	36.18 million (2018 estimate)
Monetary units:	Afghani (AFN)
Internet domain:	.af
Int. dialling code:	+93

KEY TAX POINTS

- All businesses irrespective of the legal status of the entity or company are subject to 20% corporate income tax on income under Article 4 of the Income Tax law in Afghanistan.
- Capital gains from the sale, exchange, or transfer of certain assets are treated as taxable income. Capital gains include the sale of a trade or business (including goodwill), a factory (including equipment, machinery, buildings and land, or any part of such assets), equipment used in the business of transporting persons and property, and shares of stock in corporations or limited liability companies.
- The calculation of tax on the taxable profits of branch offices of non-resident companies is the same as for other businesses. The tax is calculated at 20% of income after allowing certain deductible expenses.
- Individuals are subject to tax at progressive rates. The monthly maximum limit is 20% + AFN 8,900 fixed amount.
- Any income tax paid to the government of a foreign country may be taken as a credit according to the principle of reciprocity

A. TAXES PAYABLE

CORPORATE TAX

All businesses irrespective of the legal status of the entity or company are subject to 20% corporate income tax under article 4 of the Income Tax law in Afghanistan.

Business Receipt Tax

Business Receipt Tax (BRT) is also applicable on the gross revenue of businesses at the rates given below. BRT is treated as a deductible expense from revenue.

- Automobiles and their spare parts: 4% or 7%;
- Travel agents: 4%;
- Revenue from public entertainment, exhibitions and support events: 4%;
- Sale of merchandise and services: 4%;
- Restaurant earning less than AFN 750,000 per quarter: 4%;
- Guest house, restaurant and hotel earning AFN 750,000 per quarter: 5%;
- Club hall (without any threshold): 5%.

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BRT does not apply to the following categories of Income:

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

CAPITAL GAINS TAX

Capital gains under article 23 of the tax legislation refer to any gain from the sale, exchange, or transfer of the following assets:

1) A trade or business, including goodwill;
2) A factory including equipment, machinery, buildings and land, or any part of such assets;
3) Equipment used in the business of transporting persons and property; and
4) Shares of stock in corporations or limited liability companies.

Chargeable capital gains are treated as and included in taxable income. A gain from the sale or transfer of movable or immovable property acquired by inheritance is excluded from the provisions of paragraph (1) of this Article.

A loss incurred on the sale or exchange of capital items used in a business is deductible from the taxable income of the business from other sources for the year. While a loss on the sale of shares can only be offset against the sale or exchange of other shares in the same year.

Method of calculation of Capital Gain

Gains (receipts less allowable expenses) arising from capital asset transactions are divided by the number of years of usage of the said asset. The average rate so obtained is then applied to the total income of the person (natural or legal) for the year. The rate so calculated cannot be less than 2%.

BRANCH PROFITS TAX

The calculation of tax on the taxable profits of branch offices of non-resident companies is the same as for other business. The tax is calculated at 20% of income after allowing certain deductible expenses.

The only exception to the rule is that any amount remitted outside Afghanistan to principal office or any other branch office shall be regarded as a dividend and shall be subject to withholding tax at 20%

SALES TAX / VALUE ADDED TAX

VAT is levied on only very few items and services such as hotel services etc. and no separate comprehensive regulation exists for VAT. The Government of Afghanistan planned to levy VAT on various services and goods in 2017, however, the matter has been deferred.

LOCAL TAXES

No local taxes are payable in respect of income of companies.

OTHER TAXES

Other important levies in Afghanistan include customs duty and various import duties.

B. DETERMINATION OF TAXABLE INCOME

Taxable income is calculated as revenue for the year from all sources less the following admissible expenses:

1. Any expense related to the cost of production or trade and business, such as insurance and freight expenses, etc.;

2. The cost of supplies, materials, fuel, electricity, water, and ordinary and necessary expenses used in the production of income, or in a trade or business;
3. Wages, salaries, commissions, and fees paid for services rendered by employees in trade or business;
4. Interest paid on business loans;
5. Rent paid on property necessary to and used in trade or business;
6. Cost of repairs and maintenance of properties and equipment necessary to and used for purposes of the business or trade;
7. Depreciation of movable and immovable property at rates mentioned below:

No.	Assets	Useful Life (in Years)	Annual Percentage Allowed
1	Bricks or stone structures	50	2
2	Loam structure	20	5
3	Wooden structures	10	10
4	Machinery and equipment not otherwise specified below	10	10
5	Mining equipment	6.5	15
6	Tools	4	25
7	Printing equipment and machines	2	50
8	Handicraft machines	3	33
9	Metallurgical machines	10	10
10	Carpets	10	10
11	Rugs and other furnishings	4	25
12	Chairs, seats, and sofas	4	25
13	Desks, tables, and cabinets	10	10
14	Office equipment (calculators, typewriters, telephone, etc.)	6.5	15
15	Bicycles	5	20
16	Trucks	2	50
17	Cars	2	25
18	Tyres and tubes	2	50
19	Sacks	2	50
20	Impure iron stoves and pipes	10	10
21	Iron stoves	2	50
22	Carriages, animal carts, and handcarts	3	33
23	Construction machines, rollers and mixers	5	20
24	Computers and computer related equipment	3	33
25	Televisions, radios, and cellular phones	3	33
26	Telecommunication equipment/ cell towers	7	14

8. Any tax or charge that is a necessary expense for doing business, holding property for income, or for producing income, if paid or accrued during the taxable year. Taxes imposed by this Law and taxes not qualifying as a necessary business expense are not deductible, except as otherwise provided for by this Law;

9. Damages to movable or immovable property caused by fire, earthquake, and by casualty or disaster of any kind, over a three year period, to the extent that the cost is determined and substantiated by records and the loss was not recovered by insurance;
10. Losses in business or trade from bad debts according to the Income Tax Manual;
11. Dividends paid in money by a legal entity organized under the laws of Afghanistan; and
12. Other expenses of doing business and of holding movable or immovable property for the production of income under relevant legislative documents.

NON-DEDUCTIBLE ITEMS

The following deductions are not allowable for tax purposes:

1. Expenses incurred to provide entertainment or advertising that are not connected with economical or commercial activities;
2. Dividends, interest, royalties, rent, commissions, wages, salaries, in case the tax has not been withheld as required by the law;
3. In case of a branch in Afghanistan of a non-resident person, any expenses paid or incurred by the non-resident person or any person connected to the non-resident person;
4. Personal expenses are not deductible;
5. Capital expenditure that is subject to depreciation;
6. Taxes paid to foreign countries by non-resident persons on income from sources within Afghanistan, if the double tax treaty is not entered into with that country.

C. FOREIGN TAX RELIEF

Any income tax paid to the government of a foreign country may be taken as credit on the principle of reciprocity. The tax credit on a foreign tax payment is calculated as follows:

$$\text{Afghanistan tax on global taxable income} \times \frac{\text{foreign country income}}{\text{total global taxable income}}$$

D. RELATED PARTY TRANSACTIONS

The tax authorities have the power in respect of a transaction between associates to distribute, apportion, or allocate income, deductions, or tax credits between such associates to reflect the income that would have been realized in an arm's-length transaction.

E. EXCHANGE CONTROL

For the purpose of tax calculations, official rates issued by the Central Bank in Afghanistan (DAB) must be used. In case the exchange rate is not available for a transaction currency, the amount shall first be converted into USD and then into Afghani.

F. PERSONAL INCOME TAX

Following are the rates at which natural persons are subject to tax:

Income slab per month	Applicable Rate
From AFN 0 to AFN 5,000 monthly	0%
From AFN 5,001 to AFN 12,500	2%
From AFN 12,501 to AFN 100,000	10% + AFN 150 fixed amount
In excess of AFN 100,000	20% + AFN 8,900 fixed amount

G. WITHHOLDING TAX RATES

Individuals and organizations are subject to the following withholding taxes:

Type of income	Applicable Rate
Salary	At rates discussed in the preceding paragraph
Interest	20%
Dividends	20%
Royalties	20%
Prizes	20%
Rewards	20%
Lotteries	20%
Bonuses	20%
Service charges	20%
Rent	If the monthly rent is more than AFN 10,000 and less than AFN 100,000 - 10 %. If the monthly rent is more than Afs.100,000 -15%.
Contractors for supplies of goods and services	7% for contractors without a business license & 2% for contractors having a business license

ALGERIA

MEMBER FIRM

City	Name	Contact Information
Algiers	Aniss Raouf Benmeradi	+213 23 702 331 aniss.benmeradi@cabinetmeguellati.com

BASIC FACTS

Full name:	People's Democratic Republic of Algeria
Capital:	Algiers
Main language:	Arabic
Other languages:	French (business and education); Berber (constitutionally national)
Population:	41.88 million (2018 est.)
Monetary unit:	Algerian Dinar (DZD)
Internet domain:	.dz
Int. dialling code:	+213

KEY TAX POINTS

- All companies are liable for corporate income tax on their profits arising from any business they carry on in Algeria, except for certain restricted categories mentioned in the tax code.
- All economic activities conducted in Algeria, including sales operations, imports, construction works and services, which are of an industrial, commercial or handicraft nature made in Algeria on a regular or occasional base are subject to VAT.
- Dividend withholding tax at a rate of 15% is imposed on dividends paid from Algerian sources to

individual residents or non-resident individuals and legal entities, subject to the application of a double tax treaty.

- Relief from foreign taxes in Algeria depends on whether the country in question has entered into a double tax treaty with Algeria.
- Withholding tax applies to interests, dividends, royalties and technical service fees.

A. TAXES PAYABLE

INCOME TAX

Resident companies incorporated in Algeria and non-resident companies that have a permanent establishment in Algeria are liable for corporate income tax on their profits arising from any business carried on in Algeria. Depending on the activity, the rates vary as follows:

- 19% for the sector of the production of goods;
- 23% for construction, public works and hydraulic activities as well as thermal and tourist activities, excluding travel agencies;
- 26% for other activities.

Foreign companies not established in Algeria and foreign companies without a permanent establishment in Algeria are generally subject to withholding tax at a rate of 24%. However, a double tax treaty may foresee a lower rate.

TAX ON PROFESSIONAL ACTIVITY

This tax is levied on turnover and depends on the sector. The rate varies as follows:

- 3% for transportation by pipeline of hydrocarbons;
- 1% for the sector of the production of goods;
- 1.5% for construction;
- 2% for other activities (trade, services ...etc.).

VALUE ADDED TAX (VAT)

VAT applies to the supply of most goods and the provision of services in Algeria. All economic activities conducted in Algeria, including industrial and handicraft activities and liberal or commercial professions, are subject to VAT. Exports by definition are consumed abroad and are in principle not subject to VAT. Any VAT charged under such circumstances is usually refundable. This avoids downward pressure on exports.

(1) Rates.

Two different VAT rates apply in Algeria:

- A special reduced rate of 9% applies to goods and services of particular economic, social or cultural interest; and,
- 19% for operations related to services and goods not subject to another rate.

(2) Filing and payment.

Monthly returns and any tax payable are generally due by the 20th day of the following month

SINGLE FLAT TAX (Alternative taxation)

This is a tax that replaces several taxes (Income Tax, VAT, and Tax On Professional Activities) and is applied to taxpayers whose turnover does not exceed 30 million DZD.

The rates of this tax are as follows:

- 5%: applicable to production and sales activities;
- 12%: applicable to all other activities.

These taxpayers can also submit a request to be taxed according to the general scheme.

PROPERTY TAX

It is a tax that applies to developed and undeveloped properties. The rate of PT varies between 3 and 10%.

OTHER TAXES AND LEVIES

VOCATIONAL TRAINING TAX

Companies that employ more than six (6) permanent employees are subject to a tax of 1% on the annual payroll for vocational training. An additional tax of 1% on the annual payroll is also payable (for learning) for all companies that employ more than 20 permanent employees. Taxpayers may be exempt from paying this tax provided they initiate training and learning activities.

BRANCH PROFITS AND REMITTANCE TAX

Branches of non-resident companies are subject to the same corporate tax rates as regular resident Algerian companies, i.e. the abovementioned 19%, 23% and 26%.

However, also a branch remittance tax was introduced by the Finance Act 2009 (Section 6). This tax is applicable to profits transferred to a non-resident by the branch or permanent establishment of a foreign company. The tax is payable on the profit after deduction of company tax at a rate of 15%.

LUXURY VEHICLE TAX

Vehicles registered in the category of passenger cars (PC) which are less than five (5) years old and disclosed in the Balance Sheet of a company established in Algeria, or rented by the company tor a cumulative period equal to or greater than three (3) months during a tax period, are subject to an annual tax determined.

Vehicles rented

- Between DZD 3,500,000 and DZD 6,000,000 = DZD 250,000;
- Over DZD 6,000,000 = DZD 500,000.

Vehicles acquired by the company

- Between DZD 3,500,000 and DZD 6,000,000 = DZD 350,000;
- Over DZD 6,000,000 = DZD 600,000.

However, the tax does not apply to vehicles intended exclusively for sale, either to rent or to execute a transport service available to the public, when these operations correspond to the normal activity of the owning company.

B. DETERMINATION OF TAXABLE INCOME

Taxable income is determined on the basis of regular accounting results. When there are discrepancies between tax rules and accounting principles, adjustments are made to the accounting results. Profits are in principle considered to be gross revenue less production, salary and wages and rental expenses. Generally, all expenses generated in the conduct of a business are deductible if they are incurred in gaining or producing assessable income. However, expenses exceeding DZD 300,000 (USD 3,000) paid in cash are non-deductible from the taxable base.

DEPRECIATION

Fixed assets owned by a company are normally written off over their normal useful life. For tax purposes, the straight-line method is normally adopted but other methods may be used in certain circumstances and with the authorisation of the tax authorities following a request.

STOCK / INVENTORY

For the determination of net income, inventories must be evaluated at their cost price. If, at the end of the year, the market or realisable value is lower, the company must set up reserves for depreciation of the inventories. The tax authorities are very strict regarding the deductibility of provisions as they require that provisions be documented.

DIVIDENDS

Dividends received from Algerian subsidiaries are not taxable.

LOSSES

Losses may be carried forward for four years. The carry back of losses is not permitted.

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FOREIGN SOURCED INCOME

Revenues from a foreign source that are subject to tax at source on the payment in the country of origin are in principle not subject to tax in Algeria in case there is a double tax treaty. Non-resident legal entities are taxable on their Algerian source income and on gains from the disposal of buildings and the disposal of shares in real estate companies. The taxable capital gain is the difference between the sale price and the purchase cost. Relief from foreign taxes in Algeria depends on whether a double tax treaty has been concluded by Algeria.

INCENTIVES

The Algerian tax legislation has established a number of incentives to facilitate investment and the creation of projects in certain sectors. Incentives are aimed at accelerating the growth rate and job creation within activities related to fields determined by the specific legislation. Major incentives are available for investments made by enterprises located in areas that require development. Investment project can be granted tax advantages during the launch phase and for three years during the operational phase.

C. FOREIGN TAX RELIEF

No unilateral double taxation relief is granted under domestic Algerian tax law for foreign taxes. Bilateral relief of foreign taxes in Algeria depends on whether the country in question has concluded a double tax treaty with Algeria. Algeria has concluded more than 30 double tax treaties.

D. CORPORATE GROUPS

When an Algerian joint-stock company holds 90% or more of the shares of one or more Algerian joint-stock companies, the group may choose to be taxed as a single entity. Hence, the subsidiaries are treated as branches of the parent company and corporate tax is payable only by the parent company. Under this system, the profits and losses of all controlled branches, subsidiaries and partnerships in Algeria are consolidated. Once elected, the option is binding for four years.

Companies operating in the hydrocarbon sector are excluded from this regime.

E. WITHHOLDING TAX

For certain categories of income, the payer of income has to withhold tax at source, file tax returns and submit the amount of tax withheld to the tax authorities.

- Dividends paid to shareholders are subject to a 15% withholding tax which may be reduced under a double tax treaty.
- The withholding tax on royalties is 24% which may be reduced under a double tax treaty.
- Interest paid to a non-resident is subject to a 10% withholding tax, unless the rate is reduced under a double tax treaty.
- The withholding tax on technical service fees is 24% and applies to the gross income derived from any service fee paid abroad by a local company to a foreign company

F. PERSONAL TAX

Personal income tax is a direct tax levied on the income of an individual. Taxpayers are classified into residents and non-residents. Income subject to tax is called assessable income and is divided into six categories:

1. Professional benefits;
2. Farm income;
3. Rental income from built and/or undeveloped properties;
4. Income from shares;
5. Salaries, wages, pensions and life annuities;
6. Capital gains on the sale of built or undeveloped buildings against payment.

For each category of income, certain deductions and allowances are granted in the calculation of the taxable income. Taxpayers should keep their accounting records in compliance with the accounting legislation in order to benefit from these deductions. In general, a person liable for personal income tax has to compute his tax liability, file a tax return and pay tax, if any, on a calendar year basis. There is no obligation to submit a tax

return for taxpayers who do not receive other remuneration than salary.

Married couples file tax returns as separate individuals. Income of children is reported on the tax return of the head of the family. A spouse can report the income of their children on his/her tax return in certain circumstances.

Wages and salaries are subject to withholding tax and paid by the employer after deducting the personal income tax. The tax base includes all the pay sections subject to tax at the progressive rate detailed in the table below:

FRACTION OF REVENU (ANNUAL)	TAX RATE
not exceeding 120,000 DZD	0%
from 120,001 DZD to 360,000 DZD	20%
from 360,001 DZD to 1,440,000 DZD	30%
exceeding 1,440,000 DZD	35%

G. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Algeria has concluded double tax treaties with the following countries:

	Dividends%		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Non-treaty countries				
Companies	15	15	10/40[10]	4.8/24[11]
Individuals	15	--	10/50[10]	4.8/24[11]
Treaty countries:				
Arab Maghreb Union	–[1]	–[1]	–[1]	–[1]
Austria	15	5[3]	0/10	10
Bahrain	0	0	0	–
Belgium	15	15	0/15	5/15[13]
Bosnia and Herzegovina	10	10	10	12
Bulgaria	10	10	10	10
Canada	15	15	0/15	15
China	10	54	7	10
Egypt	10	10	5	10
France	15	5[5]	10/12[12]	5/10/12[14]
Germany	15	5[3]	10	10
Indonesia	15	15	15	15
Iran	5	5	5	5
Italy	15	15	15	5/15[15]
Jordan	15	15	0/15	15
Korea	15	5[4]	10	2/10[16]
Lebanon	15	15	0/10	10
Libya	–[2]	–[2]	–[2]	–[2]
Mauritania	10	10	10	15
Portugal	15	10[6]	15	10

Qatar	0	0	0	5
Romania	15	15	15	15
Russia	15	5[4]	15	15
Saudi Arabia	0	0	0	7
South Africa	15	10[4]	10	10
Spain	15	5[7]	5	7/14[17]
Switzerland	15	5[8]	0/10	10
Syria	15	15	10	18
Turkey	12	12	10	10
Ukraine	15	5[4]	0/10	10
United Arab Emirates	0	0	0	10
United Kingdom[9]	15	5[4]	7	10

Notes:

1. No reduction under the treaty, the domestic rate applies.
2. Income is subject to tax in the source country only, the domestic rate applies.
3. The reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the paying company.
4. The reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the paying company.
5. The reduced rate applies if the beneficial owner is a company which holds directly or indirectly at least 10% of the capital of the paying company.
6. The reduced rate applies if the beneficial owner is a company which, during a consecutive period of two years preceding the payment of the dividends, holds directly at least 25% of the capital of the paying company.
7. The reduced rate applies if the beneficial owner is a company which holds directly or indirectly at least 10% of the capital of the paying company.
8. The reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 20% of the capital of the paying company.
9. Effective date: Algeria: 1 January 2017 (withholding and other taxes). United Kingdom: 1 January 2017 (withholding taxes)/1 April 2017 (corporate tax)/6 April 2017 (income and capital gains taxes).
10. Interest on debts, deposits and guarantees paid by resident persons to non-resident companies is subject to a final 10% withholding tax while a 40% (50% for individuals) final withholding tax applies to interest on bearer securities.
11. Royalties paid by resident persons to non-resident companies are subject to a 24% final withholding tax while an effective 4.8% withholding tax (24% calculated on 20% of the gross amount) is levied on the use of computer software.
12. 10% if the interest arises in France and 12% if it arises in Algeria.
13. The 5% rate applies to royalties paid for the use of, or the right to use, any copyright of literary, artistic or scientific work, excluding cinematograph films and films or tapes for radio or television broadcasting while the 15% rate applies in all other cases.
14. The 5% rate applies to royalties paid for the use of, or the right to use, any copyright of literary, artistic or scientific work excluding cinematograph films and works recorded for radio or television broadcasting while the 10% rate applies in all other cases when the royalties arise in France and 12% when they arise in Algeria.
15. The 5% rate applies to royalties related to copyright of literary, artistic or scientific work, with the exclusion of cinematograph films and films or tapes used for radio or television broadcasting while the 15% rate applies in all other cases.

16. The 2% rate applies to royalties which are paid for the use of, or the right to use, industrial, commercial, or scientific equipment while the 10% rate applies in all other cases.
17. The 14% rate applies to royalties paid for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematographic films, or films, tapes and other means of image or sound reproduction while the 7% rate applies in all other cases.

ANGOLA

MEMBER FIRM

City	Name	Contact Information
Luanda	Tiago Rocha	+244 928 607 799 tiagorocha@pkf.pt

BASIC FACTS

Full name:	Republic of Angola
Capital:	Luanda
Main language:	Portuguese
Other languages:	Umbundu, Kimbundu, Kikongo and others
Population:	30.64 million (2018 estimate)
Monetary unit:	Angolan Kwanza (AOA)
Internet domain:	.ao
Int. dialling code:	+244

KEY TAX POINTS

- Income obtained by corporate entities established in Angola is subject to three different taxes: (i) Industrial Tax, which is levied on the corporate taxable income, including capital gains on the sale of fixed assets; (ii) Capital Investment Tax, applicable to capital gains on the sale of securities, royalties, interest and dividend income; and (iii) Rental Income Tax, on rents collected from rented real estate as well as on deemed rented income from real estate owned by companies.
- Corporate taxable income, determined on the basis of accounting profits, is taxable under Industrial Tax at a rate of 30%. Taxpayers are divided into two groups, each group having different tax payment deadlines.
- Angola has not concluded any double tax treaty and no international double taxation relief is available in Angola.
- Most types of services are subject to withholding tax at a rate of 6.5%.
- Transfer pricing legislation enables the tax authorities to make corrections to taxable income when either the conditions (or prices) agreed between related parties are different from those that would have been agreed and accepted between independent entities in comparable transactions.
- Consumption tax is levied on the production and on the import of goods as well as on the provision of services, at rates comprised between 2% and 30%.
- Stamp duty is levied on a number of operations and contracts, including on amounts collected from commercial activities, which are taxed at a rate of 1%.
- Special tax regimes exist for oil and mining companies.
- Salary income is taxable at final progressive withholding tax rates based on a sliding scale from 0% to 17%.

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- Social security is due on remunerations paid at an 8% rate for the employer and a 3% rate for the employee.
- Foreign currency transfers are subject to a 10% surcharge.

A. TAXES PAYABLE

COMPANY TAX

Income from Angolan companies is taxed under Industrial Tax ("Imposto Industrial"). Taxpayers liable for Industrial Tax are divided into two groups: A and B. Taxpayers included in Group A as well as Group B taxpayers that opt for keeping organized accounts are subject to Industrial Tax on the income effectively obtained and determined in accordance with the accounting records. Group B taxpayers that do not keep organized accounts are subject to tax on the basis of their turnover.

In general, commercial companies as well as permanent establishments of non-resident companies are mandatorily included in Group A. Group B is comprised of companies with a share capital of less than AOA 2,000,000 and with a turnover not exceeding AOA 500,000,000.

Resident companies are subject to Industrial Tax on their worldwide income.

CORPORATE INCOME TAX RATE (INDUSTRIAL TAX) AND TAX RETURNS

Corporate taxable income, determined on the basis of accounting profits and adjusted according to non-taxable revenues and non-deductible expenses, is taxed at a 30% rate. For Group A taxpayers an annual corporate income tax return (“Modelo 1”) must be submitted by 31st May of the following year, together with the financial statements and the general ledgers of the year as well as a documentation set that forms part of the technical report. For Group B taxpayers that voluntarily prepare accounting records, an annual corporate income tax return (“Modelo 1”) must be submitted by 30th April of the following year, together with a documentation set that forms part of the technical report. For Group B taxpayers that do not prepare accounting records, an annual corporate income tax return (“Modelo 2”) must be submitted by 30th April of the following year, signed by an accountant and with the description of the sales and services provided.

WITHHOLDING TAX ON DOMESTIC SERVICE CHARGES

Most types of services are subject to withholding tax at a rate of 6.5%. This withholding tax should be retained by the company paying for the service, and may be deducted on the corporate income tax return (“Modelo 1”) presented by the supplier of the service as an advance payment, up to the amount of the tax assessed. The excess of the amount of tax withheld over the amount of tax assessed may be carried forward and offset against the corporate tax liability of the subsequent 5 years. Services provided by resident companies not subject to withholding tax are:

- Educational Services;
- Medical Services;
- Hospitality Services;
- Passenger transport services;
- Rental of Equipment subject to Capital Application Tax;
- Telecommunications Services;
- Financial broker and insurance Services.

ADVANCE PAYMENT OF INDUSTRIAL TAX ON SALES

An advance payment equivalent to 2% of the sales made during the first 6 months of the year must be made by the end of August. Income from services subject to withholding tax will be excluded from the basis of computation of such advance payment. The advance payment amount can be offset against the final Industrial Tax liability. The excess, if any, can be carried forward and offset against advance payments of the subsequent five years.

OVERSEAS SERVICE CHARGES

Management and technical services contracts concluded with foreign service providers must be supported by a contract and are subject either to communication to or to approval by the Ministry of Economy, depending

on the amount of the contract. The total amount of services contracted with overseas service suppliers shall not exceed 10 times the equity value of the Angolan company acquiring such services. In case this condition is not met, the excess amount will be treated as non-deductible expenditure. The payment of services to non-resident companies is subject to a final withholding tax rate of 6.5%, except in the case of the following services, which are not subject to such levy:

- Educational services;
- Medical services;
- Transportation services, including passengers;
- Rental of equipment subject to Capital Application Tax.

PERMANENT ESTABLISHMENT

In accordance with the Angolan General Tax Code, a fixed place of business from which the company exercises the whole or a part of its activity, namely an office, a branch or a factory is deemed to be a permanent establishment. The continued provision of services for periods longer than 90 days within any 12-month period may also be deemed to be a permanent establishment. Foreign companies with a permanent establishment in Angola are subject to Industrial Tax on:

(a) the profits obtained by the Angolan permanent establishment;

(b) the profits obtained by the head office from the sale of goods in Angola of a similar nature to those sold by the permanent establishment in that territory; and

(c) the profits obtained by the head office from other commercial activities carried out in Angola of a similar nature to those carried out by the permanent establishment in that territory.

An Angolan branch of a non-resident company is taxed on its profits and capital gains in the same way as a resident Angolan company. The repatriation of Angolan branch profits to its head office is subject to Capital Application Tax at a rate of 10%.

CAPITAL GAINS

Capital gains obtained by resident companies on the sale of fixed assets are included in their taxable income, which is taxed under Industrial Tax at the standard flat rate of 30%. Capital gains on the sale of shares and other securities are taxed under Capital Application Tax at a rate of 10%.

CONSUMPTION TAX

There is no value-added tax (VAT) in Angola. Instead, a consumption tax is levied on the production and import of goods as well as on the provision of services listed in the Consumption Tax Code. For products, the standard rate is 10%. However, there are a number of listed products taxed at 2%, others at 20% and at 30%.

As far as services are concerned, a standard tax rate of 5% applies to a specified number of services, including water and energy consumption, communication services, car rental, consultancy, audit and legal services, private security, car rentals and tour operator services. Hospitality services are taxed at a 10% rate.

The consumption tax is to be borne by the acquirer of the goods or services, being the supplier liable for the payment of the tax after collection. Services invoiced by non-resident taxpayers will be taxed under the reverse charge mechanism by the acquirer of the service. In the specific case of services charged by a domestic service provider to companies in the oil sector, in the financial sector, in the telecommunications sector or in the mining sector, the consumption tax charged on the invoice must be paid to the State directly by the costumer (the oil/financial/telecom/mining company).

STAMP DUTY

Stamp Duty is levied on a wide range of operations and contracts. Both the operations on which the tax is levied and the applicable rate are listed in the table annex to the Stamp Duty Code. Tax rates vary from 0.1% to 1%. Certain items are taxed at a determined fixed amount. Some examples are:

(i) Amounts collected by a company from its customers (1%);

(ii) Loans (0.1% to 0.5% on the principal amount of the loan depending on the period for which the loan is contracted);

(iii) Notary acts (AOA 2,000).

In the particular case of loans granted by foreign companies as well as in the case of interest charged by a foreign bank, the tax must be self-assessed (under the reverse charge mechanism) and paid by the borrower.

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CAPITAL APPLICATION TAX

Capital Application Tax applies to investment income, such as interest, dividends, royalties and capital gains on the sale of shares and other securities. The tax rates vary from 5% (e.g. loan interest with maturity over 3 years and dividends from listed companies) to 10% (e.g. dividends, royalties, capital gains, bank deposits interest) or 15% (interest on loan agreements). In the case of non-remunerated loan contracts, the tax authorities may deem that the principal is remunerated at a 6% interest rate. Dividends paid between Angolan resident companies are exempt from tax if a participation of 25% has been held for a 1 year period prior to the dividend distribution, if not a tax of 10% must be withheld.

URBAN REAL ESTATE INCOME TAX (IPU)

This tax is levied on both rented and non-rented urban real estate. In the case of rented real estate, the tenant is required to withhold 15% tax on the rents paid to the landlord. Non-rented urban real estate with a taxable value exceeding AOA 5,000,000 is subject to IPU at a rate of 0.5%.

REAL ESTATE TRANSFER TAX (SISA)

This tax is levied on all acts involving the sale of real estate at a rate of 2% and is payable by the buyer.

SPECIAL TAX REGIME - PETROLEUM INDUSTRY TAX

Income from the oil industry is subject to a specific tax regime. This tax regime is applied to all companies that perform activities of search, development, production, storage, treatment and sales of oil and its components. Oil Corporate Income Tax Rates are as follows:

- Production or sharing agreement: 50%;
- Other types of joint-ventures: 65.75%;
- Angolan companies members of the national concessionaire: 30%.

SPECIAL TAX REGIME - MINING INDUSTRY TAXATION

Mining companies are subject to a specific tax regime. The general tax rate applied under this regime is 25%.

B. DETERMINATION OF TAXABLE INCOME

GENERAL REGIME

Taxable income is calculated by adjusting the accounting profits according to non-taxable income and non-deductible expenses. As a general principle, costs are only deductible when necessarily incurred tor the purpose of producing income.

EXPENSES DOCUMENTATION

Business expenses that are not properly documented will not be accepted as tax deductible. Furthermore, they will give rise to an additional adjustment in computing the corporate taxable income, as follows:

- In case of unproperly documented expenses (expense supported by document that does not contain all relevant elements an invoice must contain): an additional amount of 2% of the expense must be adjusted in computing the corporate taxable income.
- In case of undocumented expenses (expenses not supported by a valid document, but where it is possible to verify the effectiveness of the expense): an additional amount of 4% of the expense must be adjusted in computing the corporate taxable income.
- In case of confidential expenses: an additional amount of 30% of the expense must be adjusted in computing the corporate taxable income (50% in the case of exempt taxpayers).

DEPRECIATION OF FIXED ASSETS

Fixed assets can be depreciated for tax purposes over the useful life of the asset. The depreciation rates are set by specific legislation and the normal method of calculation is the straight-line method.

STOCK / INVENTORY

Inventory must normally be valued at the effective acquisition or production cost (historical cost).

DIVIDENDS

When subject to Capital Application Tax dividends are excluded from the tax basis for CIT proposes. The same applies to other income subject to Capital Application Tax, such as capital gains on the sale of shares.

INTEREST DEDUCTION

Interest charges related to shareholder loans are not tax deductible for corporate income tax purposes. Interest on loans contracted with other parties are eligible for deductibility.

LOSSES

Operating losses incurred by resident companies or by a branch of a non-resident company may be carried forward and offset against taxable profits for the following three years.

FOREIGN SOURCED INCOME

Angolan companies are taxed on their worldwide income, including any foreign branch income.

INCENTIVES

Foreign private investment in Angola requires a minimum capital of USD 500,000 and a reduction of the tax rate (at CIT, Capital Application Tax and Property tax level) could be contracted with the Angola Government ranging between 5% and 100%, subject to certain conditions, i.e.:

(i) Number of jobs created;

(ii) Investment amount;

(iii) Investment location;

(iv) Sector of investment;

(v) Percentage destined for export;

(vi) Percentage of Angolan shareholders in the share capital; and

(vii) National value added.

Additionally, foreign investments in electricity and water production, hospitality, transportation and logistics, construction, telecommunications, information and information technology, and media areas, shall only be accepted when in partnership with Angolan citizens, publicly owned companies or Angolan private companies, where the Angolan partners hold at least a stake of 35% in the share capital and have effective participation in the management.

C. FOREIGN TAX RELIEF

There is no tax relief for foreign taxes paid by Angolan companies.

D. CORPORATE GROUPS

Companies which are classified as Large Taxpayers may opt to be taxed on the aggregated value resulting from the sum of the taxable profits and losses computed in the group.

E. RELATED PARTY TRANSACTIONS

There is a general transfer pricing provision that allows the tax authorities to adjust the taxable income of any taxpayer as a result of non-arm's length transfer pricing practices. A company listed as a Large Taxpayer is required to prepare transfer pricing documentation.

F. WITHHOLDING TAX

Under domestic law, dividends paid to non-resident companies are subject to a 10% withholding tax. Dividends paid between Angolan resident companies may be exempt from withholding tax if a participation of at least 25% is held for a period of longer than 1 year prior to the dividend distribution. Dividends paid to resident or non-resident companies with stocks traded on a recognized stock exchange market are subject to a reduced withholding tax rate of 5%, applicable for the years 2015 until 2019. All royalties paid to resident or non-resident companies are subject to a 10% withholding tax.

Interest paid to resident or non-resident companies are subject to withholding tax usually at a rate of 15%. However, certain interest, such as interest on shareholders loans, corporate bonds, bank deposits, treasury bills, treasury bonds and securities issued by the Angolan Central Bank (BNA) are subject to a 10% rate.

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Interest on treasury bonds and securities issued by the BNA are subject to a reduced rate of 5% if the maturity is at least three years. Services are usually subject to a 6.5% withholding tax regardless of whether they are paid to a resident or a non-resident service provider. Some exemptions may apply depending on the type of service.

G. EXCHANGE CONTROL

At present, foreign currency transfers are subject to a 10% tax. This rate has been announced as temporary and is aimed at facing the financial impact on the economy resulting from the reduction in oil prices.

H. PERSONAL INCOME TAX

Individuals receiving employment income for work performed in Angola are subject to personal income tax. These taxpayers are divided into three groups:

Group A: Employment income;

Group B: Independent professionals (listed in the annex to the Personal Income Tax Code);

Group C: Industrial and commercial activities.

EMPLOYMENT INCOME (Group A)

Employment income is taxed by withholding tax (final) levied on the monthly remuneration paid, at the following progressive rates:

Salary in AOA	Tax rates
Up to 34,450	Exempt
From 34,451 up to 35,000	6% of the amount exceeding 34,450
From 35,001 up to 40,000	550 + 7% of the amount exceeding 35,000
From 40,001 up to 45,000	900 + 8% of the amount exceeding 40,000
From 45,001 up to 50,000	1,300 + 9% of the amount exceeding 45,000
From 50,001 up to 70,000	1,750 + 10% of the amount exceeding 50,000
From 70,001 up to 90,000	3,750 + 11% of the amount exceeding 70,000
From 90,001 up to 110,000	5,950 + 12% of the amount exceeding 90,000
From 110,001 up to 140,000	8,350 + 13% of the amount exceeding 110,000
From 140,001 up to 170,000	12,250 + 14% of the amount exceeding 140,000
From 170,001 up to 200,000	16,450 + 15% of the amount exceeding 170,000
From 200,001 up to 230,000	20,950 + 16% of the amount exceeding 200,000
Above 230,000	25,750 + 17% of the amount exceeding 230,000

INDEPENDENT PROFESSIONALS (Group B)

Fees paid to independent professionals are subject to a (final) withholding tax at a flat rate of 15% on 70% of their gross fees (being an effective tax rate of 10.5%).

INDUSTRIALS AND COMMERCIALS ACTIVITIES (Group C)

Income derived from industrial and commercial activities is subject to a rate of 30% determined according to the Minimum Profits Table or to a rate of 6.5% in other situations.

MINIMUM WAGE

In Angola, the minimum wage is determined according to the economic sector where the employee works:

- Commerce and extractive industry: AOA 22,504.50;
- Transports, services and processing industry: AOA 18,754.00;
- Agriculture: AOA 15,003.00.

SOCIAL SECURITY CONTRIBUTIONS

Remunerations paid by employee are subject to social security contributions at the following rates:

- 8% for the employer; and,
- 3% for the employee (to be withheld by the employer).

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Angola has not concluded any double tax treaty.

ANTIGUA AND BARBUDA

MEMBER FIRM

City	Name	Contact Information
PKFI	Stefaan De Ceulaer	+44 203 691 2511 stefaan.deceulaer@pkf.com

BASIC FACTS

Full name:	Antigua and Barbuda
Capital:	St. John's
Main languages:	English
Population:	102,822 (2018 estimate)
Monetary unit:	East Caribbean Dollar (XCD)
Internet domain:	.ag
Int. dialling code:	+1

KEY TAX POINTS

- Corporate income tax is levied at 25% on resident companies and branches held by non-resident companies.
- Capital gains are generally not taxable. If capital gains occur regularly and frequently, they are considered income from trade or business.
- The standard rate of Antigua and Barbuda sales tax (ABST) is 15%.
- There is no withholding tax on payments to resident companies. Dividends, interest, royalties, rentals, technical services fees and management fees paid by a resident company to a non-resident company are subject to a 25% final withholding tax unless a tax treaty applies.

A. TAXES PAYABLE

COMPANY TAX

A resident company is taxed on its worldwide income. A non-resident company is taxed on Antigua and Barbuda-sourced income only. A company is deemed to be resident if:

- it is incorporated or registered in Antigua and Barbuda;
- it is centrally managed and controlled in Antigua and Barbuda.

Corporate income tax is currently imposed at a rate of 25%. However, international business corporations (IBC) are exempt from tax and a reduced rate of 22.5% applies to banks that offer mortgages provided they maintain an interest rate throughout the year of maximum 7%. The tax return must be filed within three months after the end of the tax year, along with the financial statements.

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CAPITAL GAINS TAX

Capital gains are generally not taxable. If capital gains occur regularly and frequently, they are considered income from trade or business.

BRANCH PROFITS TAX

Branch income is taxed on the same basis and at the same rate (25%) as that of corporations.

SALES TAX / VALUE ADDED TAX (VAT)

Antigua and Barbuda sales tax (ABST) is a value added type tax introduced in Antigua in 2007. ABST is levied on local consumption and is borne by the consumer. Taxable activities are sales of goods and supplies of services within Antigua and Barbuda and the import of goods into Antigua and Barbuda.

The standard rate of ABST is 15%. Also, a 12.5% reduced rate applies to hotel or holiday accommodation, along with supplies that are ancillary or incidental to the supply of hotel or holiday accommodation while certain goods and services may also be zero-rated (international transportation, export, basic food items, water, electricity for residential use, sale of new residential property and fuel) and exempt (financial services, local transportation, education, services related to long-term accommodation (over 45 days), medical and veterinary services) from ABST.

The registration threshold for ABST is a total value of supplies exceeding XCD 300,000 in a continuous period of 12 calendar months.

OTHER TAXES

REAL ESTATE WITHHOLDING TAX

Property is imposed yearly on the owner of the property, is assessed by the Property Valuation Department on the market value of real property and ranges from 0.1% (agricultural land) to 0.5% (commercial buildings), depending on the use.

SOCIAL SECURITY

Employers are subject to 6% social security contributions and 3.5% medical benefits scheme contributions of the employee's salary or wages. The social security contribution ceiling is XCD 6,500 per month.

STAMP DUTY

Stamp duty on the sale of real property is 7.5% for the vendor and 2.5% for the purchaser. Non-resident sellers are subject to a 5% stamp tax on the appreciation value of the real property. Non-resident purchasers must obtain an alien land holding licence at 5% of the property value and pay a stamp duty of 2.5%. Transfer stamp tax is levied on the market value of the shares or book value of the shares, whichever is higher. Vendors pay stamp tax at a rate of 5%, purchasers pay stamp tax at a rate of 2.5%.

CUSTOMS AND EXCISE DUTIES

Customs duties are imposed under the CARICOM Common External Tariff. There is a general exemption from duties with respect to goods imported from other CARICOM member states. Customs import duties range from 0% to 70%. Most basic food and drink items (juices and sodas) and baby-related items are subject to a 20% duty while guns and ammunitions are subject to a 70% duty. An excise duty is imposed on all spirits at varying rates.

B. DETERMINATION OF TAXABLE INCOME

Taxable income is calculated as net profit before tax, adjusted for non-deductible expenses and allowable deductions.

DEPRECIATION

Depreciation allowed for tax purposes is computed by way of the reducing balance method at prescribed rates. Initial allowances are granted on industrial buildings and on capital expenditures incurred on plant and machinery by a person carrying on a trade or undertaking. In addition, an annual allowance of 2% is granted on all buildings.

Assets	Depreciation rate (%)
Buildings, roads, fencing and pavements	2
Leasehold improvements	4
Furniture, fixture, fittings and equipment	7.5
Plant and machinery and office equipment	10
Motor vehicles, golf carts, boats and aircrafts	20
Motor trucks and lorries	22.5
computer hardware and software	33.33

There are no provisions regarding depreciation or amortization of expenditure on intangible property such as patents or goodwill, or pre-incorporation and similar expenses.

STOCK / INVENTORY

Inventory is generally stated at the lower of cost or net realisable value. The first in first out (FIFO) and average cost methods of valuation are generally used. However, the tax authorities will generally accept a method of valuation that conforms to standard accounting practice in the trade concerned. The last in first out (LIFO) method is not allowed.

CAPITAL GAINS AND LOSSES

Capital gains are generally not taxable while capital losses are not deductible. However, capital gains that occur regularly and frequently are considered ordinary business income.

DIVIDENDS

Dividends received by a company resident in Antigua and Barbuda from another company resident in Antigua and Barbuda are taxed at the corporate income tax rate of 25%. Credit is given to the recipient for the tax already paid on the dividend in computing the tax liability.

INTEREST DEDUCTIONS

All outgoings and expenses wholly and exclusively incurred in the production of taxable income are deductible and thus are paid interest and royalties. There are no thin capitalization rules.

LOSSES

Losses can be carried forward for up to 6 years while losses cannot be carried back. Losses may only offset 50% of chargeable income in an income year. Loss carry-back is not permitted.

FOREIGN SOURCE INCOME

Resident companies are subject to tax on their worldwide income. Foreign income is subject to the general rules of income tax and foreign business income is calculated similar to domestic business income while capital gains on foreign assets are not taxable. Foreign dividends, interest and royalties received by resident companies are included in chargeable income for their gross amount, less related outgoings and expenses.

TAX INCENTIVES

International Business Corporations Act 1982

An international business company (IBC) is exempt from the payment of corporate income tax and other direct taxes and stamp duties. International activities performed under the umbrella of an IBC could e.g. be banking, insurance (broking), manufacturing, commercial, industrial, trading or business services, trust business and international shipping and aircraft.

Investment Authority Act 2006

The 2006 Act sets the framework for the promotion of investment opportunities in Antigua and Barbuda by introducing a system of registration of businesses, an investment code and a range of incentives which are available for both local and foreign investors, like exemption from income tax, withholding tax and customs duties and reduction of stamp duty and property tax.

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C. FOREIGN TAX RELIEF

In the absence of a double tax treaty, unilateral relief of double taxation is restricted to relief for British Commonwealth taxes. In case of income taxed both in the Commonwealth country and in Antigua and Barbuda, limited relief is available for resident companies against Antigua and Barbuda income tax for the income taxes of British Commonwealth countries assessed on or deducted at source. Unilateral relief for an eligible Commonwealth income tax is half the Antigua rate (12.5%). However, Antigua and Barbuda will only grant the unilateral relief if the source country grants similar relief to its residents for Antigua and Barbuda taxes. Unilateral relief is granted on a per-country basis and no further credit is granted for underlying tax. Foreign taxes of non-Commonwealth countries are considered to be an expense and therefore deductible.

D. CORPORATE GROUPS

Group taxation is not permitted in Antigua and Barbuda.

E. RELATED PARTY TRANSACTIONS

There are no transfer pricing regulations as such, nor are there rules on Controlled Foreign Companies (CFC).

F. WITHHOLDING TAX

There is no withholding tax on payments to resident companies. Dividends, interest, royalties, rentals, technical services fees and management fees paid by a resident company to a non-resident company are subject to a 25% final withholding tax unless a tax treaty applies.

G. EXCHANGE CONTROL

There are no limits on foreign exchange transactions.

H. PERSONAL TAX

There is no personal income tax in Antigua and Barbuda.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	25	25	25	25
Individuals	25	--	0/25	25
Treaty countries[5]				
Caricom[1]	0/15[2]	0/15[2]	15	15
Switzerland[6]	--[3]	--[3]	--[3]	0
United Kingdom	0	0	--[4]	0

1 Multilateral treaty ratified by Antigua, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines and Trinidad and Tobago.

2. The higher rate applies to dividends distributed from preference shares.

3. Dividends and interest are not covered under the treaty, thus the domestic rates apply.

4. Interest is not covered under the treaty, thus the domestic rate applies.

5. IBCs (International Business Corporations, see higher) do not have access to the tax treaties.

6. 1954 Treaty originally concluded between the UK and Switzerland and subsequently extended to Antigua.

ARGENTINA

MEMBER FIRM

City	Name	Contact Information
Buenos Aires	Gustavo Director	+5411 5235 6446 gdirector@pkfargentina.com.ar

BASIC FACTS

Full name:	Argentine Republic
Capital:	Buenos Aires
Main language:	Spanish
Population:	44.61 million (2018 estimate)
Monetary unit:	Argentine Peso (ARS)
Internet domain:	.ar
Int. dialling code:	+54

KEY TAX POINTS

- Companies domiciled in Argentina are subject to income tax on their worldwide income. Non-resident companies are subject to tax on Argentina-sourced income.
- There is no separate capital gains tax levied on capital gains of companies as they fall under the scope of corporate income tax.
- VAT is applied at all stages of the production and selling processes (output tax). Tax suffered in the immediately preceding stage is deductible (input tax).
- Any foreign taxes paid on foreign-accrued income may be credited against Argentine income tax up to the limit of the Argentine tax on the same income.
- Transactions between Argentine companies and related parties are deemed to take place at arm's length rates for tax purposes. For income tax assessment purposes, Argentine Law provides for the traditional methods generally used for transfer pricing (comparable uncontrolled price, resale price, cost plus, profit split, transaction net margin) to demonstrate that an arm's length price has been used.
- Argentine-sourced income paid to foreign recipients not having a permanent establishment in Argentina is subject to 35% withholding tax. However, for each activity, the law establishes a percentage of presumptive net income on which 35% withholding tax is applicable, thereby reducing the effective tax rate.
- Income tax is levied on income earned by resident individuals in Argentina and abroad.
- Personal assets tax (wealth tax) is levied on all assets, wherever situated, of Argentine domiciled persons, on Argentine assets of non-domiciled persons and on shares issued by an Argentine company (the company pays the tax on behalf of the shareholders). In the case of trusts (excluding financial trusts), the trustee pays the tax on behalf of the beneficiaries.

A TAXES PAYABLE

COMPANY TAX

Companies domiciled in Argentina are subject to income tax on all their income, whether sourced in Argentina or in a foreign country. Non-resident companies are subject to tax on Argentine-sourced income. Income from the export of goods situated in Argentina is deemed to be fully taxable and, for other specific international activities (e.g. news agencies, insurance, commercial use of films produced abroad, international transport etc.), the tax law sets a certain percentage as presumed income.

The tax rate for corporations (Sociedades Anónimas, Sociedad de Responsabilidad Limitada - Limited Liability Corporation - en Comandita) and branches of foreign companies (permanent establishments) domiciled in Argentina is:

- 30% applicable for fiscal years beginning as of 1 January 2018;

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- 25% applicable for fiscal years beginning as of 1 January 2020.

For partnerships, the tax is charged to each partner according to a progressive tax rate scale ranging from 5% to 35% depending on the amount of the taxable income.

Foreign recipients not qualifying as a permanent establishment in Argentina are subject to withholding tax at source. The rate is 35% on the applicable presumptive net income percentage, depending on the type of payment made (i.e. interest, fees, royalties, rentals, etc.). For companies organised or incorporated in Argentina, any income tax (or similar tax) paid abroad on a foreign source income is creditable against Argentine income tax, up to a certain limit.

Company income is taxed on an accrued basis during the company's business year. The tax is assessed annually within five months after the fiscal year end. Advanced payments must be made monthly on the basis of the tax amount paid the previous year. Moreover, the AFIP (Tax Authority) has enforced several withholding tax rulings that involve almost every type of activities. The income tax withheld during the fiscal year is creditable against the income tax assessed, as well as the advanced payments. The balance must be paid at due date. Taxpayers can submit an instalment plan (up to six instalments) accruing interest at a monthly 3% rate.

CAPITAL GAINS TAX

There is no separate tax levied on capital gains for companies organised in the country or for branches as they fall under the scope of income tax. For foreign corporations, capital gains are also included under a withholding at source income tax regime at the time the payment is made.

For foreign resident companies and individuals, capital gains derived from the sale of shares, stocks, bonds and other securities (whether listed or unlisted on the Stock Exchange) are levied on income tax at a rate of 15%. Foreign resident taxpayers can elect to be taxed on the gross sales price. In this case, 90% on the gross sales price will be deemed to be the amount of capital gains that will be subject to a rate of 15%. Therefore, the effective tax rate on the gross sales price will be 13.50%.

VALUE ADDED TAX (VAT)

This tax is applied to all stages of the production and sales processes (output tax) and the tax amount of the immediately preceding stage is deductible (input tax). The tax is imposed on the following transactions:

- Sale of personal property situated in Argentina;
- Leases and services, including financial and insurance services;
- Real estate leases;
- Work performed on third-party real property;
- Work performed on owned real property, in the case of constructors;
- Production of personal property commissioned by a third party;
- Procurement of natural goods commissioned by a third party;
- Permanent import of personal property;
- Services provided from abroad and used in Argentina (including interest). In this case, input tax must be paid by the local company and it automatically becomes 'input tax' for VAT purposes in the following month;
- Digital services provided from abroad whose use or exploitation takes place in Argentina. The definition of "digital services" includes, among others, the following: the supply and hosting of computer sites and web pages, maintenance, online technical support, the provision of digitized products in general (computer programs, digital books, designs, reports, etc.), memory services and online advertising, software, cloud-based downloads (images, text, information, video, music, games (including casinos), movies, or any digital content), online clubs, blogs, magazines, newspapers, learning , online market services and online auctions, etc.

VAT is assessed on a monthly basis. The inception of the taxable event is to issue the invoice, deliver the goods and render the service or the receipt, whichever is the earliest. The standard tax rate, currently 21%, is charged on the net price of the transaction. There are some leases and services levied at 27% (electricity, telecommunications, etc.). Some goods and services are levied at 10.50% (bovine meat, fresh vegetables, lodgings, interests on loans received from Argentine financial institutions, certain property plant and equipment, newspapers and magazines, transportation for individuals, etc.).

Exports are subject to a zero rate (destination country method). Exporters can apply input tax (incurred in making exports) against output tax arising from other taxable transactions. In case of a net input tax (internal charge), exporters are entitled to a refund (under a special procedure established by the tax authorities).

Input tax arising from the purchase of fixed assets is eligible for a refund if not used to offset output tax after 6 months. Foreign tourists are also entitled to a VAT refund (cash or in credit card account) included in personal property purchases and lodging services in some tourist areas. There are several withholding and 'collection at source' regimes in force. The VAT withheld or collected at source is creditable against the internal charge. In case of a reminding tax credit, it can be offset against any other federal tax liability.

FRINGE BENEFITS

No tax is levied specifically on fringe benefits, since they are taxed along with income tax and social security contributions.

MINIMUM PRESUMPTIVE INCOME TAX (MPIT)

This tax is levied on all assets located in Argentina or in foreign countries owned by companies domiciled in Argentina or branches of foreign companies located in Argentina. The Tax Act sets out how to value the assets to which, in general, the current market value must be attributed. Some assets are not liable for MPIT, e.g. shares of other companies domiciled in Argentina, dividends earned, investment in construction (for two years), and new personal property purchases (for two years). Companies having less than ARS 200,000 of assets are not liable for MPIT. Field Real Estate property is levied allowing a special deduction of up to ARS 200,000. The tax rate is 1%.

Financial institutions and insurance companies, subject to the control of state entities, are subject to MPIT on 20% of their assets value. Although this is an 'assets tax', the spirit of the law is to set a company's minimum income tax liability (for example, in the case of tax losses). Income tax assessed on the company may be creditable against MPIT for the same fiscal year.

If, in the same fiscal year, the income tax assessed is higher than the MPIT assessed, the net amount will not generate a tax credit. On the other hand, if in the same fiscal year the MPIT assessed is higher than the income tax assessed, the net amount of the MPIT may be carried forward and offset against income tax in the following ten fiscal years.

Despite this tax credit, the company must pay effectively at least the amount of MPIT assessed every fiscal year. Therefore, every year the company must assess both taxes, yet pay either income tax or MPIT, whichever is the highest.

This tax will be repealed as from 1 January 2019. For the fiscal years 2017 and 2018, this tax was repealed only for Small and Medium Size Business (SMSB) that qualify and are duly registered as SMSB.

PERSONAL ASSETS TAX PAID ON BEHALF OF SHAREHOLDERS

Companies residing in Argentina are levied on Personal Assets Tax on behalf of their shareholders (see section "H. Personal Assets Tax (Wealth Tax)" below).

SINGLE SIMPLIFIED TAX

Single simplified tax is a volunteer tax applicable to individuals and small partnerships that perform little activity and where the income does not exceed a threshold set by the Act. The taxpayer can choose whether to pay income tax and VAT or substitute both by paying a monthly single simplified tax. The tax is determined taking into account an income scale.

LOCAL TAXES

The different provinces and jurisdictions within the territory of Argentina apply local taxes. A brief description is provided as follows:

TURNOVER TAX

This is a provincial tax levied on the various stages of production and selling processes but no input tax is deductible from the tax amount of the immediately preceding stage (waterfall effect). In general, it applies to gross revenues accrued during each fiscal period (month). The tax rate is approximately 3% to 5% for commercial activities, 1.5% to 4% for industrial activities, and 1% to 3% for primary activities, according to the taxpayer's turnover and other regulations enforced by each provincial Tax Act.

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Under an agreement signed between the National Administration and the Provincial Administrations, several exemptions to some productive activities have been established and the tax scheme will be gradually reshaped until this tax becomes ineffective and replaced by a 'neutral' tax. In general, small industrial activities are not liable for this tax in the jurisdiction where the factory is located.

STAMP DUTY

The duty is levied in each of the country's jurisdictions (Provinces) on juristic acts and instruments entailing a flow of wealth between the parties involved in the legal relationship. Thus, Stamp Duty is applicable inter alia to acts whereby for profit transactions on real estate, personal property, services rendered and civil, commercial or financial obligations are documented. Rates vary according to the jurisdiction and the type of instrument involved, the most common one being 1% of the contract value. Under the aforesaid fiscal agreement, Stamp Duty is also to be phased out in the future but currently it is still in effect.

LAND AND CAR TAXES

These taxes, typically 'ad valorem', are levied on land and automobiles located or registered within any of the country's 24 provinces. The fiscal assessment value of the assets and the applicable tax rate varies according to each jurisdiction.

MUNICIPAL LEVIES

These are municipal levies applied on a range of taxable bases in the various jurisdictions, in consideration of services provided by each township. The taxable event is the performance of an activity for profit in a town. The tax rate, set by each Municipal Act, is applicable to turnover and depends on the activity performed.

OTHER TAXES

EXCISE TAX

This is a federal tax on specific goods and services, levied on a variety of items such as cigarettes, tobacco, alcoholic beverages (whisky, other spirits, liquor, etc.), soft drinks, beer, automobiles, ships and aircrafts, mobile phone services, insurance premiums, luxury items (jewellery, stones, pearls, furs, etc.), some electronic products (microwave oven, television set, radio, several home appliances, etc.). Excise tax is levied on the sales price. The tax rate varies depending on the item. This tax is generally levied at the production or importing stage (first stage). Furthermore, a fuel and gas tax is levied on the sale of some of these products.

SOCIAL SECURITY CONTRIBUTIONS

These are federal taxes levied on both employers and employees. The taxable base is the salary. An employer files the tax return with the official authority under self-assessment and pays the tax withheld from the employee together with his/her liability. Employee contributions on salaries (withholding) are 17% of salary (including health care).

Employers' contributions are assessed deducting a non-taxable minimum, applying the following rates:

Employer	Until 31/12/2018	Until 31/12/2019	Until 31/12/2020	Until 31/12/2021	As from 1/1/2022
Non-taxable minimum	ARS 2,400	ARS 4,800	ARS 7,200	ARS 9,600	ARS 12,000
Small and medium sized employer (including health care)	26,70%	26,40%	26,10%	25,80%	25,50%
Large sized employer (including health care)	22,50%	24,00%	24,50%	25,00%	25,50%

Employers' social security contributions can be partially considered as input tax for VAT purposes in some provinces. The amount that can be offset depends on the employer's location, ranging from nil in Buenos Aires up to 10.75%. A schedule with a gradual reduction of this credit is in force. The coefficients of input tax credit applicable are to be reduced by 25% per year in 2019, 2020 and 2021 respectively, until its repeal as from 1 January 2022.

TAX ON CHEQUEING ACCOUNT DEBITS AND CREDITS

This tax is levied on financial transactions. The taxable event is not only each debit and credit in a chequeing account but also a large variety of financial transactions (money remittances, money orders, cheque deposit

on saving accounts, etc.). The law sets out several exceptions (i.e. saving accounts, stock exchange agents, non-profitable associations, etc.), and provides for reduced rates for certain transactions such as time deposits.

To prevent tax avoidance, any amount over ARS 1,000 must be paid by cheque as a binding procedure. The tax rate applicable is 0.60% on each debit and 0.60% on each credit on chequeing account. Thus the whole transaction is liable for tax at a 1.2% rate. For specific activities performed by some taxpayers (who might use chequeing accounts to make payments on behalf of a third party) a 0.075% rate is applicable.

17% of the tax amount paid each month is creditable against income tax or minimum presumptive income tax. The remaining 83% of the tax is a non-recoverable expense. The idea is that Financial Institutions act as withholding agents in order to ensure the revenue of the most important taxes.

Small and Medium Size Business (SMSB) that qualify and are duly registered as SMSB can consider 100% of this tax creditable against income tax subject to certain specific conditions.

B. DETERMINATION OF TAXABLE INCOME

Deductions for income tax assessment purposes include expenses incurred necessarily to obtain, maintain and preserve such income. The Income Tax Act lists specific regulations for dealing with the cost of products, fixed assets, real estate, or securities sold, as well as deductible bad debts, and property plant and equipment depreciation.

INVESTMENT ALLOWANCE

At present, for general business, there is no income tax incentive scheme in force allowing additional deductions, in whole or in part, for investment in facilities and equipment.

Small and Medium Size Business (SMSB) that qualify and are duly registered as SMSB can deduct 100% depreciation of some property plant and equipment in one year subject to certain specific conditions.

DEPRECIATION OF FIXED ASSETS

For real estate, the law sets a depreciation rate of 2% annually on the portion attributable to the building. The Tax Act indicates that fixed assets may be depreciated over their estimated useful life on a straight-line basis. Assets subject to depletion (mines, quarries etc.), may be depreciated, not under the straight-line method, but proportionally to the units extracted in each period.

STOCK / INVENTORY

In the case of resale goods and raw materials, inventories should be valued for tax purposes at the end of each business year at their acquisition cost (last purchase value). For self-manufactured items, the inventory value is determined on the basis of the sales price at the end of the fiscal year after deducting any direct expenses associated with the sale and the net profit margin. In special cases, where cost accounting systems are maintained, own-production goods can be valued at their production cost.

CAPITAL GAINS AND LOSSES

Capital losses are deductible, subject to the limitations noted in the paragraph under 'Losses' below.

DIVIDENDS

- Earnings arising from fiscal years beginning as from 1 January 2018:

  Dividends and profit distributions are subject to tax.

  Dividends arising from fiscal years beginning between 1 January 2018 and 31 December 2019 are taxed at a 7% rate.

  Dividends arising from fiscal years beginning as from 1 January 2020 are taxed at a 13% rate.
- Earnings arising from fiscal years ending up to 31 December 2017:

  Dividends and profit distributions are not subject to tax.

  Equalization tax applies to dividends paid to residents and non-residents when commercial profits (i.e. the profits before tax as reported in the company's financial statements) exceed taxable profits.

  If the distributed dividend does not exceed the taxable profit, equalization tax is not levied, whomever its recipients are, provided that the dividend is distributed on nominative (registered) shares. If the dividend

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exceeds taxable profit, a 35% withholding tax is due on the difference (equalization tax). No tax credit is derived from the tax withheld because dividends are not levied as income for the recipient (the whole tax was withheld).

INTEREST DEDUCTION

Interest is generally deductible provided that it is incurred on loans taken out for business purposes. Otherwise the deduction is denied. Notwithstanding this, there is a threshold set on deductible interest.

Interest on financial debts (excluding commercial debts) arising from indebtedness with related parties (domiciled in Argentina or abroad), will be deductible up to the limit of 30% of the net profit before deducting such interest and depreciations. The threshold not applied can be deferred for 3 years and the non-deductible interest can be deducted in the following 5 years up to the limit applicable to each year. This rule is not applicable in some situations (financial entities, among others).

Furthermore, interest on debts arising from indebtedness with related parties domiciled abroad or any party domiciled in “non-cooperative countries” will be deductible only when paid (not when accrued).

LOSSES

Income tax losses made in a given fiscal year may be carried forward for five years but taxpayers may only offset losses against the same type of income. Thus, stocks and foreign-sourced losses may only be offset against income of the same type.

FOREIGN CAPITAL INFLOWS

No special regulations exist to control incoming funds disclosed as capital contributions, as the current policy is designed to encourage inflows of foreign capital. However, foreign companies should pay personal assets tax (see below) because Argentine law deems that the stock belongs to a resident individual. On the other hand, there are specific regulations in force to control outgoing funds set by the Central Bank (general anti-money laundering procedures apply).

INCENTIVES

Promotional tax schemes are available for new investments in agricultural transactions and tourism in certain areas of Argentina. Approval of new industrial investment projects has been suspended.

CORPORATE MERGERS

Corporate reorganisations (de-mergers and mergers/consolidations) are to be considered 'tax-free' provided that certain legal requirements and proceedings are met. These relate, in particular, to maintenance of the shareholders' interest and continuance of the business activity carried out (two years before and after the reorganisation process). In such cases, any outstanding tax loss may be carried forward and other existing allowances and liabilities may be passed on to the successor companies.

SHARES AND BONDS

For corporations domiciled in Argentina, the income produced by shareholding is liable for tax when share alienation takes place (not just because of holding shares). On the other hand, bonds must be valued at their current value. Therefore, the income produced by bond holding is liable for tax whether they are sold or not. For foreign residents domiciled abroad, the disposal of shares (issued by an Argentine Company) is liable to Income Tax (see paragraph A – Capital Gains Tax).

C. FOREIGN TAX RELIEF

Any overseas income taxes paid on foreign-sourced income may be creditable against Argentine income tax up to the limit of the increase in the tax liability resulting from aggregating the foreign-sourced income.

D. CORPORATE GROUPS

Companies belonging to the same group or holding, but having separate legal status, should pay their taxes separately and the transfer of losses from lossmaking to profit-making members of the same group of companies is not permitted. Nevertheless, payment is waived in the case of taxes arising from corporate reorganisations (de-mergers and mergers/consolidations) which comply with established legal requirement’s (particularly, maintenance of the shareholders' interest and continuance of the business activity carried out) for two years before and after the reorganisation process.

E. TRANSFER PRICING AND RELATED PARTY TRANSACTIONS

Under Argentine law, transactions between Argentine companies and related parties domiciled abroad are deemed to take place at arm's length rates for tax purposes. When the pricing used corresponds to normal market practices as between non-related entities, no adjustment is required for tax purposes.

For income tax assessment purposes, Argentine law provides for the traditional methods generally used for transfer pricing (comparable uncontrolled price, resale price, cost plus, profit split, transaction net margin) to demonstrate that an arm's length price has been used in transactions performed with related parties residing abroad, or any parties residing in 'non-cooperative countries'. Income tax rulings provide a positive list of 'cooperative countries' available at http://www.afip.gob.ar/jurisdiccionesCooperantes/#ver.

The related parties test is broad and not only includes transactions between a local subsidiary and its parent company but also other relationships, (e.g. local company and foreign subsidiary, local permanent establishment and foreign head office, local company and foreign permanent establishment, local company and related or non-related party residing in 'non-cooperative countries', among others).

F. WITHHOLDING INCOME TAX FOR FOREIGN TRANSACTIONS

When Argentine-sourced income is paid to foreign recipients who do not have a permanent establishment - branch, office, etc. - in Argentina, such income is subject to a 35% withholding tax rate.

For each activity, the law sets a percentage of presumptive net income on which 35% withholding tax is applicable, thereby reducing the effective tax rate. The following chart shows the presumptive net income percentages:

Income	Presumptive net income % A	Effective with holding tax rate % 35% x A
Interest on loans granted by overseas financial institutions only on the condition that the lender: a) Is domiciled in a jurisdiction not considered a "jurisdiction of low or nil tax", and, b) Has supervision on financial activity provided by the Central Bank (Federal Reserve). Offshore banks domiciled in any territory are not included in this category.	43%	15.05%
Interest on debt arising from the import of property plant and equipment subject to depreciation (except cars) provided that the exporter is the creditor.	43%	15.05%
Interest on time deposits made by foreign residents (either companies or individuals) in financial institutions located in Argentina, provided the interest is not subject to income tax in the country of residence.	43%	15.05%
Other interest. This category includes (among others): a) Interest on loans granted by overseas corporations or individuals; b) Interest on loans granted by offshore banks domiciled in any territory considered a "jurisdiction of low or nil tax" or who's Central Bank (Federal Reserve) does not apply supervision on financial activity.	100%	35.00%
Royalties arising from technical assistance or consulting not available in Argentina under specific regulations (the contract must be duly registered with the official authority).	60% - 80%	21% - 28%

Copyright (must be registered with the National Copyright Bureau).	35%	12.25%
Other royalties.	90%	31.50%
Salaries of technicians, professionals, sportsmen, and artists for temporary work in Argentina (individuals only - not applicable when the provider is a corporation).	70%	24.50%
Personal property leases.	40%	14.00%
Real Estate property leases.	60%	21.00%
Disposal of assets situated in Argentina.	50%	17.50%
Dividends and profit distributions.	See paragraph B. Dividends	See paragraph B. Dividends
Sale of shares, stocks, bonds and other securities, applicable on the gross sales price. (In this case, the taxpayer can elect to be taxed on the capital gain at a 15% rate).	90% x 15% tax rate	13.50%
Other income	90%	31.50%

G. EXCHANGE CONTROL

Exchange controls are currently in effect, basically following anti-money laundering procedures. Foreign currency can be transferred into Argentina provided that the recipient files a disclosure with the official authority. To transfer outbound, the reason must be proved by filing forms with the Central Bank (i.e. dividends, loans, etc.).

H. PERSONAL TAX

Two taxes are currently levied on individuals:

- Income tax; and,
- Personal assets tax (wealth tax).

INCOME TAX

The tax is levied on income earned in Argentina and abroad by individuals residing in Argentina. It is payable on an annual basis with five advanced payments (every two months). Any expenses incurred in generating such income may be deducted from gross income. The law sets fixed deductions: non-taxable minimum, special tax-free amount, allowance for dependents, etc.

Resident individuals are liable to tax on the basis of a progressive tax rate scale ranging from 5% to 35% of annual taxable net income. Employees are subject to withholding tax at source, for which the employer is responsible (withholding agent).

Capital gains not related to an income-generating activity are generally not subject to tax.

Financial investment profits are subject to Income Tax:

- Income (interest and others) for the placement of capital, which generates Argentinean sourced income;
- Income arising from the alienation (purchase - sale) of shares, securities, stock, bonds and other securities, which generates Argentinean sourced income.

Taxable earnings include bank deposits, time deposit in financial entities, securities, mutual funds, among others. In both cases the income is taxed at a 5% rate when capital is in ARS; or 15% for investments made in foreign currency. Under the Income Tax Act, some exemptions are provided for the financial and capital markets, whereby income from shares that are quoted on the Local Stock Exchange is not subject to tax.

In the case of the disposal of real property not assigned to such an activity, the following tax is applicable:

- Real Estate purchased before 1 January 2018: a 1.50% real estate sales tax is charged on the sales value of the property, regardless of whether or not a loss or a profit is made.

- Real Estate purchased as from 1 January 2018: a 15% Income Tax is levied on the net income (sales price minus acquisition cost).

PERSONAL ASSETS TAX (WEALTH TAX)

This tax is levied on:

- All assets located in Argentina or in foreign countries that belong to individuals resident in Argentina;
- All assets located in Argentina that belong to individuals resident in foreign countries;
- Shares issued by Argentine companies. In this case, the company pays the tax on behalf of the shareholders;
- Trusts (excluding financial trusts). In this case, the trustee pays the tax on behalf of the beneficiaries.

INDIVIDUALS RESIDING IN ARGENTINA

This tax is levied on all assets located in Argentina and in foreign countries. Similar tax paid overseas in respect of assets located in foreign countries is creditable against personal assets tax. The only deduction allowed is the amount of liabilities arising from the purchase or construction of the taxpayer's home. Investments in shares issued by an Argentine company are not to be included in the taxable base because the company pays this tax on behalf of the shareholders (a situation that does not mean shares are exempted).

The tax is assessed on the value of property that exceeds the tax free amount (ARS 950,000 for the year 2017 and ARS 1,050,000 from the year 2018 onwards). If the taxable base is higher than the tax free amount, the tax is assessed on the net amount. The applicable rate is set at 0.50% for the fiscal year 2017 and 0.25% from 2018 onwards.

INDIVIDUALS AND COMPANIES RESIDING IN A FOREIGN COUNTRY

The tax is also charged on assets located in Argentina and owned by individual non-residents at a 0.50% rate for the fiscal year 2017 and 0.25% from 2018 onwards. Neither deductions nor a taxable minimum are allowed. In the case of certain assets (i.e. securities, non-exploited real estate property, etc.) located in Argentina and owned by foreign companies, these are deemed to belong to individuals and are subject to personal assets tax at a 1% rate for the fiscal year 2017 and 0.50% from 2018 onwards.

Shareholders of an Argentine company who reside in foreign countries are liable for personal assets tax. The tax liability is not assessed directly but is paid by the company on behalf of its shareholders (see the next paragraph).

SHARES ISSUED BY ARGENTINE COMPANIES OR TRUSTS

Shares whose holders are non-resident companies or individuals are deemed to belong to non-resident individuals and the tax is levied on those shares. The taxable base is the Argentine company's equity value assessed on the company's last financial statements. The tax rate is 0.25%.

In all such cases, the tax is assessed and paid by the Argentine company on behalf of the shareholders. The tax paid is not deductible for income tax purposes because the company is allowed to claim the tax paid to the shareholders. A foreign company's branch (a permanent establishment in Argentina) will be subject to personal assets tax in respect of the capital assigned to the branch. In the case of trusts (excluding financial trusts), the trustee pays the tax on behalf of the beneficiaries. The taxable base is the amount of the assets.

I. TREATY AND NON· TREATY WITHHOLDING TAX RATES

	Dividends[11] (%)	Interest (%)	Royalties (%)
Non-Treaty Countries	7 See paragraph B. Dividends	15.05/35[9]	21/31.50[6]
Treaty Countries:			
Australia	10/15[1]	12	10/15[5]
Austria10	--	--	--
Belgium	10/15[1]	0/12[2]	3/5/10/15[7]
Bolivia	--[8]	--[8]	--[8]

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Brazil	--[8]	--[8]	--[8]
Canada	10/15[1]	0/12.50[13]	3/5/10/15[7]
Chile	10/15[1]	4/12/15[14]	3/10/15[7]
Denmark	10/15[1]	0/12[15]	3/5/10/15[7]
Finland	10/15[1]	15[3]	3/5/10/15[7]
France	15[1]	20[3]	18
Germany	15[1]	10/15[2]	15[3]
Italy	15[1]	0/20[13]	10/18[5]
Netherlands	10/15[1]	0/12[13]	3/5/10/15[7]
Norway	10/15[1]	0/12/12.50[13, 16]	3/5/10/15[7]
Russia	10/15[1]	15	15
Spain	10/15[1]	0/12[13]	3/5/10/15[7]
Sweden	10/15[1]	0/12/12.50[13, 17]	3/5/10/15[7]
Switzerland	10/15[1]	12	3/5/10/15[7]
United Kingdom	10/15[1]	0/12[13]	3/5/10/15[7]
Uruguay	--[4]	--[4]	--[4]

Notes:

1. This is the percentage ceiling set under the treaty. However, it is only applicable when the conditions set under paragraph B. 'Dividends' are met.
2. The lower 10% rate applies to sales on credit of industrial, commercial or scientific equipment, and loans granted by a bank or for the financing of public works.
3. This is the ceiling set by the treaty. However, when the effective rate for non-treaty countries is lower, the latter rate is applicable.
4. Under the treaty no ceilings were set but the jurisdiction where the tax should be levied was established. Therefore, applicable rates are those for non-treaty countries.
5. The 10% rate applies to copyright royalties.
6. The actual rate is 35%, but levied on 35%, 80% or 90% of the income, which results in an effective tax rate of 12.25%, 28% and 31.50%. See above under F.
7. A 3% rate applies to news-related royalties, a 5% rate applies to copyright royalties (other than royalties related to films or tapes), a 10% rate applies to trademarks, patents, certain lease-related royalties and technical assistance, and a 15% rate applies to other cases.
8. Under the treaty no ceilings were set but the jurisdiction where the tax should be levied was established. Therefore, applicable rates are those for non-treaty countries.
9. See withholding taxes description at (F) above.
10. The treaty with Austria was rendered ineffective as of 1 January 2009.
11. The lower rate generally applies to participations of at least 25% of capital or voting power.
12. The 0% rate applies to, inter alia, (i) interest on commercial debt claims (including debt-claims represented by commercial paper) resulting from deferred payments for machinery or equipment supplied by an enterprise, except where such interest is paid between associated enterprises and (ii) interest on loans of any nature (not represented by bearer instruments) granted on preferential terms for a period of at least three years by a banking enterprise.
13. The 0% rate applies to, inter alia, interest paid by public bodies.
14. The general treaty rate is 15% while the 4% rate applies to interest from a sale on credit paid by the purchaser of machinery and equipment to a beneficial owner that is the seller of the machinery and equipment and the 12% rate to interest derived from loans granted by banks and insurance companies and bonds or securities that are regularly and substantially traded on a recognized securities market.
15. The general treaty rate is 12% while a 0% rate applies to interest paid to (national) banks and financial institutions, subject to certain conditions.
16. The general treaty rate is 12.5%. However, under the application of a most favoured nation clause the rate is reduced to 12% (Argentina-Australia treaty).
17. The general treaty rate is 12.5%. However, under the application of a most favoured nation clause the rate is reduced to 12% (Argentina-Denmark treaty).

AUSTRALIA

MEMBER FIRM

City	Name	Contact Information
Adelaide	Nicole Peterson	+618 8373 5588
		nicole.peterson@pkfkennedy.com.au
Brisbane	Tom Hackett	+617 3839 9733
		tom.hackett@pkf.com.au
Canberra	Ross Di Bartolo	+612 6257 7500
		ross.dibartolo@pkf.com.au
Gold Coast	Mike Sheehy	+617 5553 1000
		mike.sheehy@pkf.com.au
Hobart	Daniel Rands	+613 6231 9233
		drands@pkftasmania.com .au
Melbourne	Timothy Bow	+613 9679 2222
		tbow@pkf.com.au
Newcastle	Darren Shone	+612 4963 5116
		dshone@pkf.com.au
Perth	Chris Roos	+618 9426 8999
		croos@pkfmack.com.au
Perth	Malav Oza	+618 6272 6888
		moza@pkflawler.com.au
Sydney	Steve Williams	+612 9237 6513
		swilliams@pkf.com.au
Tamworth	Mark O'Connor	+612 6768 4500
		moconnor@pkf.com.au

BASIC FACTS

Full name:	Commonwealth of Australia
Capital:	Canberra
Main language:	English
Population:	24.684 million (2018 estimate)
Monetary unit:	Australian Dollar (AUD)
Internet domain:	.au
Int. dialling code:	+61

KEY TAX POINTS

- Australian resident companies are subject to company income tax on income derived from all sources. Non-resident companies are required to pay income tax only on Australian-sourced income.
- There is no branch profits tax in Australia. However, Australian branches of foreign companies will generally only be taxed on Australian-sourced income at the prevailing company tax rate.
- All entities that carry on an enterprise in Australia are required to register for the goods and services tax

(GST) if their annual turnover meets the registration turnover threshold.

- Australia has a CFC regime which is designed to ensure certain types of passive and associated party income of a CFC is included in the controlling Australian resident's taxable income each financial year.
- Where foreign sourced income is included in assessable income, tax credits are available equal to the lesser of the foreign tax paid and the Australian tax payable. Credits are also available to Australian companies for foreign tax paid under the CFC regime on attributed income.
- Wholly-owned groups of Australian companies and trusts can elect to have their income tax liability calculated on a consolidated basis.
- Non-arm's length international profit-shifting arrangements and other international transactions between related parties are governed by transfer pricing rules which give the Commissioner of Taxation the power to calculate the income tax payable based on arms-length prices.
- Withholding tax must be deducted from interest, royalties and dividends (to the extent they are not franked) paid to non-residents.
- Income tax is payable by Australian resident individuals on non-exempt income derived from worldwide sources. Non-resident individuals are only required to pay tax on Australian-sourced income.
- There is no separate capital gains tax, but capital gains are included in taxable income. The tax treatment of capital gains and losses is generally the same for individuals and trustees as for companies, but there are some differences (e.g. Australian resident individuals and trustees, unlike companies, can claim a 50% discount of capital gains on assets held for more than one year). Small business CGT concessions may also reduce capital gains where certain conditions are met.
- There is no net wealth tax, real estate tax or inheritance or gift tax.

A. TAXES PAYABLE

COMPANY TAX

Australian resident companies are subject to company income tax on their income derived from all sources. Non-resident companies are required to pay income tax only on Australian-sourced income. Resident companies are those that are incorporated in Australia or those that carry on business in Australia and either have their central management and control in Australia or their voting power controlled by shareholders who are Australian residents.

The tax year runs from 1 July to 30 June. Companies' financial years usually coincide with the tax year. A taxpayer can choose to have an accounting period different to the tax year if they wish but this will require additional costs of preparing another set of accounts based on the tax year. Alternatively, if a taxpayer has a good reason for having a financial year other than 1 July to 30 June they can apply to the Australian Tax Office to have a substituted accounting period (SAP) and align the tax year with their financial year. The Australian Tax Office will generally accept applications for an SAP where an Australian subsidiary wants to align its tax year with its foreign parent company's financial year. The company tax rates applied to the company's taxable income are:

- 27.5% for companies with aggregate annual turnover of less than AUD 25 million for the 2017/18 income year (AUD 50 million for the 2018/19 and later income years); and
- 30% for all other companies.

A company is generally required to 'self-assess' its likely tax liability in a financial year and pay tax by quarterly instalments with the final tax liability being reconciled in an annual tax return. 'Likely tax' is the latest estimate of tax payable made by the company in a current financial year. If no estimate is made, 'likely tax' is the tax assessed in the preceding year. Company tax is payable on a quarterly basis (except for companies with a turnover of greater than AUD 20 million which are required to remit instalments monthly). Companies that are not required to report their goods and services tax (GST) on a monthly basis and with income tax payable of less than AUD 8,000 for the most recent income year can elect to pay an annual instalment of tax rather than quarterly instalments. Generally, the annual payment date is 21 October when the income year ends on 30 June.

Monthly or quarterly company tax instalments are payable within 21 days after the end of each month/quarter of the financial year. However, where taxpayers are eligible to pay other quarterly obligations on a deferred basis (namely those entities that are required to pay GST on a quarterly basis); the due date is the 28th day after the end of the quarter (except for the December quarter in which case payment date is 28 February). There are two methods of working out the instalment payment amount as follows:

- Instalment Income Option: the payment amount is the amount of gross assessable income earned for that month or quarter (less capital gains) multiplied by the instalment rate. The instalment rate is advised by the Tax Office and is based on the company tax paid on the most recent tax assessment divided by the company's turnover (less capital gains). This method is available to all taxpayers.
- GDP adjustment notional tax option: the payment income amount is based on the assessable income figure from the most recent tax return multiplied by a GDP factor. The income amount is advised by the Tax Office. This method is available for individual taxpayers or other entities where their most recent assessed taxable income was under AUD 2 million. Certain categories of taxpayers such as farmers, sports people and artists may meet their liability for these four instalments by making two payments per year.

BRANCH PROFITS TAX

There is no branch profits tax in Australia. However, Australian branches of foreign companies will generally only be taxed on Australian-sourced income at the prevailing company tax rate.

GOODS AND SERVICES TAX (GST)

All entities that carry on an enterprise in Australia are required to register for the goods and services tax (GST) if their annual turnover meets the registration turnover threshold of AUD 75,000 or AUD 150,000 for not-for-profit organisations. Once registered, entities are required to charge 10% GST on all goods and services that they supply within Australia, unless the supplies are specifically excluded, such as education, health, child care services and certain types of food.

Registered entities are entitled to claim an 'input tax credit' equal to the amount of GST paid on purchases, provided that those purchases were used for a 'creditable purpose' in carrying on their enterprise. This means that the cost of the GST is effectively borne solely by the end user. However, there are two exceptions to the general rule:

(1) GST-free supplies (zero rated supplies): These supplies are provided by enterprises to their customers free of GST, and the enterprise is also allowed to claim input tax credits on its creditable business acquisitions. Examples include education and health providers and certain types of food.

(2) Input taxed supplies: These supplies are provided by enterprises to their customers free of GST, but the enterprise is not allowed to claim any input tax credits on its creditable business acquisitions, effectively treating the supplier as an end user. Examples include financial services providers and residential accommodation supplies.

The GST collected from customers is remitted to the Federal Government on a quarterly or monthly basis, depending on the size of the entity's annual turnover.

FRINGE BENEFITS TAX (FBT)

Fringe benefits tax is a federal tax that is payable by resident and non-resident employers (with sufficient connection with Australia) on certain benefits that are provided to their employees. The tax is levied at a rate of 49% for the FBT year ending 31 March 2018 on the 'grossed-up taxable value' of each benefit that is provided to employees. FBT is separate from income tax.

In calculating the 'grossed-up taxable value' of a fringe benefit, the provider must first determine whether they are entitled to a GST input tax credit on that benefit. If so entitled, the value of the benefit must be 'grossed up' using a rate of 2.0802 for the 2018 FBT In all other cases, the value of the benefit is grossed up using a rate of 1.8868 for the 2018 FBT year.

The grossing up methodology effectively levies tax on the benefit at the rate of tax that an employee on the highest marginal tax rate would pay on the cash salary required for them to pay for the benefit out of after tax salary and taking into account any GST input tax credit the employer can claim on providing the benefit. Employees can make non-tax deductible contributions towards the private use component of a benefit to reduce the taxable value, thereby reducing the FBT payable.

The FBT year runs from 1 April to 31 March. If the prior year's FBT liability is AUD 3,000 or more, it is payable on a quarterly basis on the same payments dates as quarterly company tax (see above). If the total FBT liability is less than AUD 3,000, an annual payment is required. The annual FBT return is due for lodgement by 21 May of each year. Any FBT paid in Australia by an employer is generally deductible for Australian income tax purposes.

SUPERANNUATION CONTRIBUTIONS

Employers are required to make superannuation contributions on behalf of their employees at a rate of 9.5% (from 1 July 2014) of the employee's salary and wages. The rate will remain at 9.5% up until 30 June 2021; this will increase to 10% from 1 July 2021 and will increase gradually until the rate reaches 12% on 1 July 2025. Contributions are required on a quarterly basis.

If insufficient contributions are made, employers are liable for a Superannuation Guarantee Charge. The 'charge' includes the shortfall in the contributions together with an interest component and an administration fee. Employers who have a superannuation guarantee shortfall are required to lodge a Superannuation Guarantee Statement together with the 'charge' on the 28th day of the second month following the end of the quarter.

Superannuation contributions made by employers for their employees are generally income tax deductible and subject to 15% contributions tax payable by the superannuation fund. Where the employee's aggregate taxable income and concessional superannuation contributions exceed AUD 300,000 additional tax of 15% of the excess contributions is payable. Employees can make superannuation contributions on a "salary sacrifice" basis which effectively means these contributions are also tax deductible. There is a cap on the annual deductible aggregate superannuation contributions of AUD 25,000 for employees of all ages applying from 1 July 2017. Where concessional contributions exceed the cap, the excess amount is included in the individual's assessable income and taxed at their marginal tax rate. From 1 July 2018, individuals with superannuation balances of less than AUD 500,000 will have the ability to carry forward unused concessional contributions from up to the five previous financial years, and use the amounts to make additional concessional contributions during a particular financial year.

OTHER TAXES

Other Federal taxes include:

(1) Customs & Excise duties on certain imported items.

(2) The Petroleum Resource Rent Tax (PRRT) regime applies to onshore petroleum projects - including coal seam gas, tight gas and shale oil projects - as well as the offshore North West Shelf project. The PRRT is payable on the taxable profit of a person in relation to a petroleum project. If a person has an entitlement to assessable petroleum receipts from a production licence they will have a petroleum project.

(3) Minerals resource rent tax: this tax was repealed effective September 2014.

(4) Excise on fuel, tobacco and alcohol.

(5) Luxury Car Tax of 33% is payable on the value of certain vehicles that exceed the luxury car threshold of AUD 65,094 for the 2017/2018 year.

(6) Wine Equalisation Tax is a tax of 29% of the whole sale value of wine imported into Australia or sold by wholesale.

LOCAL TAXES

The States and Territories of Australia impose the following taxes:

(1) Stamp Duty: payable on specified transactions, including certain transfers of property.

(2) Payroll tax: payable by employers who have total payrolls exceeding specified thresholds which vary from State to State. Payroll tax rates between each State and Territory varies from 4.75% - 6.85%.

(3) Land and property taxes.

(4) Workcare / workers compensation levies or premiums.

(5) Insurance Duty: payable on certain insurance premiums.

B. DETERMINATION OF TAXABLE INCOME

Taxable income equals assessable income less allowable deductions. Assessable income includes ordinary income under common law and statutory income but does not include specifically exempt or non-assessable income. Generally, to be deductible, losses and outgoings must relate to the gaining or producing of assessable income. Some items are specifically non-deductible, such as penalties and fines. Capital expenses are generally non-deductible but may be deducted over time as a capital allowance or included in the capital gains tax (CGT) cost base. Expenses incurred in producing exempt income are also non-deductible. It is possible to claim a portion of expense items that have dual purposes. Special rules apply in respect of the categories listed below.

CAPITAL ALLOWANCES

Plant, equipment and other depreciable items are generally written off over their effective life. There are alternative rules for small business taxpayers with average turnover less than AUD 10 million. Taxpayers may self-determine the effective life of plant to calculate the tax depreciation rate or instead may rely on tax rates published by the Commissioner of Taxation. Either the straight-line or diminishing-value methods of depreciation can be used for each item of plant and is determined as follows:

(1) Straight-line method: 100% divided by the Asset's effective life.

(2) Diminishing-value method: 200% divided by the Asset's effective life.

Motor vehicles are subject to an indexed depreciation cost limit. The limit for the 2017/2018 financial year is AUD 65,094. A small business can pool depreciable assets in a general small business pool to be written off at one rate. The deduction for an asset acquired during an income year and allocated to the general small business pool is 15% of the taxable purpose proportion of its adjustable value. The general small business pool is written off at 30% per income year thereafter.

Effective from 12 May 2015 until 30 June 2018 small business taxpayers can claim an immediate write-off of eligible assets costing less than AUD 20,000. This temporary upfront write-off will revert to the AUD 1,000 threshold for assets acquired after 30 June 2018. Most business-related capital expenses that are not otherwise deductible, included in the cost of depreciable assets or included in the CGT cost base of an asset, are deductible over five years.

STOCK / INVENTORY

All trading stock on hand at the beginning of the year of income and all trading stock on hand at the end of that income year must be taken into account in determining taxable income.

Each item of inventory must be valued at the end of each financial year at:

- Cost price valued at full absorption cost;
- Market selling value (the current selling value in the taxpayer's trading market); or,
- Replacement cost.

The closing value adopted becomes the opening value at the beginning of the following income year. Acceptable valuation methods include FIFO, average cost, standard costing and retail inventory method. Non-acceptable valuation methods include LIFO and the base stock method. Certain small business taxpayers who have an annual turnover of less than AUD 10 million are only required to make such valuations where the value of their stock changed by more than AUD 5,000.

CAPITAL GAINS AND LOSSES

Net capital gains are generally included in the determination of assessable income. Capital losses cannot be deducted from assessable income, and can only be offset against capital gains. Capital losses can be carried forward indefinitely to offset against future capital gains. Net capital gains are determined by deducting the cost base of an asset from the proceeds received on disposal of that asset. The purchase price of an asset purchased prior to 21 September 1999 can be adjusted for inflation indexation to the quarter ending 30 September 1999. Indexation is not available for assets purchased after 21 September 1999. In lieu of indexation, individuals and trustees may be eligible for a 50% reduction in their assessable capital gain if certain conditions are met. Complying superannuation funds are eligible for a 33.33% discount. This reduction is not available for companies.

Small business taxpayers which meet the eligibility conditions may access the Small business CGT concessions which contain CGT exemptions and reduction concessions, which may allow the taxpayer to disregard or defer some or all of a capital gain arising from an active asset utilised in a small business. Other exemptions from capital gains tax may also be available, such as the main residence exemption, gains from foreign branches or small business exemptions for businesses that satisfy certain criteria. Foreign residents are exempt from Australian CGT except on Australian real property; business assets used in an Australian permanent establishment (PE); or equity interests in Australian or foreign companies or trusts with substantial interests in Australian real property either directly or indirectly through interposed entities. Australian real property includes Australian land and mining, quarrying and prospecting rights over Australian land.

The 50% CGT discount for non-residents was removed on capital gains accrued after 8 May 2012 on Taxable Australian Property such as real estate and mining assets. However, non-residents will still be entitled to the 50% discount on capital gains accrued prior to this date (after offsetting any capital losses) provided they obtain a market valuation of assets as at 8 May 2012.

DIVIDENDS

In general, dividends received by resident shareholders from resident companies are taxable but grossed up for any franking credits attached. The franking credits are equivalent to the tax paid by the company on its profits out of which the dividend was paid. However, the resident shareholders are allowed a tax offset of tax equal to the amount of any franking credits on the dividend. Dividends received from non-resident companies do not qualify for this tax offset, but may be entitled to a foreign tax credit (see foreign tax relief below). Alternatively, the dividend may be tax-exempt if the recipient is an Australian company that has a 10% or greater interest in the foreign company.

Dividends paid by non-resident companies in certain foreign countries are also exempt to the extent that they represent profits already taxed in Australia under Australia's Controlled Foreign Corporation (CFC) rules. Dividends paid by resident companies to non-resident shareholders are not subject to income tax but may be subject to withholding tax to the extent that the dividends are not franked (i.e. have been paid out of Australian-taxed profits). Payments of dividends are not generally tax deductible.

INTEREST DEDUCTIONS

Interest is generally deductible to the extent it relates to funds borrowed for income-producing purposes. Interest deductions may be restricted by the thin capitalisation provisions. The thin capitalisation rules seek to deny deductions for interest payments if the taxpayer's debt exceeds 60% of the value of its assets. The interest attributable to this excess is denied deductibility. An exception to this rule is where the taxpayer can satisfy an 'arm's length test', which focuses on the taxpayer's likely borrowings if it had acted at arm's length and what independent lenders would lend to the taxpayer on arm's length terms.

The thin capitalisation provisions apply to foreign controlled Australian entities and the inward investments of foreign nationals and Australian-based entities with foreign investments. A de minimis rule ensures that all corporate entities and their associates (regardless of their nature or business) that claim no more than AUD 2 million for the financial year in debt deductions per income year will not be subject to the thin capitalisation rules.

MANAGED INVESTMENTS

Managed Investment Trusts (MIT) that make fund payments to an address outside Australia are required to pay withholding tax to the Tax Office. The rate of withholding is 30% but this rate is reduced if the country has an exchange of information agreement with Australia, in which case the rate is 15%. A concessionary rate of 10% applies to fund payments by a clean building MIT, that is an MIT that holds only energy efficient commercial buildings constructed on or after 1 July 2012.

LOSSES

A tax loss is the excess of allowable deductions over assessable income (not including exempt income) and can be carried forward indefinitely to offset against future taxable income. For companies and trusts the deductibility of losses is restricted by a 'continuity of ownership' test (more than 50% of voting, dividend and capital rights). Alternatively, the loss is deductible if the company passes a 'same business' test.

FOREIGN SOURCED INCOME

(i) Controlled Foreign Corporations (CFCs): Australia has a CFC regime which is designed to ensure certain types of passive and associated party income of a CFC is included in the controlling Australian resident's taxable income each financial year. In general, a foreign company will be regarded as a CFC where:

- Five or fewer Australian residents hold an associate inclusive 50% interest in the foreign corporation or have de facto control of the foreign entity;
- An Australian entity (and its associates) has 40% or greater control in the foreign corporation, unless they can prove that their interest is not a controlling interest; or,
- Irrespective of the interests in a foreign company, a group of five or fewer Australian entities (either alone or together with associates) has actual control of the company.

CFCs in seven listed countries (USA, UK, France, Germany, Japan, Canada - and New Zealand) are largely exempted from the CFC rules. There are several exemptions to the CFC rules including an active business exemption. The Government is currently reviewing the CFC provisions with a view to simplifying the rules.

(ii) Most foreign branch profits and capital gains of a resident company are generally not taxed when the income or gain is derived in carrying on a business through a permanent establishment in the following

listed countries: UK, US, Canada, France, Germany, Japan and New Zealand. Losses from branches in the countries listed above cannot be claimed. Foreign branches of resident companies in other countries (unlisted countries) are generally not subject to tax on profits or gains where the income is from an 'active business' and for capital gains where the company used the asset wholly or mainly in an active business. Associated losses are also not deductible against the Australian source income of the entity.

CONDUIT FOREIGN INCOME

The conduit foreign income rules allow foreign income and certain foreign capital gains to flow through Australian companies and other interposed entities to foreign residents without being taxed in Australia.

INCENTIVES

Specific write-offs are provided for the mining and primary production industries. Special taxation treatment is also afforded to investment in innovative Australian companies through a 'venture capital tax concession'. The Research & Development (R&D) tax incentive provides a tax offset for eligible R & D activities targeting R&D activities that benefit Australia. The two core components of the incentive include:

- Refundable tax offset for certain eligible entities whose aggregated turnover is less than AUD 20 million;
- A non- refundable tax offset for all other eligible entities.

OTHER

(i) Debt Forgiveness: Where a commercial debt is forgiven, special provisions operate in some circumstances to effectively tax the borrower on the benefit received as a result of the forgiveness of the debt. The 'net forgiven amount' is not included directly in the borrower's assessable income but is applied against the borrower's tax attributes in the following order:

(1) Reduction of revenue losses.
(2) Reduction of net capital losses.
(3) Reduction of deductions for particular expenditure.
(4) Reduction of the cost base of certain assets.

(ii) Debt/Equity Rules: The debt equity rules determine the nature of an instrument for taxation purposes. Broadly speaking, the rules are based on the substance of the arrangement rather than its legal form. The rules determine whether a return on a debt or equity interest in an entity may be frankable and non-deductible (like a dividend) or may be deductible to the entity and not frankable (like interest).

(iii) Taxation of Foreign Exchange (forex) Gains or Loss: Special rules tax forex gains and allow tax deductions for forex losses. The rules apply to transactions where there is a disposal of foreign currency or a disposal of a right to foreign currency, a ceasing of a right or obligation to receive foreign currency, or a ceasing of a right or obligation to pay foreign currency. These provisions will not apply where the taxpayer has made certain elections.

(iv) Taxation of Financial Arrangements (TOFA): Broadly, the TOFA regime defines what constitutes a financial arrangement and provides a framework for calculating gains and losses on financial arrangements through default and elective tax timing methods. In broad terms, it is directed to entities that have:

- Aggregated turnover of greater than AUD 100 million; or,
- Assets of greater than AUD 300 million

However, certain exceptions apply.

C. FOREIGN TAX RELIEF

Where foreign sourced income is included in a taxpayer's assessable income, foreign income tax offsets are available at the lesser of the foreign tax paid or the Australian tax payable. Any withholding tax paid on an assessable dividend from a foreign company will generally be allowed as a foreign income tax offset.

D. CONSOLIDATED CORPORATE GROUPS

Wholly-owned groups of Australian companies and trusts can elect to have their income tax liability calculated on a consolidated basis. This means that the entire group is treated, and taxed, as a single corporate taxpayer. Where the parent of Australian subsidiary entities is a foreign entity, the consolidation regime allows for the Australian subsidiary entities to be grouped under the consolidation regime where certain conditions are met.

E. RELATED PARTY TRANSACTIONS

Non-arm's length international profit-shifting arrangements and other international transactions between related parties are governed by transfer pricing rules which give the Commissioner of Taxation the power to calculate the income tax payable based on arm's length prices.

Documentation requirements and arm's length conditions aim to better align Australian requirements with OECD Guidance material. Contemporaneous documentation should be prepared prior to lodgement of the entity's income tax return and records should be made readily available to avoid failing to demonstrate a reasonably arguable position in the event of a transfer pricing adjustment.

The Australian Government has adopted a number of the recommendations of the OECD/G20 Base Erosion and Profit Shifting (BEPS) Action Plan. Australia is currently one of 49 countries that will facilitate the exchange of Country by Country reports between tax authorities in different jurisdictions to better assess transfer pricing risks. The measure takes effect from income years commencing on, or after, 1 January 2016. It requires multinational entities with an annual global income of AUD 1 billion or more to provide the ATO with reporting statements within 12 months after the end of their income tax year.

F. WITHHOLDING TAXES

Withholding tax must be deducted from interest, royalties and dividends (to the extent they are not franked) paid to non-residents. Liability for the remittance of withholding taxes rests with the payer of such amounts. Withholding tax is collected through the PAYG system and is determined according to the payer's PAYG withholding status. The payer is also required to lodge an annual report with the Commissioner of Taxation where such amounts have been withheld during the financial year. The relevant withholding tax rates are:

Type of income	Rate
1. Dividends - franked	0%
2. Dividends - unfranked[1]	0 - 15% (treaty countries); 30% (non-treaty countries)
3. Interest	10% (NIL for financial institutions under certain treaties)
4. Royalties	5% - 15% (treaty countries); 30% (non-treaty countries)

Note:

1. Australia does not impose withholding tax on dividends to the extent they are franked. To the extent dividends are unfranked, i.e. when paid out of profits of a company that have not borne Australian tax, the rate is 0% or 5%, if the beneficial owner of the dividends is a company that holds at least 80% or 10%, respectively, of the voting power in the payer. In all other cases, the rate is generally 15%.

G. EXCHANGE CONTROL

Where more than AUD 10,000 of Australian currency is physically taken out of Australia, the departing individual must report this to an Australian Customs Officer, or to the Australian Transaction Reports and Analysis Centre, (AUSTRAC). Equivalent amounts of foreign currency that are brought into Australia must also be reported.

H. PERSONAL TAX

Income tax is payable by Australian resident individuals on non-exempt income derived from worldwide sources. Non-resident individuals are only required to pay tax on Australian-sourced income. Residency is generally determined by reference to common law principles of residence. However, an individual can also be deemed an Australian resident if the individual's domicile is in Australia (unless they have a permanent place of abode outside Australia) or where the individual has spent more than one half of the relevant year of income in Australia (unless their usual place of abode is outside Australia and they do not intend to take up residence in Australia).

Individuals that become residents for a short time may be eligible for the temporary resident tax exemptions on their foreign income and capital gains. If they are holders of a temporary resident visa (generally for up to four years but may be longer), they will not be taxed on foreign-sourced income unless the income relates to employment or services rendered while they are a resident of Australia. In addition, temporary residents are not taxed on capital gains except for gains on 'Taxable Australian Property' (see capital gains section above). Income tax is payable on taxable income, which is the 'excess' of assessable income less allowable

deductions.

Assessable income includes business income, employment income, capital gains on certain assets, dividends, rent and interest. Allowable deductions include outgoings incurred in gaining or producing assessable income such as interest expenses and statutory deductions such as tax-deductible gifts to specified charitable entities.

Most individual taxpayers that are employees will generally have Pay-As-You-Go (PAYG) tax instalments withheld from their salary or wage payments by their employers. Most individuals who are either self-employed or who earn non-salary income are required to make interim payments of tax during the financial year. The amount of these instalments is calculated using the same method outlined in section 'A' above for companies. Individuals with a most recent notional tax assessment of less than AUD 8,000 can elect to make an annual payment, otherwise interim payments are generally required either 21 days after the payment period (or 28 days if they are deferred business activity statement (BAS) payers).

A 2% levy, called the Medicare Levy, is payable by resident individual taxpayers. This levy covers basic hospital and medical expenses for all Australian residents and is assessed on the taxable income of resident individual taxpayers with no maximum ceiling on the amount payable. Low income taxpayers may be eligible for an exemption or reduced levy.

Temporary residents will generally be eligible to obtain a Medicare levy exemption. Higher income individuals without private health insurance are subject to an additional Medicare Levy Surcharge of between 1% and 1.5%.

A rebate is available to resident taxpayers for the cost of private health insurance. The rebate is subject to an income test and differs depending on the age of the taxpayer. A low income tax offset of AUD 445 is available to taxpayers with a taxable income of less than AUD 37,000. This tax offset is phased out when taxable income reaches AUD 66,667. Various other tax offsets are also available to resident individual taxpayers such as medical expenses rebate, zone offsets and superannuation offset. The tax rates for Australian individual residents and non-residents in the 2017/2018 financial year are outlined as follows:

Resident Individuals - rates 2017/2018

Taxable Income Exceeding AUD	Taxable Income Not Exceeding AUD	Tax On Lower Amount AUD	Rate On Excess%
0	18,200	0	0.0
18,201	37,000	0	19.0
37,001	87,000	3,572	32.5
87,001	180,000	19,822	37.0
180,000	—	54,232	45.0

Non-resident Individuals - rates 2017/18:

Taxable Income Exceeding AUD	Taxable Income Not Exceeding AUD	Tax On Lower Amount AUD	Rate On Excess%
0	87,000	0	32.5
87,001	180,000	28,275	37.0
180,000	—	62,685	45.0

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends[1] (%)	Interest[2] (%)	Royalties[3] (%)
Resident corporations or individuals:	0	0	0
Non-resident corporations or individuals of non-treaty countries:	30	10	30
Treaty countries:			
Argentina	10/15	12	10/15
Austria	15	10	10

Belgium	15	10	10
Canada	5/15	10	10
Chile	5/15	5/15	5/15
China	15	10	10
Czech Republic	5/15	10	10
Denmark	15	10	10
East Timor	15	10	10
Fiji	20	10	15
Finland	0/5/15	10	5
France	0/5/15	0/10	5
Germany	15	10	10
Greece	30	10	30
Hungary	15	10	10
India	15	15	10/15/20
Indonesia	15	10	10/15
Ireland	15	10	10
Italy	15	10	10
Japan	0/5/10	0/10	5
Kiribati	20	10	15
Korea	15	15	15
Malaysia	0/15	15	15
Malta	15	15	10
Mexico	0/15	0/10/15	10
Netherlands	15	10	10
New Zealand	0/5/15	0/10	10
Norway	0/5/15	0/10	5
Papua New Guinea	15/20	10	10
Philippines	15/25	0/10/15	15/25
Poland	15	10	10
Romania	5/15	10	10
Russia	5/15	10	10
Singapore	15	10	10
Slovak Republic	15	10	10
South Africa	5/15	0/10	5
Spain	15	10	10
Sri Lanka	15	10	10
Sweden	15	0/10	10
Switzerland	0/5/15	0/10	5

Taiwan	10/15	10	12.50
Thailand	15/20	10/25	15
Turkey	15	10	10
United Kingdom	0/5/15	0/10	5
United States	0/5/15	10/15	5
Vietnam	10/15	10	10

Notes:

1. Franked dividends paid by Australian resident companies to non-residents are exempt from dividend withholding tax. To the extent dividends are unfranked, i.e. when paid out of profits of a company that have not borne Australian tax, the rate is 0% or 5%, if the beneficial owner of the dividends is a company that holds at least 80% or 10%, respectively, of the voting power in the payer. In all other cases, the rate is generally 15%
2. Non-resident interest withholding tax in Australia is limited to 10% under Australian tax law.
3. Withholding tax of 30% is generally imposed on the gross amount of royalties paid from Australia to non-residents. A reduced rate is applicable to residents of treaty countries as listed above.

The various rates may change according to categories and circumstances. Taxpayers should consult the applicable DTA's to ascertain the applicable rate.

AUSTRIA

MEMBER FIRM

City	Name	Contact Information
Graz	Clemens Corti	+43 316 82 60 82
		clemens.corti@pkf.at
Salzburg	Stephan Rößlhuber	+43 662 84 22 90
		stephan.roesslhuber@pkf.at
Vienna	Thomas Außerlechner	+43 1 51 28 780
		thomas.ausserlechner@pkf.at

BASIC FACTS

Full name:	Republic of Austria
Capital:	Vienna
Main language:	German
Population:	8.75 million (2018 estimate)
Monetary unit:	Euro (EUR)
Internet domain:	.at
Int. dialling code:	+43

KEY TAX POINTS

- Public and private limited companies and certain other entities, such as cooperative purchasing societies and mutual insurance companies, are subject to corporate income tax at 25%.
- Resident companies are subject to tax on their worldwide income. Non-resident companies are taxed on income attributable to an Austrian permanent establishment and certain other Austrian-sourced income.

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- There is no specific capital gains tax for limited companies. Capital gains and losses are generally treated as ordinary business income (or loss) and are taxed at regular corporate income tax rates.
- The group taxation regime allows for offsetting losses against group profits. In certain cases, losses incurred by non-Austrian resident members of the group may be utilised.
- VAT is generally imposed on the delivery of goods and the supply of services within Austria by entrepreneurs within the scope of their business and on imports into Austrian customs territory.
- Austria imposes a 27,5% withholding tax on dividends, unless double taxation treaties provide otherwise. Withholding tax is also levied on royalties at 20% and interest from banks and financial instruments at 25%.
- Austrian resident individuals are subject to unlimited tax liability on their worldwide income, including income from trade or business, professional services, employment, property and investments.
- Non-resident individuals are only taxed on Austrian-sourced income. An individual is generally treated as resident in Austria if he or she is domiciled or establishes a habitual place of abode in Austria (including a six-month stay in Austria).

A. TAXES PAYABLE

COMPANY TAX

Public and private limited companies and certain other entities, such as cooperative purchasing societies and mutual insurance companies, are subject to corporate income tax at 25%. Limited companies incurring a tax loss or earning small profits must pay a minimum tax of EUR 1,750, EUR 3,500 or EUR 5,452 depending on the legal status of the company and the industry. A reduced minimum tax applies to the first 10 years upon incorporation. Non-resident companies are not subject to a minimum tax. Minimum tax may be credited against corporate tax payable in the following years.

Resident companies are subject to tax on their worldwide income. Non-resident companies are taxed on income attributable to an Austrian permanent establishment, immovable property located in Austria, deposits with Austrian banks, income from silent partnerships in Austria, income from leasing or renting certain property in Austria and income from commercial or industrial consulting or providing labour for domestic use. Companies are deemed to be resident if they are incorporated in Austria (i.e. the registered office is in Austria) or have their place of effective management in Austria. The fiscal year usually runs from 1 January to 31 December, although a company can choose a different fiscal year under certain circumstances. Corporate income tax is assessed on an annual basis. However, quarterly advance payments have to be made.

CAPITAL GAINS TAX

There is no specific capital gains tax for limited companies in Austria. Capital gains and losses are generally treated as ordinary business income (or loss) and are taxed at standard corporate income tax rates. Special rules apply to capital gains and losses on property sold by legal entities other than limited companies. The sale of a property by individuals and non-corporate businesses is subject to income tax at a reduced rate of 30% regardless of the holding period. Special rules apply to the calculation of the tax basis for long holding periods and property purchased before 2002. Deductions are quite restricted.

Exemptions apply to privately owned, main residencies. Another exemption from capital gains taxation applies to real estate newly built at the seller's own risk unless rented out during the last 10 years before sale. Capital gains from financial instruments held by private persons are taxed at a reduced rate of 25% or 27.5% regardless of the holding period. Some capital gains are also taxed with the regular income tax rate (e.g. income from personal loans).

BRANCH PROFITS TAX

There is no branch profits tax in Austria. Austrian branches of foreign companies are subject to Austrian (corporate) income tax on Austrian-sourced income only.

SALES TAX / VALUE ADDED TAX (VAT)

VAT is generally imposed on the delivery of goods and supply of services within Austria by entrepreneurs within the scope of their business and on imports into Austrian customs territory.

The standard VAT rate is 20%. A reduced rate of 10% or 13% applies for example to food or hotel stays. Some transactions such as exports and intra-community sales B2B are zero-rated. A number of transactions are exempt from VAT, e.g. sale of financial assets, insurance premiums. VAT is generally assessed on a calendar year basis. Monthly or quarterly preliminary returns have to be filed.

FRINGE BENEFITS TAX (FBT)

Fringe benefits are subject to salary tax according to the value of the benefit in kind. The fringe benefits are taxed on the employee. These include e.g. the private use of a company vehicle, free meals or interest-free loans.

LOCAL TAXES

A municipal tax of 3% is levied on the gross payroll of enterprises. In addition, municipalities levy land and property taxes.

OTHER TAXES

Austria imposes a number of other taxes such as:

- A real estate transfer tax of 0.5% to 3.5% of the real estate value or, alternatively, based upon a deemed tax value for some transactions (which is usually not less than the market value).
- Insurance tax on insurance premiums, ranging from 1% to 11%.
- Social security is payable both by employers and employees with a capped basis of EUR 71,820 p.a. or EUR 5,130 per month (14 salary payments). The employee rate ranges from 14% to 18% depending on the employee's status, age and type of income. The employer rate ranges roughly from 18% to 22%. Apart from social security contributions, employers have to pay up to 9.1% salary-related charges on top of gross salary. The total staff costs amount to approximately 130% of gross salary.
- Stamp duties are due on certain transactions and documents.
- Austria does not levy any tax on inheritance or gifts. No tax is imposed on gratuitous transfers (except for land transfer tax) but mandatory reporting on such transfers exceeding certain limits has been implemented.

B. DETERMINATION OF TAXABLE INCOME

Taxable income is calculated as balance between taxable income and allowed deductions. Generally, to be deductible, losses and expenses must have been incurred to generate taxable income. Restrictions on deductions apply to capital gains from the sale of properties and financial instruments. From 2014 management compensation exceeding EUR 500,000 per annum is disallowed as deduction for the employer's corporate income tax. Another restriction applies to long-term (exceeding one year) provisions where the deductible amount is calculated as the net present value at a discount rate of 3.5% per annum.

Taxable income is based on the profit or loss shown in the financial statements prepared according to Austrian GAAP (called UGB). The accounting profit/loss is then adjusted for special tax rules according to the Income Tax Act. Non-deductible taxes (e.g. corporate tax) and non-deductible expenses (such as donations and general provisions) are added. On the other hand, special allowances and non-taxable income (dividends and losses carried forward) may be deducted. Under certain circumstances Austria also allows to deduct foreign losses incurred in permanent establishments or in subsidiaries under the group taxation regime.

CAPITAL ALLOWANCES

There are some special capital allowances in Austria that are particularly applicable to small and medium-sized enterprises.

DEPRECIATION

Assets subject to wear and tear have to be depreciated using the straight-line method. If an asset costs less than EUR 400 it can be written off immediately in the period of acquisition. The Income Tax Act stipulates fixed depreciation rates for buildings, ranging between 1.5% and 2.5% (depending on the use and type of building). For company cars, the Income Tax Act stipulates a fixed useful life of eight years for both acquisition and leasing. The costs of goodwill must be depreciated over fifteen years. The allocation key of the acquisition costs of a developed property between land and building has partially changed from 20/80 to 40/60 (disputable assumption, guilty in case of lending property). Other assets are depreciated over their useful life.

STOCK / INVENTORY

Stock is valued at the lower of cost or market value. Where inventory is valued according to the cost price, the FIFO method is generally accepted. Fungible goods may also be valued by using the weighted average cost method.

CAPITAL GAINS AND LOSSES

Under certain circumstances, roll-over of capital gains is allowed for individuals, trusts or partnerships but not for limited companies. If fixed assets are sold, gains resulting from disposal may be deducted from the cost of investments made in the same period or may be allocated to a tax-free reserve to be used against investments within the following 12 or 24 months. Any amounts not used within this period are subject to tax.

Several restrictions apply to the roll-over of capital gains (e.g. not applicable for limited companies). For corporate businesses there is no difference in the tax treatment of capital losses versus trading losses. For international participations, one can choose between tax-free treatment (capital gains and losses, depreciation is treated as neutral for tax-assessment) or taxable treatment. The declared option is irrevocably binding for the future. For privately held financial instruments the bank collects a withholding tax of 25% to 27.5% on capital gains.

DIVIDENDS

There is a final withholding tax of 25% on domestic dividends (27.5% if the participation is held by a private person). Withholding tax does not apply to dividends received by:

- An Austrian company holding an interest of at least 10% in the distributing company;
- A foreign resident company holding an interest of at least 10% in the distributing company for a minimum period of one year.

Where withholding tax is incurred on dividends paid between Austrian resident companies, this is creditable against the recipient's corporate income tax liability. In accordance with double taxation treaties withholding tax on dividends may be reduced at source or through a refund procedure.

INTEREST DEDUCTIONS

Interest is deductible on an accruals basis. Austria does not apply a general thin-capitalisation regime but allows deduction of costs from debt financing rather to a large extent. An important exception however was introduced on 1 March 2014 whereby interest payable on intra-group loans is only allowed for deduction if the lender is subject to a 10% income tax on the interest earned in his domicile. In other words, there is no deduction for interest paid to intra-group financial holdings in tax havens. The same restriction applies to royalties.

Interest income from bank deposits and securities is subject to a withholding tax of 25%. The withholding tax on interest is a final tax (income, donation, inheritance) for individuals. Interest income earned by a company is part of its business income and therefore subject to 25% corporate tax. For such companies, the withholding tax will be credited to corporate income tax due.

LOSSES

Losses incurred by companies may be set off against trading income and capital gains of the same accounting period. Excess losses may be carried forward indefinitely, but not carried back. However, losses carried forward may only be set off against the current income, i.e. a minimum of 25% of the income is subject to corporate income tax, regardless of losses carried forward. The excess loss may be credited against profits in consecutive years.

Losses incurred by individuals can be carried forward indefinitely if they stem from business sources; losses from other sources, e.g. rental income or capital assets on the other hand cannot be carried forward by individuals. Losses by individuals that incur from business investments without active participation in management, are limited to the contribution paid. Any further losses can only be offset against future profits from the same income. The 25% minimum taxable income does neither apply to individuals.

FOREIGN-SOURCED INCOME

A resident company is subject to corporate income tax on its worldwide income. Income from foreign sources is taxable in Austria according to double taxation treaty rules. Austria does not apply specific controlled foreign company (CFC) legislation. However, to avoid tax abuse, dividends from international participations located in tax havens may be taxed in Austria if certain anti-abuse criteria are met.

INVESTMENT ALLOWANCE / INCENTIVES

Under certain circumstances, the taxation of realised capital gains can be avoided or deferred by transferring the amount to an untaxed roll-over reserve. There are special allowances and/or tax incentives for apprenticeships and research and development (up to 14% allowance).

A further allowance for individuals and partnerships allows for 13% of annual profits to be exempt from tax provided the allowance amount (other than the first EUR 30,000 of profit) is invested in certain tangible assets or specific securities with a holding period of at least four years. The allowance is reduced to 7% for that proportion of annual profits between EUR 175,000 and EUR 350,000 and to 4.5% for that proportion of annual profits between EUR 350,000 and EUR 580,000. No allowance is available for annual profits that exceed EUR 580,000.

TRUSTS (PRIVATE FOUNDATION)

An Austrian Trust is a legal entity in civil law in which a donor transfers assets in order to achieve the objects of the trust. Quite often, the purpose of a trust is part of estate planning to care for family members ('family trust'). Trusts enjoy some minor tax advantages as certain forms of income (e.g. certain capital gains, dividends, interest) are not subject to corporate income tax at the trust level. The transfers to private trusts are subject to a fixed rate of 2.5% donation tax.

Where real estate is transferred, transfer tax (from 0.5% to 3.5% of the real estate value) and donation tax must be paid. Transfers by the trust to its beneficiaries (natural persons) are subject to withholding tax. Trusts (Private Foundations) are subject to special tax regimes that vary from company taxation in quite a number of significant aspects.

C. FOREIGN TAX RELIEF

Austria has concluded a number of double taxation treaties with other countries. Generally, an Austrian resident is subject to taxation in Austria. The double taxation treaties may either exempt foreign-sourced income or grant a credit against Austrian tax for foreign taxes paid on the same income or gain in the same fiscal period.

D. CORPORATE GROUPS

There is a special regime for the taxation of corporate groups where profits and losses can be set off within the group. The parent (or head of the national group) must be a resident corporation or permanent establishment of an EU-corporation. Basically, the parent must hold more than 50% of the shares and voting rights in any member of the group directly or indirectly and the group status must be kept for a minimum period of three years. Losses from non-resident group members (restrictions apply to members in tax havens and countries where Austria has not concluded a treaty with a comprehensive administrative assistance clause) reduce the Austrian tax basis (subsequent taxation of these losses applies if the foreign group member can realise losses carried forward in the future). If a member leaves the group for whatever reason before expiration of the minimum period, tax will be assessed as if it had never been a group member.

Losses arising in relation to a member's investment in another member of the corporate group are generally not deductible (for example, a realised loss on disposal of a subsidiary or impairment loss). The group taxation provides a considerably attractive tax instrument for corporate groups in Austria. However, thorough long-term tax planning is key to efficient utilisation of these provisions.

E. RELATED PARTY TRANSACTIONS

The arm's length principle applies. In this context, the 'substance-over-form' principle, which is a general principle of Austrian income tax, has to be strictly observed. This implies that a transaction must be assessed according to its economic effect and not according to the legal form it takes. The tax administration introduced guidelines for transfer pricing basically relying on the OECD Transfer Pricing Guidelines. Particular restrictions apply to deductibility of intra-group interest and royalty payments to related parties in low tax jurisdictions.

F. WITHHOLDING TAX

Austria imposes a withholding tax of 25% (for companies) or 27.5% (for private persons) on dividends, unless double taxation treaties provide otherwise. A withholding tax exemption applies if the recipient is resident company in another EU member state, holds at least 10% of the share capital and has done so continuously for one year prior to the dividend payment. Otherwise, the amount withheld can be credited by the recipient company against its own tax liability. For international participations, the EU Parent-Subsidiary Directive applies.

If the tax authorities suspect cases of tax avoidance or abuse, the withholding tax exemption can only be claimed through a refund procedure. In principle, Austria levies a 25% withholding tax not only on dividends but also on certain interest payments and capital income derived from securities. Corporate investors may achieve a tax exemption if certain conditions are met, even for portfolio dividends. Austria imposes a withholding tax regime also on royalties and income from artists, musicians, actors, sportspersons and the

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like. The tax rate is usually 20% of the gross receipts. The royalty case, however, is reduced to zero by many of Austria's double taxation treaties.

G. EXCHANGE CONTROL

Most exchange controls have been abolished in recent years. There are hardly any restrictions on the transfer of capital and currency transactions. However, there are reporting requirements for capital outflows from accounts of individuals exceeding an amount of EUR 50,000 (national or international). In addition, all accounts of individuals are kept in a register. The tax authorities may be allowed to get information from this register. Furthermore, even access to the content of accounts is possible under certain circumstances.

H. PERSONAL TAX

Austrian resident individuals are subject to unlimited tax liability on their worldwide income. Non-resident individuals are only required to pay tax on Austrian-sourced income. Taxable income consists of the following seven sources:

(1) Agriculture and forestry;

(2) Independent (professional) services (including scientific, artistic, literary, educational, or other professional services);

(3) Trade or business, including gains on the sale of a business or partnership share;

(4) Employment, e.g. wages and salaries, social security pensions;

(5) Capital assets (dividends, interest and capital gains from financial instruments);

(6) Rentals and royalties;

(7) Annuities and other income of a recurring nature, capital gains from property, speculative gains, and income from certain non-recurring services.

The current average tax rates are as follows:

Taxable Income (EUR)	Marginal Tax Rate %
0 - 11,000	0
11,001 - 18,000	25
18,001 - 31,000	35
31,001 - 60,000	42
60,001 - 90,000	48
90,001 - 1,000,000	50
Over 1,000,000	55[1]

1. The income tax rate of 55% is limited to the years 2016 to 2020.

The tax payable is reduced by certain tax credits, depending on marital status, number of children and other personal circumstances. Special regulations and rates apply for non-residents. Approximately 1/7 of an employee's salary is paid as extra payments, e.g. 13th and 14th salary (which are mandatory pays in most industries) per year is taxed at a fixed rate of 6%. For higher income the reduced rate on extra payments is not applicable anymore or limited. The favourable taxation rates are as follows:

Extra payments p.a. (EUR)	Tax Rate (%)
0 - 620	0
621 - 25,000	6
25,001 - 50,000	27
50,001 - 83,333	35.75

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)	Interest[10] (%)	Royalties (%)
Non-treaty countries:	25/27.5	25	20
Treaty countries:			
Albania	5/15[4]	5	5
Algeria	5/15[2]	0/10	10
Armenia	5/15[2]	10/0	5
Australia	15	10	10
Azerbaijan	5/10/15[8]	10	5/10
Bahrain	0	0	0
Barbados	5/15[2]	0	0
Belarus	5/15[5]	0/5	5
Belgium	15	15	0/10[11]
Belize	5/15[5]	0	0
Bosnia & Herzegovina	5/10[5]	5	5
Brazil	15	0/15	15/10/25
Bulgaria	0/5[10]	0/5	5
Canada	5/15[2]	0/10	0/10
China	7/10[5]	0/10	10
Croatia	0/15[2]	5	0
Cuba	5/15[5]	0/10	0/5
Cyprus	10	0	0
Czech Republic	0/10[2]	0	0/5
Denmark	0/15[2]	0	0
Egypt	10	0	0
Estonia	5/15[5]	0/10	5/10
Finland	0/10[2]	0	5
France	0/15[2]	0	0
Georgia	0/5/10[13]	0	0
Germany	5/15[2]	0	0
Greece	5/15[5]	0/8	0/7
Hong Kong	0/10[2]	0	3
Hungary	10	0	0
Iceland[14]	5/15[2]	0	5
India	10	0/10	10
Indonesia	10/15[5]	0/10	10
Iran	5/10[5]	0/5	5
Ireland	0/5	0	0/10[12]
Israel	25	15	0/10
Israel (new treaty)[15]	0[2]/10/15[16]	5	0

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Italy	15	0/10	0/10[12]
Japan	10/20[6]	10	10
Kazakhstan	5/15[2]	0/10	10
Korea	5/15[5]	0/10	2/10
Kuwait	0	0	10
Kyrgyzstan	5/15[5]	0/10	10
Latvia	5/10[5]	10	5/10
Liechtenstein	0/15[2]	0	5/10
Lithuania	5/15[5]	0/10	5/10
Luxembourg	5/15[5]	0	0/10[12]
Macedonia	0/15[2]	0	0
Malaysia	5/10[5]	15	10/15
Malta	15	5	0/10
Mexico	5/10[2]	0/10	10
Moldova	5/15[5]	5	5
Mongolia	5/10[2]	10	5/10
Montenegro	5/10[1]	10	5/10
Morocco	5/10[5]	0/10	10
Nepal	5/10/15[2,5]	0/10/15	15
Netherlands	5/15[5]	0	0/13[12]
New Zealand	15	10	10
Norway	0/15[10]	0	0
Pakistan	10/15[4]	15	10
Philippines	10/25[2]	10/15	15
Poland	5/15[2]	0/5	5
Portugal	15	10	5/10[12]
Qatar	0	0	5
Romania	0/5[5]	0/3	3
Russia	5/15[9]	0	0
San Marino	0/15[2]	0	0
Saudi Arabia	5	5	10
Serbia	5/15[5]	0/10	0/5/10
Singapore	0/10[2]	0/5	5
Slovakia	10	0	0/5
Slovenia	5/15[5]	5	5
South Africa	5/15[5]	0	0
Spain	10/15[6]	5	5
Sweden	5/10[5]	0	0/10[12]
Switzerland	15/0[4]	0	0

Taiwan	10	0/10	10
Tajikistan	5/10[3]	8	8
Thailand	0/10[5] respectively no treaty limit	0/10/25	15
Tunisia	20/10[5]	10	10/15
Turkey	5/15[5]	0/5/10/15	0/10
Turkmenistan	0/15[5]	0/10	10
Ukraine	5/10[2]	2/5	0/5
United Arab Emirates	0	0	0
United Kingdom	5/15[5]	0	0/10[12]
United States	5/15[2]	0	0/10
Uzbekistan	5/15[2]	0/10	5
Venezuela	5/15[3]	4,95/10	5
Vietnam	5/10/15[5,7]	10	7.5/10

Notes:

1. Lower rate applicable where recipient holds an interest of at least 5%.
2. Lower rate applicable where recipient holds an interest of at least 10%.
3. Lower rate applicable where recipient holds an interest of at least 15%.
4. Lower rate applicable where recipient holds an interest of at least 20%.
5. Lower rate applicable where recipient holds an interest of at least 25%.
6. Lower rate applicable where recipient holds an interest of at least 50%.
7. Lower rate applicable where recipient holds an interest of at least 70%.
8. Lower rate applicable where recipient holds an interest of at least 25% and share value exceeding USD 250,000, higher rate applies to 25% and USD 100,000.
9. Lower rate applicable where recipient holds an interest of at least 10% and share value exceeding USD 100,000.
10. Lower rate applies to corporate, higher rate to individual shareholders
11. Normally, the withholding tax rate on bank deposits etc. is 25%. However, a full exemption is frequently available where the bank receives a written declaration from the recipient that such interest forms part of the recipient's business income (only possible for non-individual persons). The exemption also applies to non-resident individuals for interest received on bonds and bank deposits if they disclose their identity and residence to the depository. Interest on convertible bonds is taxed as dividends.
12. Royalties to these countries are exempt from withholding tax unless more than 50% of the issued share capital is held. Where more than 50% of the issued share capital is held the higher withholding tax rate is applicable.
13. Lower rate applicable where recipient holds an interest of at least 50% and share value exceeding EUR 2,000,000, higher rate applies to 10% and EUR 10,000.
14. Entry into force: 1 March 2017. Effective date: 1 January 2018.
15. Entry into force: 1 March 2018. Effective date: 1 January 2019.
16. The 15% rate applies if the beneficial owner holds directly less than 10% of the capital of the distribution-making company.

Please note: The Austria - Argentina double tax agreement was recalled by Argentina in 2009.

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AZERBAIJAN

MEMBER FIRM

City	Name	Contact Information
Baku	Ziya Husseinzadeh	+994 55 221 70 30 ziya.husseinzadeh@zenithaudit.az

BASIC FACTS

Full name:	Azerbaijan Republic
Capital:	Baku
Official language:	Azeri
Population:	9.8 million (2018 estimate)
Monetary unit:	1 Azerbaijani New Manat (AZN) = 59 Cents
Internet domain:	az
Int. dialling code:	+994

KEY TAX POINTS

- Azerbaijan has three separate tax regimes:
  - Production Sharing Agreements (PSA) – applicable to oil and gas and mining companies operating under the PSAs;
  - Host Government Agreements (HGAs) – applicable to the companies operating under Baku Tbilisi Ceyhan (Main Export) Pipeline and the South Caucasus Pipeline;
  - Statutory regime – applicable to companies operating beyond the scope of PSAs and HGAs. The Following taxes are applicable to companies operating under the statutory regime: Corporate Profits Tax, Value Added Tax (VAT), Personal Income Tax (PIT), Simplified Tax, Property Tax, Land Tax, Road Tax, Mining Tax and Excise Tax. Tax categories under the Tax code of Azerbaijan include the following:
  - State taxes;
  - Taxes levied by the Nakhchivan Autonomous Republic and;
  - Local or municipal taxes.

Tax categories under the Tax code of Azerbaijan include the following:

  - State taxes;
  - Taxes levied by the Nakhchivan Autonomous Republic and;
  - Local or municipal taxes.
- The tax year in Azerbaijan is the same as the calendar year.
- Individuals are considered resident for tax purposes if they have spent 183 days or more in Azerbaijan per calendar year;
- All bank payments between local taxpayers must be executed in AZN;
- Taxable profits include trading profit, capital gains, income from financial activities and other income. Residents, including those entities with foreign investment, are taxable on profit generated worldwide. Non-residents are taxable only on profit from activities performed in Azerbaijan.
- VAT payers may perform cash operations with a limit of up to 30,000 AZN per month.
- Simplified taxpayers may perform cash operations with a limit of up to 15,000 AZN per month.
- Any breach of the rules leads to penalties in the amount of 10% of the operations the first time, 20% the second time and 40% for three and more infringements.
- Any cash withdrawal is subject to 1% simplified tax plus a bank encashment fee to the taxpayer.
- 1% from the withdrawn amount is accrued and paid by the bank to the State Tax Authorities.

- Cash register payments will no longer be accepted as supporting documentation for expenses.
- Taxpayers selling goods (works, services) will now be obliged to issue electronic invoices in a prescribed form.
- With regard to the provision of works and services by electronic trade sellers (suppliers) as well as electronic lotteries or contests, the place for the provision of works and services will be the place where the purchaser of the works and services is located or registered.

A. TAXES PAYABLE

COMPANY TAX

Legal entities incorporated in Azerbaijan are treated as residents and are taxable on their worldwide income. Legal entities incorporated abroad are treated as non-residents and are taxable on income from sources in Azerbaijan. Companies are required to make quarterly advance tax payments based on the previous year's net income. Corporate profit tax returns should be submitted by 31 March of the following year. The corporate profit tax rate is 20%, which is applied to the difference between revenue and taxable expenses.

CAPITAL GAINS TAX

Capital gains are treated as ordinary income and taxed at the corporate profit tax rate of 20%.

BRANCH PROFITS TAX

There is no separate branch profits tax in Azerbaijan Republic. Branches are taxed at the standard corporate income tax rate of 20%. A branch remittance tax of 10% applies.

SALES TAX / VALUE ADDED TAX (VAT)

Each taxpayer with a sales turnover in excess of 200,000 AZN during consecutive 12 months must register for VAT. Provision of goods, works, rendering of services and import of goods are subject to taxation. VAT payers are entitled to recover VAT paid on purchases and are liable to pay VAT generated on sales of goods and rendering of services. VAT is the difference between VAT on sales and the sum of VAT on purchases and VAT on import of equipment. Reimbursement of VAT on purchases and import occurs through the receipt of an electronic tax invoice from the supplier via an electronic tax system (www.e-taxes.gov.az) and customs declarations appropriately.

The following VAT rates apply in Azerbaijan:

- 18% standard rate;
- 0% for the following categories, among others:
  - goods and services intended for use of diplomatic and consular representations accredited in the Azerbaijan Republic;
  - import and supply of goods and services undertaken in the context of receiving financial aid from abroad;
  - export of goods and services;
  - international and transit cargo and passenger transportation, except for international postal services;
  - entities operating under Special Economic Regimes for PSAs and HGAs.

The following categories, among others, are exempt from VAT:

- the value of state enterprise property purchased within a privatization program;
- the supply of financial services (banks, etc.);
- supply and import of the national and foreign currencies (except for numismatic purposes) as well as of securities;
- editing, publishing and printing activities in connection with the production of text books for schools (except work books), children's literature and state publishing funded by the state budget.

Zero VAT operations can be reimbursed unlike operations exempt from tax.

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LOCAL TAXES

Local taxes are applied by resolution of municipalities and obligatory for payment on the territory of municipalities. The following are the local (municipal) taxes:

- land use tax levied on natural persons;
- property tax levied on natural persons;
- mineral royalty tax on construction materials of local importance;
- profit tax of enterprises and organizations that are the property of municipalities.

FRINGE BENEFITS TAX

Any fringe benefits provided to employees are considered as employees' additional income, which is taxable at personal income tax rates (14% and 25%).

REGISTRATION DUTY

State registration of legal entities is executed by the Ministry of Taxes of Azerbaijan in line with the "one stop shop" principle, which includes electronic query and lasts 1 day in case of a local shareholder and 2 days in case of a foreign shareholder.

Foreign companies may open a branch office or representative office in order to carry out activities in Azerbaijan. The tax treatment is the same for both but the branch office would have more benefits because of a right to perform commercial operations on behalf of its head office.

REAL ESTATE WITHHOLDING TAX

Rental fees paid to individuals are taxed at the source of payment at the rate of 14%. The minimum threshold for the rental fee amount from immovable property in Azerbaijan is determined in accordance with market prices for taxation purposes.

B. DETERMINATION OF TAXABLE INCOME

Taxable income for residents is worldwide generated income. Taxable income of non-residents comprises income generated in Azerbaijan. All expenses related to business activities of the company are deductible from revenue. The following categories relate to non-deductible items:

- expenses that must be capitalized;
- non-commercial expenses which do not relate to the company's business activities;
- entertainment expenses and food and accommodation costs;
- travel, logistics and other costs spent in excessive of allowed standards established by the Azeri Tax Code.

DEPRECIATION

Depreciation is a deductible expense. The depreciation rates are:

- Buildings – up to 7%;
- Computing techniques which are the product of high technology – up to 25%;
- Vehicles, equipment and computers – up to 20%;
- Other fixed assets – up to 20%
- Fixed assets with a determined period of use – at an annual rate, pro-rata to that determined period of use;
- Intangible assets – up to 10%;

Land and facilities that are historical or architectural monuments may not be depreciated.

STOCK / INVENTORY

Inventory includes raw materials, work-in-progress and finished goods. Each item of inventory must be valued at acquisition cost or cost of production. Accepted valuation methods include 'first in, first out' (FIFO), average cost and specific identifications.

DIVIDENDS

Dividends paid from profit are liable to 10% withholding tax. Income from the distribution of property upon liquidation of a legal entity, as well as payments made with distribution of shares without changes to percentage of shares owned by shareholders and shares buy-backs at their nominal price, shall not be

considered as a dividend.

INTEREST DEDUCTIONS

Interest expenses paid or incurred by the company in the course of its business activities are tax deductible. An exception to the rule relates to loans received from abroad or related parties, which cannot exceed the expense calculated using an interest rate of 125% of the inter-bank credit auction rate set forth by the Central Bank of Azerbaijan.

LOSSES

Taxpayers have a right to carry losses forward during a period of 5 years without limitation. In case of a change in principal ownership of a legal person of at least 50% as compared the previous year's ownership, the carry forward of a credit, deduction or loss from a previous taxable year may be disallowed.

TAX INCENTIVES

The following tax incentives have been implemented in Azerbaijan:

- Production of agricultural products is exempt from VAT, profits tax and property tax until the end of 2018.
- Entities operating in industrial and technology parks are entitled to a VAT exemption on import of equipment for construction, scientific research and other works in these parks for seven years or an indefinite period, depending on the nature of their activities.
- The Law on the Special Economic Regime for Export-Oriented Oil and Gas Activities applies the following incentives to contractors and subcontractors who should obtain a special confirmation certificate from the Ministry of Industry and Energy:
  - Local companies are permitted to choose between profit tax at a rate of 20% or 5% withholding tax on gross revenue;
  - Foreign subcontractors are subject only to a 5% withholding tax;
  - A 0% VAT rate;
  - Exemption from dividend withholding tax and taxation on branch's net profits;
  - Exemption from customs duties and taxes;
  - Exemptions from property tax and land tax.

C. FOREIGN TAX RELIEF

Foreign taxes paid on income taxable in Azerbaijan may be credited against tax payable in Azerbaijan. The amount credited in Azerbaijan may not exceed the domestic tax payable on the foreign income. This limitation is calculated on the overall basis. The carry-forward of excess credit is not applicable in Azerbaijan. Treaty relief may be granted upon request by the taxpayer. Azerbaijan has concluded double tax treaties with 49 countries (see Section I below).

D. CORPORATE GROUPS

There is no group taxation in Azerbaijan.

E. RELATED PARTY TRANSACTIONS

The Tax Code provides that relations between associated entities must be based on the arm's length principle. Associated persons, for the purposes of taxation, are natural and/or legal persons, the relations between which might have a direct effect on the economic results of their activities or the activities of persons they represent. As from 1 January 2017, the concept of transfer pricing has been formally introduced in Azerbaijan whereby transactions between the following entities/persons are covered:

- a resident and an entity established or registered in a jurisdiction with a favourable tax regime;
- a resident and a related non-resident;
- a PE of a non-resident and an entity established or registered in a jurisdiction with a favourable tax regime; and
- a PE of a non-resident and the non-resident enterprise, as well as between that PE and any PE (or subsidiary/group member) of the non-resident enterprise in another country.

Only transactions with a total value in excess of AZN 500,000 in a calendar year are targeted by this

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legislation. The Administration needs to be notified about such transactions before 31 March of each year.

F. WITHHOLDING TAX

Income received from Azerbaijan sources not attributable to a PE of a non-resident in Azerbaijan is subject to WHT at the following rates:

- Dividends paid by resident enterprises: 10%.
- Interest paid by residents: 10%.
- Rental fees for movable and immovable property: 14%.
- Royalties: 14%;
- Technical or management fees: 14%
- Leasing, risk insurance, or reinsurance payments: 4%.
- Telecommunications or international transport services: 6%.
- Payments made by Azeri residents to 'electronic cash wallets' belonging to non-residents.
- Difference between earnings from lotteries and betting games minus the cash investment in connection with the participation in the same.
- Other Azeri-source income: 10%.

Interest on deposits is taxed at a 10% withholding tax rate on the amount in excess of 500 AZN.

G. EXCHANGE CONTROL

Withholding tax at the rate of 20% is introduced for foreign currency transferred outbound Azerbaijan for the following:

- foreign direct investment by resident and non-resident legal entities and individuals;
- acquisition of investment securities and immovable property by resident and non-resident legal entities and individuals;
- transfer of capital by resident legal entities to subsidiaries, branches and representative offices and other affiliated bodies with respect to the amount that exceeds the equivalent of USD 50,000 in a calendar year.

Banks and insurance companies are an exception to the aforementioned rules. A bank transfer by an individual to the foreign account is subject to a withholding tax of 20% with respect to the amount that exceeds USD 50,000 in a calendar year. Withholding tax does not apply if the transferred amounts:

- are paid back as they were previously transferred to Azerbaijan;
- are paid for medical fees of a foreign health care provider, educational fees of a foreign education institution or bills related to decisions of foreign judicial and law enforcement institutions.

H. PERSONAL TAX

Personal income of a resident in Azerbaijan consists of worldwide generated income, while a non-resident's income is generated only on the territory of Azerbaijan..

Taxable monthly income (AZN)		Tax amount, AZN	Tax rate (%)
From	To		
0	136	-	0
136	2,500	-	14
2,500		350	25 (on the amount exceeding 2,500 AZN)

Taxable monthly income (AZN)		Tax amount, AZN	Tax rate (%)
From	To		
0	30,000	-	14
30,000		4,200	25 (on the amount exceeding 30,000 AZN)

Residents and non-residents who generate income in connection with their work in Azerbaijan must contribute 3% of their gross salary to the Social Insurance Fund. Contributions are withheld from employees' salaries and paid to the Social Insurance Fund by the employer. In addition to this, the employer pays 22% of employees' gross salaries to the Social Insurance Fund.

Taxable income of individuals engaged in business activities without establishing a legal entity is taxed at a rate of 20%. An individual has a right to choose the type of taxation – VAT (18%), income (20%) or simplified taxpayer (4% for capital Baku and 2% for regions). The selected type appears in the electronic tax personal office (www.e-taxes.gov.az) and serves as a confirmation of the type of taxes paid by the individual.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Azeri tax law allows to claim a refund of taxes withheld from payments to non-residents who are subject to the provisions of double tax treaties signed between Azerbaijan and 49 countries. DTA-05 statement serves a confirmation to withholding tax payment. The certificate may be obtained within 20 days of the moment of application.

In case a non-resident company pays all its taxes in its home country, it must provide a DTA-03 certificate, which would entitle it to receive full payment from the Azerbaijan resident taxpayer.

	Dividends (%)	Interest (%)	Royalties (%)
Domestic rates			
Companies	10	10	14
Individuals	0/10	0/10	14
Treaty countries			
Austria	5/10/15	10	5/10
Belarus	15	10	10
Belgium	5/15	10	5/10
Bosnia and Herzegovina	10	10	10
Bulgaria	8	7	5/10
Canada	10/15	10	5/10
China	10	10	10
Croatia	5/10	0/10	10
Czech Republic	8	5/10	10
Denmark	5/15	0/8	5/10
Estonia	5/10	10	10
Finland	5/10	10	5/10
France	10	10	5/10
Georgia	10	10	10
Germany	5/15	5	5/10
Greece	8	8	8
Hungary	8	8	8
Iran	10	10	10

Israel	15	0/10	5/10
Italy	10	10	5/10
Japan	15	10	0/10
Kazakhstan	10	10	10
Korea	7	10	5/10
Kuwait	5/10	7	10
Latvia	5/10	10	5/10
Lithuania	5/10	10	10
Luxembourg	5/10	10	5/10
Macedonia	8	8	8
Malta	8	8	8
Moldova	8/15	10	10
Montenegro	10	0/10	10
Netherlands	5/10	10	5/10
Norway	10/15	10	10
Pakistan	10	10	10
Poland	10	10	10
Qatar	7	7	5
Romania	5/10	8	10
Russia	10	10	10
San Marino	5/10	10	5/10
Saudi Arabia	5/7	7	10
Serbia	10	10	10
Slovenia	8	8	5/10
Sweden	5/15	0/8	5/10
Switzerland	5/15	5/10	5/10
Tajikistan	10	10	10
Turkey	12	10	10
Ukraine	10	10	10
United Arab Emirates	10	7	5/10
United Kingdom	10/15	10	5/10
Uzbekistan	10	10	10
Vietnam	10	10	10

BAHAMAS

MEMBER FIRM

City	Name	Contact Information
Nassau	Renée D. Lockhart	+1 242 322 8560 rdl.pkfbah@batelnet.bs

BASIC FACTS

Full name:	Commonwealth of The Bahamas
Capital:	Nassau
Main language:	English
Population:	398,272 (2018 estimate)
Monetary unit:	Bahamian Dollar (BSD); (US dollars widely accepted)
Internet domain:	.bs
Int. dialling code:	+1 242

KEY TAX POINTS

- There are no corporate, personal income, capital gains, withholding, inheritance and estate taxes.
- Income received in the Bahamas may be subject to tax in the country of origin.
- There are some tax information exchange agreements between the Bahamas and other countries.

A. TAXES PAYABLE

The Bahamas offers the offshore financial sector freedom from corporate, personal income, capital gains, withholding, inheritance and estate taxes. However, income received in the Bahamas may be subject to the taxes in the country of origin.

There are tax information exchange agreements (TIEAs) between the Bahamas and other countries. The financial sector advantages are supported by a strong respect for privacy, flexible exchange controls, geographical location and continued record of political stability.

Government tax revenue is derived from the following sources:

- Import and export duties (reduced by varying percentages after the implementation of VAT at 7.5% on 1 January 2015). VAT is payable on taxable supplies at all ports of entry in the Bahamas;
- VAT – 7.5% Value Added Tax implemented on 1 January 2015. The VAT registration threshold is a turnover of BSD 100,000 generally;
- Real Property tax;
- Motor vehicle licences;
- Gaming tax;
- Tourism tax;
- Stamp tax;
- Company fees:
  - The registration fee for a foreign company is BSD 50 and stamp duty is payable in the amount of BSD 600. All foreign companies must also pay an annual licence fee of BSD 1,000.
  - Private companies are required to pay a fee of BSD 300 upon filing their Memorandum of Association and an additional fee of BSD 30 for the filing of the Articles of Association. An annual licence fee of BSD 1,000 is also payable.
  - Additionally, stamp duty is payable on the authorised capital of a company. Where the authorised capital is BSD 5,000 or less, the stamp duty is BSD 60. For every additional BSD 1,000 or fraction thereof, the stamp duty will be BSD 300.
- Bank and trust company fees;
- Insurance company fees;

- Other fees, including business licence fees;
  - Under the Business Licence Act, as amended on July 1, 2015, business licence fees are levied on the turnover of a business at varying percentage rates or amounts from 0.5% to 3%, based on the company's annual turnover. Businesses with an annual turnover not exceeding BSD 250,000 are exempt from business licence fees.
  - Under the Value Added Tax Bill of 2014, VAT at the rate of 7.5% is levied on goods and services with effect from 1 January 2015. The increased revenue has been offset by a corresponding reduction in customs duties on imports.

BAHRAIN

For further advice or information please contact:

MEMBER FIRM

City	Name	Contact Information
Bahrain	Maged Haleem	+973 396 424 69 maged.haleem@pkf.com

BASIC FACTS

Full name:	Kingdom of Bahrain
Capital:	Manama
Main language:	Arabic
Population:	1.55 million (2018 estimate)
Monetary unit:	Bahraini Dinar (BHD)
Internet domain:	.bh
Int. dialling code:	+973

A. TAXES PAYABLE

No form of personal, corporate, withholding or value added tax is applicable In Bahrain. There is no personal tax except municipal tax of 10% on the monthly rental of residential and business property. In addition, a 5% government levy on gross turnover is imposed on hotel services and entertainment.

Customs (Import) duties are generally levied at a rate of 5% but there are many items such as medicines, most food products, capital goods and raw material for industries which are exempt from customs duty. After implementation of the new Uniform Customs Tariff which became effective on 1 January 2003, all non-Gulf Co-operation Council (GCC) products, except for those exempted, are subject to 5% customs duty. However, the products of GCC countries shall enter into each other's markets free of customs duty subject to the provision of the required documentation.

Products are considered as originating in a GCC country if the value added to such a product in the said country is more than 40% of the value of the product in question and if the factory that manufactured the product is at least 51% owned by GCC nationals. In the event of re-export to non-GCC countries, a customs deposit has to be made and this will be refunded when proof of re-export is given to the authorities. In the event of re-export to GCC countries, customs duty at 5% will be levied at the first point of entry. The provisions of the GCC Customs Union, which was implemented from 1 January 2003, will be applicable.

B. VALUE-ADDED TAX

On 1 February 2017, the Kingdom of Bahrain signed the GCC unified VAT and Excise Treaties. The Minister of Finance stated that Bahrain is planning to introduce VAT by the end of 2018. The normal constitutional processes will need to be completed prior to the introduction of the taxes. The GCC Unified Treaties for VAT and Excise Tax (the Treaties) are the framework through which GCC Member States will implement their own VAT and Excise Tax national legislation and executive regulations. VAT will be at an expected rate of 5% for most goods and services, with certain exceptions.

Excise Tax was introduced in Bahrain with effect from 30 December 2017, with tobacco products subject to excise tax at 100%, soft drinks at 50% and energy drinks at 100%. Other goods may become subject to the tax.

C. WITHHOLDING TAX

Bahrain has around 43 double tax treaties with countries such as Algeria, Austria, Belarus, Belgium, Brunei, Bulgaria, China, the Czech Republic, Egypt, Estonia, France, Hungary, Iran, Ireland, Jordan, Korea, Lebanon, Luxembourg, Malaysia, Morocco, the Netherlands, the Philippines, Singapore, Sri Lanka, Syria, Thailand, Turkey, Turkmenistan, the United Kingdom, Uzbekistan and Yemen.

Dividends, interest and royalty payments made by Bahraini companies to non-residents under these treaties are not subject to any withholding tax as Bahrain has no such withholding tax under its domestic tax law.

Free Trade Treaty agreed between Bahrain and the US was signed on 14 September 2004 in the Kingdom.

BANGLADESH

MEMBER FIRM

City	Name	Contact Information
Dhaka	Jamshed Choudhury	+880 1713 008696 jsachoudhury@gmail.com

BASIC FACTS

Full name:	People's Republic of Bangladesh
Capital:	Dhaka
Main languages:	Bengali, English
Population:	166.05 million (2018 estimate)
Monetary units:	Bangladesh Taka (BDT)
Internet domain:	.bd
Int. dialling code:	+880

KEY TAX POINTS

- In Bangladesh, the principal taxes are Customs Duty, Value-Added-Tax (VAT), Supplementary Duty, personal income tax and corporate income tax.
- The standard rate of VAT is 15% levied on the transaction value of most imports and supplies of goods and services.
- For Bangladesh tax purposes, income is categorized into seven areas, namely, salaries, interest on securities, income from house property, agricultural income, income from business or profession, capital gains and income from other sources.
- Among direct taxes, income tax is one of the main sources of revenue. It is a progressive tax system. Income tax is imposed on the basis of ability to pay, based on the principle of “the more a taxpayer earns, the more he should pay”. It aims at ensuring equity and social justice. The top income tax rate for individuals is 30%.
- For the 2017/18 tax year (1 July 2017 to 30 June 2018) the top corporate tax rate is 45%. However, publicly traded companies registered in Bangladesh are taxed at a lower rate of 25%. Banks (except Merchant Bank), financial institutions and insurance companies are taxed at 40% whilst all other non-publicly traded companies are taxed at the 35% rate. Co-operative Society registered under the Co-operative Society Act 2001 are taxed at the 15% rate and Manufacturer and Exporter of Knitwear & Woven garments are taxed at the 12% rate (10% for factory having green building certifications).
- An individual is treated as a resident of Bangladesh if that person stays in Bangladesh for 182 days or more in any income year; or 90 days or more in an income year if that person has previously resided in Bangladesh for a period of more than 365 days during the 4 preceding years. Residence is determined in Bangladesh purely on the period of presence in Bangladesh, irrespective of residency in other countries. Short-term visitors and dependents of foreign nationals not earning any income in Bangladesh are not taxed and are not required to file a tax return in Bangladesh.
- In general, all remuneration and benefits received by an employee who is resident in Bangladesh, or for services rendered in Bangladesh, are taxable. Taxable remuneration and benefits include salary,

bonuses, commissions, accommodation allowances, transport benefits, education allowances for children, employer-provided domestic assistance and medical allowances.

B

A. TAXES PAYABLE

TAX AUTHORITY ADMINISTRATION

The National Board of Revenue (NBR) is the central authority for tax administration in Bangladesh. Administratively, it is under the Internal Resources Division (IRD) of the Ministry of Finance (MoF) which is split into 4 divisions, namely, the Finance Division (FD), the Internal Resources Division (IRD), the Banking Division (BD) and the Economic Relations Division (ERD). Each division is headed by a Secretary to the Government. NBR is responsible for formulation and continuous re-appraisal of tax policies and tax laws in Bangladesh.

Negotiating tax treaties with foreign governments and participating in inter-ministerial deliberations on economic issues having a bearing on fiscal policies and tax administration are also the NBR's responsibilities. Its main responsibility is to mobilize domestic resources through collection of import duties and taxes, VAT and income tax for the government. Side by side with the collection of taxes, facilitation of international trade through quick clearance of import and export cargoes has also emerged as a key role of NBR. Other responsibilities include administration of matters related to taxes, duties and other revenue related fees/charges and prevention of smuggling. Under the overall control of IRD, NBR administers the excise, VAT, customs and income tax services consisting of 3434 officers of various grades and 10195 supporting staff positions.

COMPANY TAX

The following rates apply to the taxation of the following companies:

25%	Publicly Traded Company
35%	Non-publicly Traded Company
40%	Bank, insurance and financial Company (except merchant bank)
37.5	Merchant bank
45%	Cigarette manufacturing company
45%	Mobile phone operator company
40%	Publicly traded mobile company
15%	Co-operative Society registered under the Co-operative Society Act 2011
12%	Manufacturer and export knitwear & woven garments (10% for factory having green building certifications)

COMPANY TAX ADMINISTRATION

Company tax returns should be submitted by 15th July following the income year or, where the 15th July falls before the expiry of six months from the end of the income year, before the expiry of such six months. The consequences of not submitting a tax return (including a return of withholding tax) are that a penalty arises of 10% of the tax of a taxpayer's last assessed income (subject to a minimum of BDT 1,000) and in the case of continuing default, a further penalty of BDT 50 is levied for every day of delay. There are also penalties for using a false Taxpayer Identification Number (TIN).

There is a formal dispute resolution system for taxpayers in Bangladesh, and where a return has been submitted under the normal scheme a taxpayer can make his case at a Hearing, where a decision (assessment) will then be made. For returns submitted under the Universal Self-Assessment Scheme, the issue of an acknowledgement slip is determined to be an Assessment Order. Universal Self-Assessment is subject to audit.

PERMANENT ESTABLISHMENT CONSIDERATIONS

There is the potential that a permanent establishment (PE) could be created as a result of extended business travel, but this would be dependent on the type of services performed and the level of authority the employee has. The concept of a PE primarily exists in tax treaties.

VALUE ADDED TAX

Value Added Tax (VAT) is levied on the importation of goods and the making of taxable supplies in the course of carrying out a taxable activity. The standard rate is 15%. Reduced rates are available depending on the nature of the taxable supply, which ranges from 0% to 15%. VAT operates in Bangladesh partly as a sales tax.

FRINGE BENEFITS TAX

There is no separate Fringe Benefits Tax. However, all benefits received by an employee who is a resident in Bangladesh, or for services rendered in Bangladesh, are taxable.

INCENTIVES – TAX REBATE

An assessee, being a resident or a non-resident Bangladeshi, shall be entitled to a credit from the amount of tax payable on his total income. Amount of allowable investment is: actual investment or 25% of total (taxable) income excluding any income for which a tax exemption or a reduced rate is applicable under sub-section (4) of section 44 or any income from any source or sources mentioned in clause (a) of sub-section (2) of section 82C or BDT 1,500,000, whichever is less. The tax rebate amounts to 15% of allowable investment. A tax rebate of 15% of the allowable investment can be received depending on the investment meeting certain conditions. Types of investment qualified for the tax rebate are:

- Life insurance premium up to 10% of the face value;
- Contribution to Provident Fund to which Provident Fund Act, 1925 applies;
- Self-contribution and employer's contribution to Recognized Provident Fund;
- Contribution to Superannuation Fund;
- Contribution up to BDT 60,000 to deposit pension scheme sponsored by any scheduled bank or a financial institution;
- Investment in approved debenture or debenture stock, Stocks or Shares;
- Contribution to Benevolent Fund and Group Insurance premium;
- Contribution to Zakat Fund;
- Donation to charitable hospital approved by National Board of Revenue;
- Donation to philanthropic or educational institution approved by the Government;
- Donation to socio-economic or cultural development institution established in Bangladesh by Aga Khan Development Network;
- Donation to ICDDRB;
- Donation to philanthropic institution-CRP, Savar, Dhaka;
- Donation up to tk. 5 lac to (1) Shishu Swasthya Foundation Hospital, Mirpur, Shishu Hospital, Jessore and Hospital for Sick Children, Sathkhira run by Shishu Swasthya Foundation, Dhaka. (2) Diganta Memorial Cancer Hospital, Dhaka. (3) The ENT and Head-Neck Cancer Foundation of Bangladesh, Dhaka and (4) Jatiya Protibandhi Unnayan Foundation, Mirpur, Dhaka;
- Donation to Dhaka Ahsania Mission Cancer Hospital;
- Donation to Sylhet Diabetic Samity, Islamia Eye Hospital and MA Ispahani Institute of Opthalmology, Kidney Foundation and National Heart Foundation of Bangladesh;
- Donation to Asiatic Society of Bangladesh;
- Donation to Muktijodha Jadughar;
- Donation to National level institution set up in memory of liberation war;
- Donation to National level institution set up in memory of Father of the Nation;
- Any investment by an individual in savings certificate and Bangladesh Government Treasury Bond;
- Investment in purchase of one computer or one laptop by an individual assessee;
- If any non-publicly traded company transfers a minimum of 20% shares of its paid-up capital through any IPO (Initial Public Offering) it will receive a 10% rebate on total tax in the year of transfer.

TAX HOLIDAY

A tax holiday is allowed for industrial undertaking and physical infrastructure facility established between 1 July 2011 and 30 June 2019 in fulfillment of certain conditions.

INDUSTRIAL UNDERTAKING ELIGIBLE FOR TAX HOLIDAY

- Active pharmaceuticals ingredient industry and radio pharmaceuticals industry;
- Automobile manufacturing industry;
- Barrier contraceptive and rubber latex;
- Basic chemicals or dyes and chemicals;
- Basic ingredients of electronic industry (e.g. resistance, capacitor, transistor, integrator circuit);
- Bicycle manufacturing industry;
- Bio-fertilizer; (will get tax holiday even it is set up in district of Dhaka,
- Narayanganj, Gazipur, Chittagong, introduced in FA 2012);
- Biotechnology;
- Boilers;
- Brick made of automatic hybrid Hoffmann kiln or Tunnel Kiln technology;
- Compressors;
- Computer hardware;
- Energy efficient appliances;
- Insecticide or pesticide;
- Petrochemicals;
- Pharmaceuticals;
- Processing of locally produced fruits and vegetables;
- Radio-active (diffusion) application industry (e.g. developing quality or decaying polymer or preservation of food or disinfecting medicinal equipment);
- Textile machinery;
- Tissue grafting;
- Tyre manufacturing industry; or
- Any other category of industrial undertaking as the Government may, by notification in the official Gazette, specify.

PHYSICAL INFRASTRUCTURE ELIGIBLE FOR TAX HOLIDAY

- Deep sea port;
- Elevated expressway;
- Export processing zone;
- Flyover;
- Gas pipe line;
- Hi-tech park;
- Information and Communication Technology (ICT) village or software technology zone;
- Information Technology (IT) park;
- Large water treatment plant and supply through pipe line;
- Liquefied Natural Gas (LNG) terminal and transmission line;
- Mono-rail;
- Rapid transit;
- Renewable energy (e.g. energy saving bulb, solar energy plant, windmill);
- Sea or river port;
- Toll road or bridge;
- Underground rail;
- Waste treatment plant; or
- Any other category of physical infrastructure facility as the Government may, by notification in the official Gazette, specify.

OTHER EXEMPTIONS

- Any service charge derived from operation of micro credit by a non-government organisation registered with NGO Affairs Bureau;
- Any voluntary contributions received by a religious or charitable institution and applicable solely to religious and charitable purposes;
- Any income accruing to, or derived by, a provident fund to which the Provident Fund Act, 1925 (XIX of 1925), applies;
- Any income received by the trustees on behalf of a recognized provident fund, an approved superannuation fund or pension fund and an approved gratuity fund;
- Any amount of income received as pension;
- Gratuity received up to BDT 2.5 crore;
- Income from dividend amounting to BDT 25,000 received from a publicly traded company;
- Income from dividend of a mutual fund or a unit fund up to BDT 25,000;
- An amount equal to 50% of the income derived from export business is exempted from tax;
- Any income, not exceeding BDT two lakh chargeable under the head "agricultural income" of an assessee, being an individual, whose only source of income is agriculture;
- Income from Information Technology Enabled Services (ITES) or Nationwide Telecommunication Transmission Network (NTTN) business is exempted up to 30 June 2024;
- Income derived from export of handicrafts is exempted from tax up to 30 June 2019;
- Income of any private Agricultural College or private Agricultural University derived from agricultural educational activities;
- Income derived from any Small and Medium Enterprise (SME) engaged in production of any goods and having an annual turnover of not more than BDT thirty lakh is exempt from tax;
- Any profits and gains under the head "Capital Gains" arising from the transfer of stocks or Shares of a public company listed in any stock exchange in Bangladesh of an assessee being a non-resident subject to the condition that such assessee is entitled to similar exemption in the country in which he is a resident;
- An amount equal to 50% of the income of an assessee derived from the production of corn/maize or sugar beet;
- Any income earned abroad by an individual assessee being a Bangladeshi citizen and brought any such income into Bangladesh as per existing laws applicable in respect of foreign remittance;
- Income of an assessee donated in an income year by a crossed cheque to any girls' school or girls' college approved by the Ministry of Education of the government;
- Income of an assessee donated in an income year by a crossed cheque to any Technical and Vocational Training Institute approved by the Ministry of Education of the government;
- Income of an assessee donated in an income year by a crossed cheque to any national level institution engaged in the Research & Development (R&D) of agriculture, science, technology and industrial development.

EXEMPTIONS AVAILABLE FOR POWER SECTOR

Following income from the Power Sector is fully/substantially exempted from tax:

- Coal based private power generation companies will enjoy a full tax exemption for fifteen years, if the company signs a contract with the Government in accordance with private sector power generation policy of Bangladesh by 30 June 2020 and starts commercial production by 30 June 2023;
- Private power generation company will enjoy a full tax exemption for fifteen years beginning with the month of commencement of commercial production if the company starts its commercial production by 30 June, 2016;
- Private power generation company that starts its commercial production after 30 June 2016 will enjoy the following tax exemption:

Period of Tax exemption	Rate of Tax exemption
Five years beginning from commencement of commercial production	100%
Next three years	50%
Next two years	25%

TAX REBATE FOR MANUFACTURING COMPANIES

To ensure sustainable industrialization without disturbing the civic amenities; the following tax rebate facilities for the manufacturing industries set up in places other than city corporation areas is given through S.R.O No. 185-Law/Income Tax/2014, dated 1 July 2014 as follows:

Industries	Proposed Tax Rebate	Period of Proposed Tax Rebate
Tax rebate for the manufacturing industries commencing commercial operation between 1 July 2014 and 30 June, 2019 located outside any city corporation area	20 %	Up to 10 years as from the date of commencing commercial operation
Tax rebate for the manufacturing industries shifted/relocated to areas located outside any city corporation area and commencing commercial operation between 1 July 2014 and 30 June 2019	20 %	Up to 10 years as from the date of commencing commercial operation after shifting
Tax rebate for the manufacturing industries already started commercial production located outside any city corporation area	20 %	Up to 30 June 2019

TAX HOLIDAY FOR INDUSTRIAL UNDERTAKING ESTABLISHED IN EPZ

According to S.R.O No. 219-law/Income Tax/2012, dated 27 June 2012, any industrial undertakings set up in EPZ on or after 1 January 2012 will benefit from the following tax benefit:

Industry set up within Dhaka and Chittagong Division (except Bandarban, Rangamati and Khagrachari hill districts):

Duration of tax rebate	Rate of tax rebate
First two years (first and second year)	100%
Next two years (third and fourth year)	50%
Next one year (fifth year)	25%

Industry set up within all other divisions of the country and Bandarban, Rangamati and Khagrachari hill districts:

Duration of tax rebate	Rate of tax rebate
First three years (first, second and third year)	100%
Next three years (fourth, fifth and sixth year)	50%
Next one year (seventh year)	25%

TAX EXEMPTION FOR DEVELOPERS OF ECONOMIC ZONE (BEZA) AND HI-TECH PARK

According to S.R.O No. 227-law/Income Tax/2015, dated 8 July 2015 and S.R.O No. 229-law/Income Tax/2015, dated 8 July 2015 developers of Bangladesh Economic Zone (BEZA) and Hi-Tech Park shall enjoy the following tax exemption:

Duration of Tax Exemption	Rate of Tax Exemption
First ten (10) years	100%
Eleventh (11) year	70%
Twelfth (12) year	30%

According to S.R.O No. 226-law/Income Tax/2015, dated 8 July 2015 and S.R.O No. 228law/Income Tax/2015, dated 8 July 2015 industrial undertakings established within BEZA and Hi-tech park areas shall enjoy the following tax exemption:

Duration of Tax Exemption	Rate of Tax Exemption
First three years (first, second and third year)	100%
Fourth year	80%
Fifth year	70%
Sixth year	60%
Seventh year	50%
Eighth year	40%
Ninth year	30%
Tenth year	20%

MAJOR AREAS FOR FINAL SETTLEMENT OF TAX LIABILITY

Tax deducted at source for the following cases is treated as a final discharge of tax liabilities. No additional taxes charged or refund is allowed in the following cases:

Head of Source	Tax rate
Compensation against acquisition of properties (Sec. 52C)	As mentioned in section 52C, i.e. 2%/1%
The amount received as interest from any savings certificate (Sec. 52D)	As mentioned in section 52Di.e. 5%
Cash subsidy (Sec. 53DDD)	As mentioned in section 53DDD, i.e. 3%
Deduction at source from interest on saving deposits and fixed deposits, etc. (53F)	As mentioned in section 53F, i.e. 10%/5%
Transfer of property (Sec. 53H)	As mentioned in section 53H and the rule made thereunder (see the Section and Rule 17II)

B. RELATED PARTY TRANSACTIONS

Transfer pricing was introduced into Bangladesh tax laws in 2012. However, such regulation has become effective from 1 July 2015.

C. EXCHANGE CONTROL

Expatriates are allowed to open foreign currency bank accounts in Bangladesh and remit a portion of their post-tax earnings through proper banking channels after obtaining the necessary permissions from the central bank. The balance can be taken out the country when leaving permanently.

D. PERSONAL INCOME TAX

An individual is treated as a resident of Bangladesh if they stay in Bangladesh for 182 days or more in any income year; or 90 days or more in an income year if that person has previously resided in Bangladesh for a period of more than 365 days during the 4 preceding years. Residence is determined in Bangladesh purely on

RESIDENTIAL STATUS

An individual is treated as a resident of Bangladesh if he/she stays in Bangladesh for 182 days or more in any income year; or 90 days or more in an income year if that person has previously resided in Bangladesh for a period of more than 365 days during the 4 preceding years. Residence is determined in Bangladesh purely on the period of presence in Bangladesh, irrespective of residency in other countries. Short term visitors and dependents of foreign nationals not earning any income in Bangladesh are not taxed and are not required to file a tax return in Bangladesh. Otherwise, every taxpayer is required to file an annual tax return.

TAX RATE

For individuals other than female taxpayers, senior taxpayers of 65 years or more and disabled taxpayers, tax is payable at the following rates and bands:

First BDT 250,000	0%
Next BDT 400,000	10%
Next BDT 500,000	15%
Next BDT 600,000	20%
Next BDT 3,000,000	25%
On excess	30%

For an individual who is a non-resident assessee (non-resident Bangladeshi), the rate of income tax is 30% (flat rate) of his total income.

Tax-exempt income for all female tax payers and senior taxpayers of 65 years is BDT 300,000, for a person with disability it is BDT 400,000 and for the gazette war-wounded freedom fighters it is BDT 425,000.However, tax-exempt income of the parents and legal guardians of a person with disability will be BDT 25,000 higher than the standard amount. Only one of the parents would avail those benefits.

Minimum Tax for any individual category of assessee is as follows:

Dhaka and Chittagong City Corporation	BDT 5,000
Other City Corporation	BDT 4,000
Other than City Corporation	BDT 3,000

TAX RETURN FILING:

An individual's tax return must be filed by 30 November following the end of the income year. The return filing date may be extended up to 2 months from the date so specified by the Deputy Commissioner of Taxes upon application by an individual being assessed and the date may be further extended up to 2 months with the approval of the Inspecting Joint Commissioner.

TAXABLE REMUNERATION AND BENEFITS OF EMPLOYEE

In general, all remuneration and benefits received by an employee who is resident in Bangladesh, or for services rendered in Bangladesh, are taxable. Taxable remuneration and benefits include salary, bonuses, commissions, accommodation allowances, transport benefits, education allowances for children, employer-provided domestic assistance and medical allowances. Employers are required to withhold income tax when making payments to employees. Employers are also required to file an annual return showing the respective payments and tax deducted for each employee in the tax year.

WORKER PROFIT PARTICIPATION FUND

Exemption for any payment received from workers' profit participation fund established under Bangladesh Labor Act 2006 (amended up to 2013) has been restricted up to BDT 50,000 only. There was no such limitation previously.

WORK PERMITS / VISA REQUIREMENTS

A visa must be applied for before the individual enters Bangladesh. The type of visa required will depend on the purpose of the individual's entry into Bangladesh. Foreigners working in Bangladesh must have a work permit. These are issued by Bangladesh Investment Development Authority (BIDA), previously known as the Board of Investment.

LOCAL DATA PRIVACY REQUIREMENTS

Bangladesh does not currently have data privacy laws. However, Bangladesh tax laws provide a certain protection of information submitted under them.

E. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Bangladesh has concluded double taxation agreements with the following countries:

	Dividends (%)		Interest (%)[11]	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	20	20	20	20
Individuals	10/30	--	0/20/30	20
Treaty countries				
Belgium	15	15	15	10
Canada	15	15	15	10
China	10	10	10	10
Denmark	15	10[1]	10	10
France	15	10[1]	10	10
Germany	15	15	10	10
India	15	10[2]	10	10
Indonesia	15	10[1]	10	10
Italy	15	10[1]	10/15[6]	10
Japan	15	10[3]	10	10
Korea	15	10[1]	0/10[7]	10
Malaysia	15	15	15	15
Mauritius	10	10	–[8]	–[8]
Netherlands	15	10[1]	0/7.5/10[9]	10
Norway	15	10[1]	10	10
Pakistan	15	15	15	15
Philippines	15	10[2]	15	15
Poland	15	10[1]	10	10
Romania	15	10[1]	10	10
Saudi Arabia	10	10	7.5	10
Singapore	15	15	10	10
Sri Lanka	15	15	15	15
Sweden	15	10[1]	10/15[6]	10
Switzerland	15	10[4]	10	10

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Thailand	15	10[1]	10/15[6]	15
Turkey	10	10	10	10
United Arab Emirates	10	5[5]	10	10
United Kingdom	15	10[1]	10	10
United States	15	10[1]	5/10[10]	10
Vietnam	15	15	15	15

Notes:

1. The reduced rate applies to dividends paid to a beneficial owner which is a company holding directly at least 10% of the capital of the payer.
2. The reduced rate applies to dividends paid to a beneficial owner which is a company holding directly at least 25% of the capital of the payer.
3. The reduced rate applies to dividends paid to a beneficial owner which is a company that owns at least 25% of the voting shares of the payer during the period of six months immediately before the end of the accounting period for which the distribution of profits takes place.
4. The reduced rate applies to dividends paid to a beneficial owner which is a company holding directly at least 20% of the capital of the payer.
5. The reduced rate applies to dividends paid to a beneficial owner which is a company that owns at least 3% of the shares of the payer.
6. The reduced rate applies to interest derived by a bank or any other financial institution (including an insurance company).
7. The reduced rate applies if interest is paid in connection with sale on credit of any industrial, commercial or scientific equipment.
8. No reduction under the tax treaty so the domestic rate applies.
9. Exemption for interest related to the construction of industrial, commercial or scientific installations or public works. The 7.5% reduced rate applies to interest received by a bank or any other financial institution (including an insurance company) as long as the Netherlands does not levy a withholding tax on interest.
10. The reduced rate applies to interest derived by a bank or any other financial institution (including an insurance company) or interest paid in connection with sale on credit of any industrial, commercial or scientific equipment or of any merchandise.
11. Certain tax treaties provide for an exemption or a reduction for some types of interest (but are not listed here), e.g. interest paid to public bodies and financial institutions or in relation to sales on credit or approved transactions.

BELARUS

MEMBER FIRM

City	Name	Contact Information
Minsk	Anastasia Belenkevich	+375 17 262 5223 anastasia.belenkevich@fbk.by

BASIC FACTS

Full name:	Republic of Belarus
Capital:	Minsk
Main languages:	Belarusian, Russian
Population:	9.46 million (2018 estimate)
Monetary units:	Belarusian Ruble (BYR)

Internet domain:	.by
Int. dialling code:	+375

KEY TAX POINTS

- Belarus resident companies are subject to tax on their worldwide income. Non-resident companies are subject to tax on their Belarus source income only which is derived from a permanent establishment (PE) in Belarus. Where a non-resident's Belarus PE does not have any business activity it will be subject to withholding tax on its Belarus-sourced income. The standard corporate profits tax rate is 18%. The corporate profits tax rate for banks and insurance companies is 25%.
- There is no specific branch profits tax in Belarus.
- Capital gains are taxed at 18%.
- Broadly, local supplies of goods and services in Belarus provided by a taxpayer as well as the importation of goods, are subject to VAT. Supplies may be zero-rated, exempt, standard or preferential rated. The standard rate of VAT is 20%. A preferential rate of 10% applies to certain supplies.
- Belarus does not impose estate tax, gift taxes or a net worth tax.
- For company taxation, the net profit shown in the financial statements is adjusted for tax purposes and expenses incurred in earning income or receiving an economic benefit are allowed to be deducted in full, unless the Tax Code or Presidential Regulations provide otherwise or limit or restrict the deduction.
- Unless otherwise provided by a double tax treaty, dividends paid to foreign legal entities not having a permanent establishment in Belarus are subject to 12% withholding tax. Dividends distributed by a resident company to another resident company are subject to 12% withholding tax.
- Thin capitalisation rules apply to legal entities in Belarus which restrict the deduction of interest to a debt-to-equity ratio of 3:1 and apply to certain controlled debt obligations.
- The Tax Code empowers the tax authority to ensure that transactions between related parties reflect a third party arm's length price, i.e. an objective market value.
- The tax year in Belarus is the calendar year. Belarus resident individuals are subject to personal income tax on their worldwide income whereas non-resident individuals are taxed on their Belarusian-sourced income only.
- Employment income includes salary, any other compensation and bonuses received in cash or in kind. Employers calculate, deduct and pay the relevant tax on the compensation paid to their employees.
- Social security contributions are payable by an employer at a rate of 34% (28% for pension insurance and 6% for social insurance) and by an employee at a rate of 1% of their gross compensation (withheld by the employer).
- Capital gains are not taxed separately but included in the total income of an individual taxpayer.

A. TAXES PAYABLE

COMPANY TAX

Belarus resident companies are subject to tax on their worldwide income. Non-resident companies are subject to tax on their Belarus source income only which is derived from a permanent establishment (PE) in Belarus. Where a non-resident's Belarus PE does not have any business activity it will be subject to withholding tax on its Belarus-sourced income. The standard corporate profits tax rate is 18% however a reduced tax rate applies to the following income:

- Dividends paid to Belarus companies (12%);
- Income (profits) of producers of high-technology products (10%);

Belarus has several tax regimes as follows:

(1) Simplified system of taxation:

Under the simplified system of taxation business entities are not subject to corporate profits tax and, under certain conditions, neither to VAT (and some other taxes), but instead pay a unified tax of either 5% of gross revenues or, if the business entity continues to pay VAT, 3% of gross revenues, or 16% for certain non-sales income.

(2) Unified tax on agricultural producers:

A 1% unified tax rate applies to the gross revenues of agricultural producers from the sale of goods

(works and services) and other property and income derived from non-sales transactions. For an agricultural entity to apply the unified tax method at least 50% of its annual gross revenue must be from the sale of its own manufactured crop products (excluding flowers and ornamental plants), livestock products, fish breeding and bee breeding products, otherwise the unified tax is paid at a rate of 3%.

(3) Tax on gambling industry:

Gambling (except for lotteries) is subject to fixed tax rates. The rate depends on the amount of operational gambling equipment used. An additional gambling tax of 4% applies to the positive difference between the amount of received bids and the fund to be paid to the winner.

(4) Tax on income generated by lottery sales:

Lottery sales are subject to an 8% tax rate on the gross revenue less the awarded prize fund.

(5) Tax on electronic interactive games:

An electronic interactive games tax applies at 8% to the difference between the amount of revenue from the electronic interactive games and the fund to be paid to the winner(s).

COMPANY TAX - ADMINISTRATION

The basic tax reporting period is the calendar quarter and tax returns must be filed within 20 days of the month following the end of the reporting quarter. Any corporate profits tax liability must be paid within 22 days of the month following the end of the respective reporting quarter.

Corporate profits tax for the fourth quarter of a year must be paid by 22 December of the current year in an amount equal to two-thirds of the tax payable in the third quarter of the current year with subsequent additional payment or reduction not later than 22 March of the next year.

A fine of 20% of the unpaid tax but not less than 10 basic units may arise where there is non-payment or an incomplete payment of tax. A fine of up to 1 basic unit may arise if a tax return is submitted late but not later than 3 working days. A fine of 2 basic units applies increased by 0.5 basic units for every complete month of delay in submission but not more than 10 basic units. Furthermore, a penalty is applied for every calendar day of delay in tax payment. The penalty is assessed on the basis of the refinance rate established by the National Bank of the Republic of Belarus.

CAPITAL GAINS TAX

Capital gains are taxed at 18%. Capital gains are not taxed separately but included in the total income of an individual taxpayer.

BRANCH PROFITS TAX

There is no specific branch profits tax however a permanent establishment (PE) of a non-resident legal entity will pay tax on profits attributable to it. A PE can include any place through which a foreign legal entity regularly carries out its business activities in Belarus. There is no branch remittance tax in Belarus.

VALUE ADDED TAX (VAT)

Broadly, local supplies of goods and services in Belarus provided by a taxpayer as well as the importation of goods, are subject to VAT. Supplies may be zero-rated, exempt, standard or preferential rated. The standard rate of VAT is 20%. A preferential rate of 10% applies to the following:

- Local supplies of crop products (excluding floriculture, cultivation of ornamental plants), beekeeping, livestock (except for fur production) and fisheries locally produced; and,
- Import and/or local supplies of certain food products and goods for children.

Normally taxpayers recognise revenue for VAT purposes on an accrual basis however, as an exception to this, revenue is recognised on a cash basis by taxpayers using the simplified taxation system and keeping simplified tax records without accounting records. VAT returns should be submitted to the tax authority on either a monthly or quarterly basis, within the first 20 days of the month following the reporting period. The payment of any VAT liability should be made within the first 22 days of the month following the reporting period.

OTHER TAXES – CUSTOMS DUTIES

The Eurasian Economic Union exists between Russia, Kazakhstan, Belarus, Armenia and Kyrgyzstan with its unified trade regulations and Customs Code. The following charges are considered as customs duties:

- Import duties;

- Export duties;
- Special anti-dumping and countervailing duties;
- VAT and excise taxes due upon importation of goods; and,
- Fees for customs processing/services.

OTHER TAXES – ESTATE AND GIFT TAXES

Belarus does not impose estate and gift taxes or a net worth tax.

B. DETERMINATION OF TAXABLE INCOME

The net profit shown in the financial statements, calculated in accordance with the Belarus accounting standards, is adjusted for tax purposes in accordance with the Tax Code. Broadly, all costs are deductible for tax purposes that are incurred in earning income or receiving an economic benefit, unless the Tax Code of Belarus or Presidential Regulations provide otherwise or limit or restrict the deduction.

CAPITAL ALLOWANCES

Fixed assets (buildings, premises, equipment and vehicles) may be depreciated using the straight-line method, the indirect disproportionate method, and the production method in accordance with the rates prescribed in the Tax Code. Land is not depreciated. Broadly, fixed assets can be divided into five basic groups and the depreciation rate or rates of each group are as follows:

Group	Description of the assets	Annual rate of depreciation
1	Immovable property	0.8% to 20%
2	Plant, machinery and equipment	3.33% to 20%
3	Trademarks, patents and other intangible property	5% to 10%
4	Computers	7.14% to 33.33%
5	Transport vehicles	2.5% to 33.33%

INVESTMENT DEDUCTION

For corporate profits tax purposes, a percentage of the initial value of acquiring or reconstructing tangible assets (value of investments for reconstruction) can be deducted, as follows:

- Not more than 10% - Buildings and structures.
- Not more than 20% - Machinery and equipment, and certain transport vehicles.

The tax base (the initial cost of the asset) is not reduced by the investment allowance for tax depreciation purposes. After taking an investment deduction the taxpayer may accrue depreciation on the initial value of fixed assets.

STOCK / INVENTORY

The domestic accounting legislation allows for the following stock / inventory valuation methods:

- First in first out (FIFO);
- Cost of each unit; and,
- Average cost.

The stock / inventory valuation method used for corporate income tax purposes must be the same as the taxpayer's accounting policy.

DIVIDENDS

Unless otherwise provided by a double tax treaty, dividends paid to foreign legal entities not having a permanent establishment in Belarus are subject to 12% withholding tax. Dividends distributed by a resident company to another resident company are subject to 12% withholding tax. Since the dividends have been subjected to withholding tax at source they are not again taxed under corporate income tax in the hands of the recipient. Where a foreign entity pays a dividend to an entity in Belarus, the dividend received is subject to 12% corporate income tax even though withholding tax may have been deducted at source by the foreign paying entity.

INTEREST DEDUCTIONS

Thin capitalisation rules apply to legal entities in Belarus which restrict the deduction of interest to a debt-to-equity ratio of 3:1 for non-resident companies and a debt-to-equity ratio of 1:1 for resident companies and apply to the following controlled debt obligations:

- Between parties being founders (participants) of one company, if direct and/or indirect participation of each such persons is not less than a 20%;
- When one party acts as a founder (participant) of another company, if direct and/or indirect participation of the former is not less than a 20%;
- When a party is directly or indirectly accountable to or controlled by the other party;
- Between companies if one party directly and (or) indirectly participates in these companies and its participation in each company is not less than 20%;
- When physical persons are married, are close relatives or are in in-law relationship;
- Between the grantor, custodian and beneficiary as well as between the custodian and companies the property of which is under custody;
- Between companies in which the collective executive body or board of directors has more than 50% of the same physical persons together with related parties as described in the fifth bullet above.

The thin capitalisation rules do not, however, apply to banks, insurance companies, or to lessors or landlords in certain circumstances.

LOSSES

Tax losses can be carried forward and utilised against future taxable profits arising in the subsequent 10 years (commencing with 2011 tax losses), although some restrictions apply. Tax losses which have arisen from certain operations may only be utilised against taxable profits arising from the same operations. If tax losses are not attributable to a particular group they are carried forward generally regardless of the operations or activities in which they were incurred. Tax losses may not be carried back.

INCENTIVES

There are several locations where incentives arise in Belarus:

(1) Taxation of residents of the High Technologies Park;

(2) Taxation of the members of the Augustow Canal Special Tourist and Recreation Park;

(3) Taxation of the members of the China-Belarus Industrial Park;

(4) Free-economic zones; and,

(5) Taxation of commercial organizations and individual entrepreneurs engaged in medium-sized or small towns and rural areas.

Special conditions and procedures apply for claiming the above and other benefits.

C. FOREIGN TAX RELIEF

Subject to the Belarus tax authorities being provided with the certificate issued by the foreign competent authority confirming the amount of tax paid (withheld) in the foreign state, a tax credit for the foreign tax paid by, or withheld from, a Belarusian taxpayer will be granted. Tax paid abroad on foreign-source income derived by a Belarusian legal entity may be credited against its corporate income tax (CIT) liability. The amount deducted however cannot exceed the equivalent amount of Belarus tax calculated on the foreign-sourced income.

D. CORPORATE GROUPS

Each entity in Belarus is taxed separately as a stand-alone entity. The tax legislation does not provide for tax groups or group taxation.

E. RELATED PARTY TRANSACTIONS

The Tax Code empowers the tax authority to ensure that transactions between related parties reflect a third party arm's length price, i.e. an objective market value. Tax authorities can check whether prices set by particular taxpayers are in line with market prices when conducting a tax audit. In particular, they can apply the market price on:

(1) Sale transactions of immovable property/real estate when the transaction price deviates by more than 20% from the market price;

(2) Foreign-trade transactions between related parties or with an offshore party when the transaction price (price of a number of transactions with one person per year) is greater than BYN 100,000 (net of indirect taxes);

(3) Transactions inside the country with a related party exempt from paying profit tax in the tax period when the transaction took place.

(4) Other foreign-trade transactions (not mentioned in points (1) – (3)) on strategic goods included in the list issued by the Government of the Republic of Belarus when the transaction price (price of a number of transactions with one person per year) is greater than BYN 1,000,000;

(5) Other transactions (not mentioned in points (1) – (3)) of organisations included in the List of large-scale payers when the transaction price (price of a number of transactions with one person per year) is greater than BYN 1,000,000.

The Belarus tax authorities apply the following transfer pricing methods:

- Comparable uncontrolled price method (CUP);
- Resale price method;
- Cost plus method;
- Comparable profits method;
- Profit split method.

F. WITHHOLDING TAX

Dividends paid to non-resident companies are subject to a 12% final withholding tax on their gross amount, subject to the application of a double tax treaty. Interest and royalties not connected to a permanent establishment are subject to a 10% and 15% final withholding tax respectively on the gross amount, subject to the application of a double tax treaty. Non-resident companies without a permanent establishment are subject to a 6% final withholding tax on freight and forwarding charges connected with international shipping transactions, subject to the application of a double tax treaty.

A 15% final withholding tax applies to income derived from:

- consulting, educational, research, technical and engineering services;
- insurance, management, courier, recruiting, storage, advertising and audit services;
- concerts, circus and other similar performances;
- telecommunications services;
- contractual fines and penalties;
- the provision of seconded personnel to a company in Belarus;
- asset management services on real estate located in Belarus;
- the sale of goods on a commission basis; and
- informational, IT and Internet-related services.

G. EXCHANGE CONTROL

Belarus imposes restrictions, special reporting and controls with respect to transactions involving foreign and national currency. The Belarusian Rouble (BYN) has restricted convertibility. Companies doing business in Belarus must open a bank account with a bank in Belarus.

H. PERSONAL INCOME TAX

The tax year in Belarus is the calendar year. Belarus resident individuals are subject to personal income tax on their worldwide income whereas non-resident individuals are taxed on their Belarusian-sourced income only. For tax purposes, an individual is treated as a tax resident of Belarus if they are present in Belarus for more than 183 days in a calendar year otherwise they are considered a non-resident.

The general personal income tax rate is 13%. The tax rate of 4% is applied to income in the form of gambling gains from gambling organisers being legal persons of the Republic of Belarus.

Employment income includes salary, any other compensation and bonuses received in cash or in kind. Employment income received by an individual from a foreign company or entrepreneur is treated as foreign

income for personal income tax purposes, regardless of the place where the employment duties were actually performed. Belarusian tax residents may claim several deductions in determining their taxable income. Employers calculate, deduct and pay the relevant tax on the compensation paid to their employees. Social security contributions are payable by an employer at a rate of 34% (28% for pension insurance and 6% for social insurance) and by an employee at a rate of 1% of their gross compensation (withheld by the employer).

A flat personal income tax rate of 13% applies to all dividends received by a resident. Non-residents receiving dividends from local sources are subject to 13% personal income tax which is withheld at source.

Generally, interest received from bank deposits in Belarus is subject to personal income tax withheld by the bank except for cases when at least one of the conditions below are met:

- such interest is accrued at an interest rate not exceeding the interest rate for call bank deposits;
- the actual deposit term is not less than one year for deposits in BYN and two years for deposits in a foreign currency.

Self-employed individuals having a business and being registered as a private entrepreneur with the appropriate registration authority are subject to (upon their choice):

- personal income tax at a flat rate of 16% (although a specific flat rate of 9% applies to certain types of income);
- simplified taxation (in this case individual entrepreneurs are not subject to corporate profits tax and, under certain conditions, neither to VAT (and some other taxes), but instead they pay a unified tax of either 5% of gross revenues or, if the business entity continues to pay VAT, 3% of gross revenues);
- general taxation (like a legal entity);
- unified tax under certain types of activities.

Self-employment income, assessed on an annual basis, consists of annual gross income less associated documented expenses.

Personal income tax is paid on a quarterly basis where a self-employed individual has a business and has registered as a private entrepreneur with the appropriate registration authority.

Where a self-employed individual has not registered as a private entrepreneur with the appropriate registration authority, personal income tax is paid on an annual basis.

Generally, any other income is included in regular income and taxed at 13% (or 9% which applies to certain types of income). Capital gains are not paid separately but included within the total income of an individual taxpayer. Under Belarusian tax law, relevant deductions in the following four categories are deductible against a taxpayer's personal income tax liability:

- Social tax deductions;
- Standard tax deductions;
- Property tax deductions; and,
- Professional tax deductions.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Please find below a table showing the withholding tax rates for dividends, interest and royalties under the various tax treaties including former USSR's treaties which Belarus still honours. In case the domestic rate is lower than the treaty rate, the former prevails. In case the treaty rate is lower than the domestic rate, the former prevails.

	Dividends (%)		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	12	12	0/10	15
Individuals	13	n/a	0/13	13
Treaty countries				
Armenia	15	10[4]	10	10

Austria	15	5[1]	5	5
Azerbaijan	15	15	10	10
Bahrain	5	5	5	5
Belgium	15	5[2]	10	5
Bulgaria	10	10	10	10
China	10	10	10	15
Croatia	15	5[1]	10	10
Cyprus	5/10/15[3]	5/10[3]	5	5
Czech Republic	10	5[1]	5	5
Denmark[20]	15	15	0	0
Ecuador[5]	10	5[1]	10	10
Egypt	15	15	10	15
Estonia	10	10	10	10
Finland	15	5[6]	5	5
France[20]	15	15	0/10	0
Germany	15	15	0/5	0
Georgia	10	51	5	5
Hong Kong[8]	0/5	0/5[7]	5	3/5
Hungary	15	5[1]	5	5
India	15	10[9]	10	15
Iran	15	10[10]	5	5
Ireland	0/10[11]	0/5[11]	5	5
Israel	10	10	5/10	5/10
Italy	15	5[1]	0/8	6
Japan[20]	15	15	10	0/10
Kazakhstan	15	15	10	15
Korea (South)	15	51	10	5
Kuwait	0/5[12]	0/5[12]	5	10
Kyrgyzstan	15	15	10	15
Laos	10	5[13]	8	5
Latvia	10	10	10	10
Lebanon	7.5	7.5	5	5
Lithuania	10	10	10	10
Macedonia (FYR)	15	51	10	10
Malaysia[20]	15	15	15	10/15
Moldova	15	15	10	15
Mongolia	10	10	10	10
Montenegro[21]	15	5[1]	8	10
Netherlands	15	0[14]/5[1]	5	3/5/10

B

Oman	5	5	5	10
Pakistan	15	11[15]	10	15
Poland	15	10[4]	10	0
Qatar	5	5	5	5
Romania	10	10	10	15
Russia	15	15	10	10
Saudi Arabia	5	5	5	10
Serbia[21]	15	5[1]	8	10
Singapore	5	0[12]	5	5
Slovak Republic	15	10[9]	10	5/10
Slovenia	5	5	0/5	5
South Africa	15	5[16]	5/10	5/10
Spain[20]	18	18	0	0/5
Sri Lanka	10	7.5[17]	10	10
Sweden	10	0/5[18]	5	3/5/10
Switzerland	15	51	5/8	3/5/10
Syria	15	15	10	18
Tajikistan	15	15	10	15
Thailand	10	10	10	15
Turkey	15	10[10]	10	10
Turkmenistan	15	15	10	15
Ukraine	15	15	10	15
United Arab Emirates	10	5/10[19]	5	5/10
United Kingdom[20]	0	0	0	0
United States[20]	–[22]	–[22]	–[22]	0
Uzbekistan	15	15	10	15
Venezuela	15	5[1]	5	5/10
Vietnam	15	15	10	15

NOTES:

1. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the dividend-paying company.
2. The 5% rate applies if the beneficial owner is a company which holds directly or indirectly at least 25% of the capital of the dividend-paying company.
3. The 5% rate applies if the beneficial owner has invested in the share capital of the dividend-paying company not less than EUR 200,000. The 10% rate applies if the beneficial owner holds directly at least 25% of the share capital of the dividend-paying company.
4. The 10% rate applies if the beneficial owner is a company which holds at least 30% of the capital of the dividend-paying company.
5. Effective 1 January 2018.
6. The 5% rate applies if the beneficial owner is a company (other than a partnership) which controls directly at least 25% of the capital of the dividend-paying company.
7. The 0% rate applies to payments to government agencies and financial institutions.

8. Effective 1 January 2018 (Belarus); 1 April 2018 (Hong Kong).
9. The 10% rate applies if the beneficial owner is a company which holds directly at least 25% of the shares of the dividend-paying company.
10. The 10% rate applies if the recipient is a company (excluding partnership) which holds directly at least 25% of the capital of the dividend-paying company.
11. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the dividend-paying company. The 0% rate applies to payments to government agencies and financial institutions.
12. The 0% rate applies to payments to government agencies and financial institutions.
13. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 20% of the capital of the dividend-paying company.
14. The 0% rate applies if the beneficial owner is a company (other than a partnership) (i) which holds directly at least 50% of the dividend-paying capital and provided that an investment of at least 250,000 EUR has been made in the capital of the dividend-paying company or (ii) which holds directly at least 25% of the capital of the dividend-paying company and whose investment in the capital of the dividend-paying company is, directly or indirectly, guaranteed or insured by the government of the other contracting state.
15. The 11% rate applies if the beneficial owner is an individual or a company which holds at least 25% of the capital of the dividend-paying company.
16. The 5% rate applies if the beneficial owner is a company which holds at least 25% of the capital of the dividend-paying company.
17. The 7.5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the dividend-paying company.
18. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 30% of the capital of the dividend-paying company. The 0% rate applies if the beneficial owner is a company (other than a partnership) which holds directly 100% of the capital of the dividend-paying company but only to the extent that the profits out of which the dividends are paid have been derived from industrial or manufacturing activities or from agriculture, forestry, fishing or tourism (including restaurants and hotels). However, this exemption shall not apply if the profits out of which the dividends are paid have been exempt from tax in the source state.
19. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 100,000 USD of the dividend-paying company.
20. The treaty concluded by the former USSR still applies to these countries.
21. The treaty concluded by the former Yugoslavia (Fed. Rep.) still applies.
22. There is no reduction under the treaty, the domestic rate applies.

BELGIUM

MEMBER FIRM

City	Name	Contact Information
Brussels	Wouter Brackx	+32 2454 0752
		wouter.brackx@pkf-vmb.be
Brussels	Kurt De Haen	+32 2460 0960
		kurt.dehaen@pkf-vmb.be

BASIC FACTS

Full name:	Kingdom of Belgium
Capital:	Brussels

B

Main languages:	Dutch, French, German
Population:	11.465 million (2018 estimate)
Monetary unit:	Euro (EUR)
Internet domain:	.be
Int. dialling code:	+32

KEY TAX POINTS

- A resident company is liable for Belgium resident corporate tax on its worldwide profits (with Belgium tax relief for eligible foreign-source profit). A non-resident company – i.e. a legal branch or permanent establishment - is liable for Belgium non-resident corporate tax levied on Belgian-source income only.
- Capital gains are normally treated as ordinary business income and are taxable at the normal corporate tax rates, be it that both tax exemptions and roll-over tax relief are available if certain conditions are met.
- Belgium tax law will introduce controlled foreign company (CFC) legislation as of 2019.
- Belgian tax law will introduce group relief for corporate tax purposes as of 2020. However, currently and under certain conditions, separate taxable persons can form a VAT unit and hence be considered as a single taxable person for VAT purposes.
- The standard Belgium withholding tax rate applicable to dividend, interest or royalty income is 30%. However, both Belgium domestic tax law and tax treaties concluded by Belgium comprise numerous withholding tax exemptions that can be claimed by various investors, mainly non-residents and financial institutions.
- An individual resident in Belgium is liable for progressive personal income tax rates that apply to worldwide income. Qualifying foreign-source income can be eligible for a Belgian personal tax exemption with progression reserve if conditions are met.
- Belgium tax law does not comprise asset tax nor a general capital gains taxation for individuals.
- Belgium has a very tax-attractive expatriate tax regime for foreign executives that are temporarily working in Belgium after being seconded to Belgium or being recruited outside Belgium.
- Belgium has a very extensive tax treaty network and a very active tax treaty policy.
- Belgium has a very active upfront tax ruling practice. No-name pre-filing meetings with the Belgium tax ruling commission are common practice.
- Taxable persons performing supplies of goods or services have to charge 21% VAT on these supplies unless these transactions are subject to a reduced rate, 'exempt' from VAT, ‘outside the scope’ of VAT or subject to ‘reverse charge’.

A. TAXES PAYABLE

COMPANY TAX

A resident company is liable to corporation tax on its worldwide profits. A company is resident in Belgium if its registered office or centre of management is situated in Belgium. The place of incorporation is irrelevant.

The standard Belgium corporate tax rate is 29.58% (including a 2% crisis levy). As of 2020, the standard corporate tax rate will be 25% whereas the crisis levy will be abolished. Currently, a small or medium-sized company is subject to 20% corporate tax on the EUR 100,000 fraction of the taxable basis.

A company with tax residence outside Belgium that has a legal branch or permanent establishment in Belgium is subject to the same Belgium corporate tax rate of 29.58% (or the reduced tax rate if the conditions are met), be it on Belgium-source income only.

A company with tax residence outside Belgium that has no legal branch or permanent establishment in Belgium is basically only subject to Belgium non-resident corporate tax on income derived from Belgium based real estate. In addition, Belgium-source dividend, interest or royalty income is subject to 30% Belgium withholding tax. However, it is very likely that either a reduced tax treaty rate or even 0% withholding tax applies at the level of a non-resident beneficiary of this type of income.

CAPITAL GAINS TAX

Capital gains are normally treated as ordinary business income and are taxable at the normal corporate tax rates. However, there are exceptions such as realised capital gains on eligible shares which can be 100%

tax-free. In addition, realised capital gains on business assets can be eligible for spread taxation – i.e. roll-over tax relief – if, amongst others, the sales proceeds are timely reinvested in qualifying other business assets (including real estate).

BRANCH PROFITS TAX

There is no separate branch profits (remittance) tax in Belgium.

VALUE ADDED TAX (VAT)

VAT is a tax on 4 types of transactions: the supply of goods, the supply of services, the importation of goods from outside the EU, and the acquisition of goods from another EU Member State. In case these transactions are deemed to take place in Belgium for VAT purposes, as a general rule 21% Belgian VAT will be due. However, many exceptions to this main rule exist:

- Certain supplies are zero-rated (e.g. daily and weekly publications) or subject to 6% (e.g. food and water) or 12% (e.g. restaurant and catering services);
- Certain supplies are VAT exempt (e.g. export of goods, intra-Community supplies of goods, social-cultural services, insurance, some financial operations);
- For certain supplies, the liability to pay the Belgian VAT is shifted to the customer (reverse charge).

Although many of these exceptions stem from EU legislation, the relevant Belgian rules often have a different scope or are interpreted differently by the Belgian VAT authorities (as is the case in most other EU Member States as well). It is therefore advised to carefully examine the correct VAT treatment of the operations taking place in Belgium.

The VAT legislation is formalistic, and imposes various administrative and document retention requirements. Non-compliance with these rules often leads to adverse VAT consequences, such as the rejection of input VAT deduction, the rejection of the application of a VAT exemption (resulting to a VAT claim) or administrative penalties.

Businesses (established in Belgium or not) that are required to VAT register in Belgium also need to file periodical VAT returns and an annual client listing. Depending on the type of transactions performed, possibly also intra-Community sales listings and Intrastat returns may need to be filed. As a general rule, these returns and listings need to be filed on a monthly basis. The VAT returns and intra-Community sales listings however only need to be filed on a quarterly basis if certain thresholds are not exceeded.

VAT should in principle be neutral for businesses, since a taxable person (even foreign businesses that are not VAT registered in Belgium) can recover the input VAT on goods or services they have bought. However in practice this is not always the case, as the business can be faced with:

- Non-recoverable VAT: In some cases, a taxable person cannot fully deduct the input VAT either due to the fact that it partly/only performs activities that are out of scope or exempt from VAT or due to the fact that for certain types of expenses no VAT deduction is allowed.
- VAT pre-financing: There can be a significant timing difference between the moment the input VAT is paid and the moment this input VAT is actually recovered.
- VAT penalties: Infringements on the VAT legislation (even minor ones) can lead to severe penalties.
- VAT administration costs: the costs associated with having a Belgian VAT registration, filing returns and listings, complying with invoicing and bookkeeping requirements.

In many cases, the scenario's in which VAT can become a cost for a business can be avoided or optimized by careful planning. The Belgian VAT legislation e.g. contains various simplification rules that, if applied correctly, can avoid the need to VAT register or to pre-finance VAT.

LOCAL TAXES

Other than some minor and very specific local taxes that may apply to e.g. advertising, office furniture, producing copies, etc., there are no significant and general local taxes in Belgium.

OTHER TAXES:

REGISTRATION DUTY

Registration duties are indirect taxes and are therefore applied on a transaction basis, in particular when a notary deed is required. The tax rate can be different in either the Brussels Region, Flemish Region or Walloon Region. Transactions that are subject to proportional registration duties include the transfer of legal

title of real estate situated in Belgium. A registration duty of 12.5% (10% in the Flemish Region) applies to the price or market value of the real estate (except in restructuring scenarios in which case an exemption can apply). However, as of 1 June 2018 the registration duty applied to the price or market value of a family house in the Flemish Region will decrease from 10% to 7% if certain formalities are satisfied in due time.

In general, no Belgium registration duties are due when increasing the capital of a Belgium based company.

REAL ESTATE WITHHOLDING TAX

Owners of real estate located in Belgium pay real estate taxes on the deemed rental value - this is a fictitious, but fairly low, income - of their property. The applicable rate depends on the location and use of the property.

B. DETERMINATION OF TAXABLE INCOME

The taxable income of a Belgium company or Belgium permanent establishment is based on its Belgium GAAP accounting profit as laid down in its annual accounts. This accounting profit is then adjusted for Belgium corporate tax purposes. We will list the main tax adjustments here under.

DISALLOWED EXPENSES

Some accounting charges are not (fully) tax-deductible. The main disallowed expenses are as follows:

- Restaurant costs are only 69% tax-deductible;
- Reception costs and business gifts are only 50% tax-deductible;
- Car costs are only tax-deductible depending on the co2 emission rate of the car. Generally, they are only 75% tax-deductible;
- Hospitalization insurance premiums are not tax-deductible;
- Meal cheque expenses are not tax-deductible.

INVESTMENT ALLOWANCE

Companies are entitled to “investment allowance” tax relief – called “investment deduction” – if conditions are satisfied. Specifically, in the event of an investment in qualifying assets that are used for own business purposes, the taxpayer cannot only amortize the asset for Belgium corporate tax purposes, but is also eligible for an additional tax deduction. Such tax deduction is either:

- A one-off tax deduction applied to the total investment value, or;
- A spread tax deduction applied to the annual accounting amortization of the asset.

The actual percentage of the investment allowance depends on the type of investment. If the taxpayer at hand has insufficient tax capacity in a given financial year to fully utilize the investment deduction, the excess deduction can be carried-forward without limitation in terms of time and amount. In addition, if conditions are met, an increased investment deduction is available for, amongst others, the following types of investments:

- Energy-saving investments;
- Environmental-friendly R&D investments;
- Investments in safety measures;
- Investments contributing towards the re-utilisation of the packaging of beverages and industrial products.

DEPRECIATION

Generally, all tangible and intangible business assets owned by the company and whose value diminishes over time, are depreciable for both BE GAAP and corporate tax purposes. Both the straight-line depreciation method and the declining-balance method are widely used.

STOCK / INVENTORY

Stocks should be valued at the lower of acquisition cost or year-end market value. The most common acceptable valuation methods are actual cost, FIFO and weighted average. The Belgium tax authorities require that the method chosen is justified and applied consistently.

CAPITAL GAINS AND LOSSES

Capital gains are treated as ordinary business income and are therefore taxable at normal corporate tax rates. However, there are a few exceptions:

- Revaluation gains are tax-free provided that they remain recorded on a specific "intangible account" of the company's balance-sheet;
- As explained above, under certain conditions roll-over tax relief is granted for eligible realised gains on business assets;
- Realised capital gains on shares are tax-free if the underlying dividends qualify for the Belgium participation exemption (see below). There is however one exception to this rule: if the shares are not held for at least one yea then 25.5% Belgium capital gains tax is due.

Capital losses are tax-deductible if they relate to fixed assets used for business purposes. Both unrealised (i.e. impairments recorded for BE GAAP purposes) and realised capital losses on shares are not tax-deductible. However, capital losses on shares realised upon the liquidation of a subsidiary are tax- deductible up to the value of the capital actually paid-up by the Belgium corporate shareholder.

DIVIDEND INCOME - PARTICIPATION EXEMPTION

A corporate shareholder can apply a 100% Belgium participation exemption for a shareholding of at least 10% or with an investment value of at least EUR 2.5 million in the distributing company. Also, the Belgium shareholder needs to hold this minimum shareholding for an uninterrupted period of at least one year, before or after the dividend distribution date. In addition and in summary: the dividend distributing subsidiary should be subject to normal taxation. Subsidiaries based in the EU are deemed to anyhow meet this subject-to-tax test.

Note that the participation exemption cannot be applied if the dividend distributing company can deduct the distributed dividend amount from its taxable basis and if the overall business structure is "artificial", i.e. lacks relevant substance.

If the taxpayer at hand has insufficient tax capacity in a given financial year to fully utilize the participation exemption, the excess can be carried-forward without limitation in terms of time and amount.

INTEREST DEDUCTIONS

At arm's length interest expenses are fully tax-deductible.

However, Belgium tax law provides for two specific thin capitalisation rules:

- A 1:1 debt-equity ratio applies to loans granted by individual directors and shareholders to the company;
- A 5:1 debt-equity ratio applies to loans granted by related companies and by lenders based in a tax haven.

However, the 5:1 thin capitalisation rule does not apply in the event of a genuine "finance centre" transaction between related companies that are not based in a tax haven.

As of 2020, a 30% fiscal EBITDA thin capitalisation rule will apply.

NOTIONAL INTEREST DEDUCTION (NID)

The notional interest deduction (NID) is a unique Belgium tax deduction. NID is a deduction for Belgium corporate tax purposes only and thus does not require any BE GAAP accounting entries or any cash-out cost. NID applies to basically all Belgium corporate taxpayers, regardless of the nature of their business. In essence, to have an equal treatment between the equity-funding and debt-funding of a Belgium company or permanent establishment, NID comes down to a corporate tax deduction of a "notional – i.e. fictitious - interest" expense that is deemed to arise for tax purposes only. The basis for the tax deduction is the average 5 year increase of the company's qualifying BE GAAP net equity while the interest rate is determined in function of the market interest rates. Small and medium-sized companies are entitled to an additional 0.5% NID rate. As market interest rates are currently low, the current (i.e. tax year 2019 – financial year 2018) NID rate is 0.746% while a small and medium-sized company can claim a 1.246% NID rate.

If a taxpayer has insufficient tax capacity in a given financial year to fully utilize the NID, the excess cannot be carried-forward and thus permanently forfeits. To avoid double-dips, the NID basis - i.e. the prior-year net equity - needs to be decreased by the net book value of certain "bad assets", including:

- Shares, as the latter are generally eligible for the Belgium participation exemption;
- Tax treaty assets, as the latter's income is tax-free in Belgium;
- Assets used for private purposes by the company's director.

PATENT INCOME DEDUCTION (PID) AND INNOVATION DEDUCTION

The patent income deduction (PID) regime is a tax-attractive rule providing for an 80% corporate tax exemption of at arm's length patent income. Consequently, only 20% of the patent income is taxable at the normal corporate tax rate of 29.58% resulting in a maximum 5.92% effective corporate tax rate for income derived from patents. However, as e.g. R&D expenses, the R&D investment deduction and tax losses carry-forward are also fully tax-deductible, the patent income can be subject to a 0% effective Belgium corporate tax rate.

PID applies to both self-developed and acquired patents. The taxpayer can use the patent to grant licenses on the use of the patent and can use the patent for its own production process. In the latter case, the taxpayer will have to identify the patent income on a stand-alone basis. PID can be claimed if the following conditions are complied with:

- The Belgium taxpayer needs to hold the legal ownership or usufruct of a patent;
- The Belgium taxpayer needs to have an own R&D centre in Belgium or abroad. R&D activities can be outsourced, but this process needs to be supervised and coordinated by the Belgium taxpayer.

Note however that the PID has been abolished with a phase-out period until 30 June 2021.

However, meanwhile the so-called Innovation Deduction tax regime has been introduced as an

alternative for PID. The Innovation Deduction has the following features:

- In essence, the Innovation Deduction is a 85% corporate tax deduction of net royalty income derived from qualifying IP whose underlying R&D activities were carried on by the Belgium taxpayer;
- The scope of qualifying IP is much broader than for PID since also royalty income derived from, amongst others, data and market exclusivity rights and eligible software is included;
- Non-utilised Innovation Deduction can be carried forward to a subsequent financial year;
- Also realised capital gains on the IP can benefit from Innovation Deduction tax relief;
- The Innovation Deduction can already be applied as of the financial year in which the IP approval request is filed;
- Etc.

LOSSES

Tax losses can be carried-forward indefinitely, i.e. without limitation in terms of time and amount. A carry-back of tax losses is not allowed. However, tax losses may forfeit in the event of a purely tax-driven change of control at the level of the Belgium company with tax losses. Furthermore, when a Belgium company with tax losses is part of a tax-free business restructuring (like e.g. a merger), the tax losses carry-forward may only survive the tax-free reorganisation on a prorate basis.

Furthermore, if a company or a permanent establishment has a taxable basis exceeding EUR 1 million, a maximum of 70% of the part of the taxable basis exceeding EUR 1 million can be offset against tax losses carried-forward, whereas 30% is effectively subject to corporate tax.

FOREIGN SOURCE INCOME

Belgium tax law will introduce controlled foreign company (CFC) legislation as of 2019.

C. FOREIGN TAX RELIEF

Please consider the following Belgium foreign tax relief rules:

- Income derived from tax treaty sources (a permanent establishment or real estate based in a tax treaty country) is completely tax-free for Belgium corporate tax purposes;
- Definitive tax losses of permanent establishments situated outside Belgium are deductible from Belgium source profits (be it that a future claw-back rule may apply);
- Foreign-source dividend income can be eligible for the Belgium participation exemption (see above);
- Foreign-source interest and royalty income can be eligible for a Belgium foreign tax credit if that income was subject to foreign withholding tax or if a tax sparing clause laid down in a tax treaty concluded with Belgium applies.

D. CORPORATE GROUPS

As of 2019, Belgium tax law will introduce group relief for corporate tax purposes. If conditions are met, group relief for VAT purposes can currently already be applied.

E. RELATED PARTY TRANSACTIONS

All transactions with group companies must be conducted on an arm's length basis. This means that the prices applied must be set as if the parties involved were genuine independent third party companies, taking into account the normal market prices for similar transactions in identical or similar circumstances.

For Belgium tax purposes, transfer pricing documentation is only mandatory if the following conditions are satisfied in the hands of a group with a presence in various countries. Specifically, every Belgian tax resident affiliate of a multinational Group which exceeds one of the below criteria in the financial year preceding its most recently closed financial year according to its BE GAAP annual accounts on a non-consolidated basis should file both a Local File and a Master File in Belgium:

- Gross operational and financial turnover (excluding one-off transactions) exceeding EUR 50 million;
- Balance sheet total exceeding EUR 1 billion;
- Average personnel exceeding 100 full-time equivalents.

In summary, the Group master file should give an overview of the multinational Group as such. The

Local File shares more information about the nature and activities of the Belgian affiliate.

In addition and in summary, "if" the Group has a consolidated gross turnover of more than EUR 750 million, a country-by-country ("cbc") reporting formality will have to be satisfied. Without entering into details, in such a cbc report the Group has to disclose a general overview of its worldwide income and its economic activities and in which countries the Group pays its taxes. Such a cbc report will, in principle, have to be filed by the parent company of the Group in the country of which this parent company is a tax resident. However, in some cases, a Belgian tax resident company of the Group can be obliged to file the cbc report in Belgium. Every Belgian tax resident company of a "large" multinational Group will in any event have to inform the Belgian tax authorities of the identity of the company that will file the cbc report, and this before the financial year of the parent company is closed.

F. WITHHOLDING TAX

According to Belgian domestic tax law, in principle 30% withholding tax is due on dividend, interest and/or royalty income that is attributed or made payable by the company. However, Belgium tax law comprises numerous withholding tax exemptions, especially for corporations, banks and non-residents. Also, pursuant to tax treaty rules there may be Belgium dividend, interest and royalty withholding tax mitigation and relief. This includes:

- 0% Belgium dividend withholding tax applies if the shareholder resides in the EU or in a tax treaty country and has a minimum 10% shareholding for at least 1 year in the Belgium subsidiary;
- 0% Belgium interest or royalty withholding tax applies if the beneficiary resides in the EU and has a direct or indirect minimum 25% shareholding for at least 1 year in the Belgium company;
- 0% Belgium royalty withholding tax applies based on many tax treaties concluded by Belgium.

G. EXCHANGE CONTROL

There are no exchange controls in Belgium

H. PERSONAL TAX - EXPATRIATE TAX REGIME

An individual resident in Belgium is liable to progressive personal income tax rates (maximum 50%) on his worldwide income. There is no general capital gains taxation for individuals. Only in very specific circumstances, an individual can be subject to capital gains taxation. A non-resident individual is liable to progressive personal tax rates on his Belgian-source income only. There is no asset tax under Belgium tax law.

However, the Belgium tax practice includes a tax-efficient expatriate tax regime since 1983. The main objective of this expatriate tax regime is to both lower the overall payroll cost for the employer and to optimise the net-in-hand salary for the expatriate. If they meet all the conditions, an expatriate – although temporarily living with his/her family in Belgium – is considered to be a non-resident for Belgium personal tax purposes. The benefits of the Belgium expatriate tax status are twofold:

- Each calendar year, the expatriate is entitled to so-called "tax-free allowances", i.e. allowances granted

by the employer to cover additional expenses incurred as a direct result of the assignment to or employment in Belgium are, within certain limits, tax-free for the expatriate, and;

- Each calendar year, the expatriate is entitled to a so-called "business travel exclusion", i.e. the part of the salary that relates to actual business days spent outside Belgium is tax-free in Belgium (and presumably not taxable in the visited jurisdiction neither).

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)	Interest (%)	Royalties (%)
Non-treaty countries	0/15/30	0/30	0/30
Treaty countries:			
Albania	0/5/15	0/5	0/5
Algeria	0/15	0/15	0/5/15
Argentina	0/10/15	0/12	0/3/5/10/15
Armenia	0/5/15	0/10	0/8
Australia	0/15	0/10	0/10
Austria	0/15	0/15	0/10
Azerbaijan	0/5/10/15	0/10	0/5/10
Bahrain	0/10	0/5	0
Bangladesh	0/15	0/15	0/10
Belarus	0/5/15	0/10	0/5
Bosnia-Herzegovina	0/10/15	0/15	0/10
Brazil	0/10/15	0/10/15	0/10/20/25
Bulgaria	0/10	0/10	0/5
Canada	0/5/15	0/10	0/10
Chile	0/15	0/5/15	0/5/10
China	0/5/10	0/10	0/7
Croatia	0/5/15	0/10	0
Cyprus	0/10/15	0/10	0
Czech Republic	0/5/15	0/10	0/5/10
Democratic Republic of Congo	0/5/10	0/10	0/10
Denmark	0/15	0/10	0
Ecuador	0/15	0/10	0/10
Egypt	0/15/20	0/15	0/15/25
Estonia	0/5/15	0/10	0/5/10
Finland	0/5/15	0/10	0/5
France	0/10/15	0/15	0
Gabon	0/15/18	0/15	0/10
Georgia	0/5/15	0/10	0/5/10

Germany	0/15	0/15	0
Ghana	0/5/15	0/10	0/10
Greece	0/5/15	0/5/10	0/5
Hong Kong	0/5/15	0/10	0/5
Hungary	0/10	0/15	0
Iceland	0/5/15	0/10	0
India	0/15	0/10/15	0/20
Indonesia	0/10/15	0/10	0/10
Ireland	0/15	0/15	0
Israel	0/15	0/15	0/10
Italy	0/15	0/15	0/5
Ivory Cost	0/15/18	0/16	0/10
Japan	0/5/15	0/10	0/10
Kazakhstan	0/5/15	0/10	0/10
Korea	0/15	0/10	0/10
Kosovo	0/10/15	0/15	0/10
Kyrgyzstan	0/15	0/15	0
Kuwait	0/10	0	0/10
Latvia	0/5/15	0/10	0/5/10
Lithuania	0/5/15	0/10	0/5/10
Luxembourg	0/10/15	0/15	0
Macedonia	0/5/15	0/10	0/10
Malaysia	15	10	10
Malta	0/15	0/10	0/10
Mauritius	0/5/10	0/10	0
Mexico	0/10	0/5/10	0/10
Moldova	0/15	0/15	0
Mongolia	0/5/15	0/10	0/5
Montenegro	0/10/15	0/15	0/10
Morocco	0/6.5/10	0/10	0/10
Netherlands	0/5/15	0/10	0
New Zealand	0/15	0/10	0/10
Nigeria	0/12.5/15	0/12.5	0/12.5
Norway	0/5/15	0/15	0
Pakistan	15	0/15	0/15/20
Philippines	0/15/20	0/10	0/15
Poland	0/5/15	0/5	0/5

Portugal	0/15	0/15	0/10
Romania	0/5/15	0/10	0/5
Russia	0/10	0/10	0
Rwanda	0/15	0/10	0/10
San Marino	0/5/15	0/10	0/5
Senegal	0/16	0/16	0/10
Serbia	0/10/15	0/15	0/10
Singapore	0/5/15	0/5	0/5
Slovak Republic	0/5/15	0/10	0/5
Slovenia	0/5/15	0/10	0/5
South Africa	0/5/15	0/10	0
Spain	0/15	0/10	0/5
Sri Lanka	0/15	0/10	0/10
Sweden	0/5/15	0/10	0
Switzerland	0/15	0/ 10	0
Taiwan	0/10	0/10	0/10
Tajikistan	0/15	0/15	0
Thailand	0/15/20	0/10/25	0/5/15
Tunisia	0/5/15	0/5/10	0/11
Turkey	0/5/15/20	0/15	0/10
Turkmenistan	0/15	0/15	0
Ukraine	0/5/15	0/2/10	0/10
United Arab Emirates	0/5/10	0/5	0/5
United Kingdom	0/10/15	0/10	0
United States	0/5/15	0/15	0
Uzbekistan	0/5/15	0/10	0/5
Venezuela	0/5/15	0/10	0/5
Vietnam	0/5/10/15	0/10	0/5/10/15

BELIZE

MEMBER FIRM

City	Name	Contact Information
Belize City	Jose A Bautista	+501 227 7428 jbautista@pkfbelize.com

BASIC FACTS

Full name:	Belize
Capital:	Belmopan
Main language:	English
Other languages:	Spanish, Kriol, Garifuna, Maya (Kek'Chi), Maya (Mopan), Maya (Yucatec), Plautdietsch, Cantonese
Population:	380,695 (2018 estimate)
Monetary unit:	Belize Dollar (BZD)
Internet domain:	.bz
Int. dialling code:	+501

KEY TAX POINTS

- Income tax is levied on the gross revenue receipts (sales) of companies at rates set out from time to time in the Ninth Schedule to the Income and Business Tax Act.
- A general sales tax (GST) applies to the supply of goods and services at a standard rate of 12.5%. Certain supplies are exempted or zero-rated. Registered businesses can set off their input GST (GST paid to suppliers) against their output GST (GST charged to customers).
- Other local taxes apply including stamp duty, land and property taxes, customs duties, excise duties, environmental tax, vehicle licenses, and trade license.
- Personal income tax is chargeable at a flat rate of 25% on persons employed in Belize.
- Residents are entitled to a personal allowance of between BZD 19,600 and BZD 25,600 before being chargeable to the flat rate.
- Belize has double taxation agreements with the United Kingdom, Austria, and the countries of the Caribbean Community (CARICOM).

A. TAXES PAYABLE

COMPANY TAX

On 1 July 1998, income tax on the profits or net earnings of companies and self-employed persons was replaced by a new tax, named 'business tax', which is a tax on gross receipts. The tax is charged as a percentage of gross receipts, without any deductions, and is declared and paid each month to the Tax Department. The rates vary according to the source of the income and range from 0.75% in respect of receipts from radio, on-air television and newspaper business to 25% in respect of management fees, rental of plant and equipment, and charges for technical services paid to a non-resident.

Effective 1 January 1999, income tax on business profits was reintroduced but revised so that it could co-exist with the business tax regime introduced in 1998. The corporate income tax rate was reduced from its former level of 35% to 25%. The business tax paid is now considered to be a credit towards income tax payable with any excess paid being carried forward as an expense to the next basis (tax) year, provided that an income tax return is duly filed with the Commissioner of Income Tax.

Where the business tax paid is less than the income tax payable, the excess is to be treated as taxes forgone by the Commissioner, provided that an income tax return is duly filed. Tax returns are to be filed with the Belize Tax Administration (Income Tax Department) within three months after the close of the taxpayer's fiscal year. When filing an income tax return, the taxpayer (other than a company engaged in petroleum operations) has an option to 'accept the business tax assessed'. This choice is made by ticking a window on the income tax return form. The business tax paid for the year is then considered to be the tax payable for the year. The tax return is completed by signing the Certification section.

There is no need to provide financial statements or any additional supporting schedules to support the tax return submitted. Where losses are incurred and the taxpayer elects not to accept the business tax as a final tax, the taxpayer must submit a complete tax return which would include an income tax computation, financial statements and supporting schedules in order to have the trading losses agreed and relief obtained in the form of tax credits against future business taxes payable.

With effect from 1 January 2006, the rate of income tax for companies engaged in petroleum operations was increased from 25% to 40%. These companies must file income tax returns and pay income tax; they cannot

elect to be chargeable to tax under the business tax regime. Subsequent amendments made to date to the Income and Business Tax includes the addition of the following provisions:

- To introduce a petroleum surcharge on revenues derived from petroleum operations;
- To facilitate tax information exchange agreements with other countries;
- To abolish the withholding tax on royalties and commissions paid to non-residents;
- To vary the rates of business tax on casinos, commissions, real estate business and utilities that provide telecommunication and electricity services.

GENERAL SALES TAX

Effective 1 July 2006, the 'sales tax' which was in force was repealed and replaced by a general sales tax (GST). GST is effectively a value added tax, with tax becoming payable at each stage in the supply chain and with tax incurred on inputs being recoverable by offset against output GST (the tax charged by a business to customers on taxable supplies). For GST purposes, "business" has a very wide meaning and can include activities on which no profit is made. "Taxable supply" is a supply of goods and/or services made in the course or furtherance of any business. Therefore, where a supply is not specifically exempted, it will be considered a taxable supply.

Effective 1 April 2010, the rate of GST was increased from 10% to 12.5%. Exempt supplies of goods and services include:

- Some financial services and gambling supply;
- Some supply of goods and services by an educational institution within the meaning of the Education Act;
- Medical, dental, hospital, optical and paramedical services, other than veterinary services and cosmetic surgery;
- Supply of residential accommodation or accommodation in a hotel or similar establishment;
- Public postal services, domestic public transport of passengers, lease of aircraft and maintenance services in connection with the supply of public air transport;
- International transport of passengers or goods;
- Some supplies of services provided to diplomatic missions, international and regional organizations; and,
- Goods and services provided to the Government of Belize.
- Providers of exempt goods and services are not allowed to charge GST to customers and cannot recover any GST paid on inputs. Taxable supplies may be zero-rated (chargeable to tax at 0%) or standard-rated (chargeable to tax at 12.5%). Zero-rated items include:
- Exported goods and services;
- Some food items for human consumption, water supply (other than bottled water) and some medicines and medical supplies for human use;
- Some items and supplies for use in education; and,
- Some supplies connected with agriculture, livestock, birds and fish, crustaceans and molluscs.
- Items not specifically exempted or zero-rated are considered to be standard-rated.

OTHER LOCAL TAXES

These include:

- Stamp duty on certain transactions, including the transfer of property;
- Land and property taxes;
- Trade licence, motor vehicle licence and other taxes charged by local authorities; and,
- Customs, excise, environmental tax and other taxes charged by the Customs and Excise Department.

B. WITHHOLDING TAXES

- 15%: Dividends paid to non-residents. However, effective 1 January 2011, dividends paid to shareholders by entities licensed to provide telecommunication services that offer real time voice services are exempt from tax.
- 3%: Gross contract payments in connection with contracts exceeding BZD 3,000.

- 15%: Interest paid to non-residents.
- 25%: Management fees, rental of plant and equipment and charges for technical services paid to non-residents.

C. FOREIGN EXCHANGE CONTROL

The Foreign Exchange Control Act provides that only the Central Bank of Belize and authorised dealers may deal in foreign currencies. A foreign exchange permit must first be obtained from the Central Bank for all remittances of foreign exchange, including the payment of goods and services procured outside Belize. Central Bank approval is also required to secure and repay a loan outside Belize denominated in a foreign currency.

D. PERSONAL TAX

Effective 1 January 2010, employed persons, resident in Belize, are allowed a basic deduction of:

(a) BZD 25,600 in the case of an employed person whose total income, from all sources in a basis year, does not exceed BZD 26,000;

(b) BZD 24,600 in the case of an employed person whose total income, from all sources in a basis year, exceeds BZD 26,000 but does not exceed BZD 27,000;

(c) BZD 22,600 in the case of an employed person whose total income, from all sources in a basis year, exceeds BZD 27,000 but does not exceed BZD 29,000; and,

(d) BZD 19,600 in the case of all other employed persons. There are no other deductions in ascertaining chargeable income except for allowable charitable donations which is restricted to one-sixth part of the chargeable income.

The rate of tax on chargeable personal income is a flat rate of 25%, with a standard tax credit deduction of BZD 100 available to all residents.

E. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Belize has double taxation agreements with the United Kingdom, Austria, and the countries of the Caribbean Community (CARICOM). Tax information agreements have been signed with Mexico, Poland and South Africa. Belize enacted legislation in 2017 to give effect to the Convention on Mutual Administrative Assistance in Tax Matters to provide for the implementation of the obligations of Belize arising under the Convention with respect to the standard of automatic exchange of financial information in tax matters to give effect to the Multilateral Competent Authority Agreement, to give effect to the Common Reporting Standard and matters incidental thereto. The signatories to the Convention are the member states of the Council of Europe and member countries of the Organization for Economic Co-operation and Development (OECD).

	Dividends (%)[4]		**Interest (%)[4]**	**Royalties (%)[4]**
	Individuals, companies (%)	**Qualifying companies (%)**		
Domestic rates				
Companies	0	0	5[3]	0
Individuals	0	n/a	0	0
Treaty countries				
Austria	15	5[2]	0	0
CARICOM[1]	0	0	15	15
Switzerland[5]	--	--	--	--
United Kingdom	0	0	--	0

Notes:

1. Belize is a signatory to the 1994 CARICOM income tax treaty. Countries that have ratified the treaty: Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Trinidad and Tobago.
2. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the dividend-paying company.

3. 5% on interest from time deposits.
4. There is no withholding tax. However, business tax must be deducted on payments of dividends and interest on loans paid to non-residents at the rate of 15%. Royalties received by a non-resident are exempt and therefore business tax must not be withheld. Business tax must be withheld at a 25% rate on payments to non-residents of management fees, rental payments for plant or equipment and charges for technical services. However, business tax must not be withheld on commissions paid to non-residents.
5. The 1963 treaty between the United Kingdom and Switzerland was extended to Belize by an exchange of notes. It only applies to income tax and not to business tax. Also, certain articles of the treaty, including those applicable to interest and dividends, do not apply.

BOLIVIA

CORRESPONDENT FIRM

City	Name	Contact Information
Santa Cruz	Javier Garcia Veramendi	+591 3 341 4430 jgveramend@pkfbolivia.com
La Paz	Javier Garcia Veramendi	+591 2 242 3579 gvlpz@pkfbolivia.com
Cochabamba	Javier Garcia Veramendi	+591 4 448 6016 gvcbb@pkfbolivia.com

BASIC FACTS

Full name:	Plurinational State of Bolivia
Capital:	Sucre
Main languages:	Spanish, indigenous
Population:	11.18 million (2018 estimate)
Monetary unit:	Bolivian Boliviano (BOB)
Internet domain:	.bo
Int. dialling code:	+591

A. TAXES PAYABLE

COMPANY TAX

The tax base in Bolivia is territorial, i.e. tax is only due on business income derived from activities performed, property situated, or economic rights used in Bolivia, regardless of nationality, domicile or residence of those who take part in the operations. Therefore, business income realized through companies operating outside of Bolivia is not considered for Bolivian tax purposes.

The standard corporate income tax rate is 25% and the tax year-end is 31 December of each year. Annual tax returns and financial statements need to be submitted with the IRS and income tax paid within 120 days from tax year-end. Advance corporate tax payments need to be made.

CAPITAL GAINS TAX

Capital gains derived from the sale of fixed assets immovable property and securities are normally included in gross income and are subject to the standard corporate income tax rate of 25%. However, capital gains derived from transactions on the Bolivian Stock Exchange are tax-exempt.

BRANCH PROFITS TAX

Branches of non-resident companies are subject to the standard corporate income tax rate of 25%. However, a branch remittance tax applies at the rate of 25%, which is levied on 50% of the Bolivian-sourced profits

distributed to the foreign head office, i.e. the effective rate is 12.5%. Branch profits are deemed remitted when the corporate income tax return is due (120 days after the end of the tax year, see higher).

SALES TAX / VALUE ADDED TAX (VAT)

VAT is levied on taxable supplies of goods and services as well as on imports of taxable goods and services into Bolivia. Exports are zero-rated. Some specified transactions are exempt without credit for previously paid VAT.

The standard VAT rate is 13% while certain goods and services are tax-exempt:

- bona fide imports made by travellers arriving to the country;
- all transactions of public offer securities registered with the Stock Exchange Register (RMV) performed in Bolivia and having effect in the national territory;
- cession of goods and assets subject to procedures for issuing securities;
- goods imported by diplomatic service members;
- transactions involving the transfer of financing intermediation, insurance, pensions and stock exchange portfolios, whether resulting from sale or cession;
- the importation of printed books, newspapers and magazines.

B. DETERMINATION OF TAXABLE INCOME

Taxable income is the income reported in the company's financial statements prepared in accordance with Bolivian GAAP, subject to certain adjustments for tax purposes. Generally, all expenses necessary to obtain income and to maintain the existence of the company are deductible. Donations and other gratuitous transfers to non-profit organizations that are exempt from income tax may be deducted up to a maximum limit of 10% of taxable income derived in the year of the donation or gratuitous transfer. Non-deductible items include, among others, income tax itself, penalties and fines and related surcharges, losses incurred in illegal activities, goodwill and gifts, except for those to qualifying recipients.

DEPRECIATION

Fixed assets are generally depreciated using the straight-line method at rates specified by law. The following are some of the annual depreciation rates:

Asset	Annual rate (%)
Industrial buildings and warehouses	2.5
Machinery, equipment and installations	12.5
Office furniture and equipment	10
Aircraft	20
Motor vehicles	20
Computer hardware	25
Intangibles	5

STOCK / INVENTORY

Inventories are valued at the lower of market value or replacement cost.

CAPITAL GAINS AND LOSSES

Capital gains derived from the sale of fixed assets immovable property and securities are normally included in gross income and are subject to the standard corporate income tax rate of 25%. However, capital gains derived from transactions on the Bolivian Stock Exchange are tax-exempt. Capital losses resulting from "force majeure" or civil and criminal liabilities by third parties are deductible only to the extent that they are not covered by insurance or indemnity awards, as long as the taxpayer informs the tax authorities within a 15-day period following the relevant incident.

DIVIDENDS

Domestic dividends received by a resident company are not subject to income tax at the level of the recipient and neither are these dividends subject to withholding tax. Dividends received from non-resident companies, including those paid by a foreign subsidiary to its parent company in Bolivia, are not subject to tax. A Bolivian company remitting profits to foreign shareholders or partners has to withhold 12.5% tax on the gross payment.

INTEREST DEDUCTIONS

There are no thin capitalization rules as such in Bolivia. However, interest paid by a domestic company to its non-resident shareholders or partners that is considered excessive, i.e. higher than LIBOR + 3%, is treated as a non-deductible expense for the domestic company's income tax purposes. The excessive interest payment must be included in the domestic company's taxable income for tax purposes. Tax-deductible interest cannot exceed 30% of the total interest paid out by the enterprise to third parties in the reported period.

LOSSES

Losses may be carried forward for 3 tax years, but may not be adjusted for inflationary effects. Losses may not be carried back.

FOREIGN SOURCE INCOME

The corporate tax system is based on the territoriality principle, whereby tax is only due on income received or accrued from sources within or deemed to be within Bolivia.

C. FOREIGN TAX RELIEF

As foreign-source income is not subject to corporate income tax (territoriality principle), no relief is granted for foreign taxes.

D. CORPORATE GROUPS

There are no generally applicable group consolidation rules in Bolivia.

E. RELATED PARTY TRANSACTIONS

A legal framework for transfer pricing was introduced in 2014, with effect from tax year 2015. The transfer pricing rules are based on the arm's length principle, established a new concept of related parties and introduced transfer pricing methods. In the case of income tax, the arm's length principle is applicable to commercial and/or financial operations performed between related parties.

Related parties are deemed to exist whenever one person takes part in the management, control, or administration, or possesses capital equity in another company, or whenever a third party directly or indirectly participates in the management, control, or administration, or possesses capital equity in two or more companies.

The tax administration is empowered to perform adjustments when the transaction values do not comply with the arm's length principle. For this purpose, the tax administration can use the following methods: comparable uncontrolled price, resale price, cost-plus, profit split, transactional net margin or notorious price in transparent markets (applicable to the import or export of commodities).

Furthermore, a formal transfer pricing obligation has been established. Taxpayers, within the scope of transfer pricing rules, are obliged to present transfer pricing documentation which includes a technical transfer pricing study.

F. WITHHOLDING TAX

Bolivian-sourced dividends and other profit distributions by a domestic subsidiary to its non-resident parent company are subject to a 25% final withholding tax, which is levied on 50% of the Bolivian-sourced dividend, thus giving rise to an the effective tax rate of 12.5%.

Bolivian-sourced interest, royalties and fees paid to non-resident recipients are subject to a 25% final withholding tax, which is levied on 50% of the Bolivian-sourced income, thus giving rise to an effective tax rate of 12.5%. Rental income derived by non-residents from the leasing, subleasing or other exploitation of any Bolivian-situs real property is subject to a 25% final withholding tax, which is levied on 50% of the Bolivian-sourced rental payment, thus giving rise to an effective tax rate of 12.5%).

Bolivian-sourced capital gains derived by non-residents are subject to a 25% final withholding tax, which is levied on 50% of the Bolivian-sourced capital gain, thus giving rise to an effective tax rate of 12.5%.

G. EXCHANGE CONTROL

No restrictions are imposed on foreign-exchange transactions, including the repatriation of capital and the remittance of dividends and royalties abroad. A system of free-floating exchange rates exists in Bolivia.

H. PERSONAL TAX

Individuals are subject to tax on all items of income, unless expressly exempt. For income tax purposes, the term income means the total value or amount in cash or in kind derived from capital investments, dependent

services or a combination of both.

The individual income tax liability is subject to tax at a rate of 25% on professional activities and at 13% on other activities.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	12.5/25[1]	12.5/25[1]	12.5/25[1]	12.5/25[1]
Individuals	12.5/25[1]	--	12.5/25[1]	12.5/25[1]
Treaty countries				
Argentina	--[2]	--[2]	--[2]	--[2]
Colombia	--[2]	--[2]	--[2]	--[2]
Ecuador	--[2]	--[2]	--[2]	--[2]
France	15	10/15[3]	0/15	15
Germany	15	15	15	15
Peru	--[2]	--[2]	--[2]	--[2]
Spain	15	10[4]	0/15	0/15
Sweden	15	0[5]	0/15	15
United Kingdom	15	10/15[3]	0/15	15

1. Payments made to non-residents are subject to a 25% final withholding tax, which is levied on 50% of the Bolivian-sourced income, thus giving rise to a 12.5% effective tax rate.
2. Domestic rate applies, no reduction under the tax treaty. Source state has exclusive right to tax.
3. The standard rate under the treaty is 15%. However, the application of a most favoured nation clause (items 5 and 4 of the Treaty's Protocol for France and the UK respectively) reduces the rate to 10% if the recipient company owns at least 25% of the capital of the dividend-paying company. The rate for such dividends under the Bolivia-Spain double tax treaty is 10%
4. The 10% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the dividend-paying company.
5. The 0% rate applies if the beneficial owner is a company (other than a partnership) which holds at least 25% of the capital of the dividend-paying company.

BOTSWANA

MEMBER FIRM

City	Name	Contact Information
Gaborone	Tim Roddy	+267 71349866 tim@pkfbotswana.co.bw

BASIC FACTS

Full name:	Republic of Botswana
Capital:	Gaborone
Main languages:	English, Setswana
Population:	2.32 million (2018 estimate)
Monetary units:	Botswana Pula (BWP)

Internet domain:	.bw
Int. dialling code:	+267

B

KEY TAX POINTS

- Income from, or deemed to be from, a source within Botswana is taxable in Botswana.
- Normal business expenses wholly, exclusively and necessarily incurred in the production of assessable income are allowed as deductions for tax purposes, and include approved citizen training expenditure (conditions apply) and approved pension fund contributions, bad debt provisions, capital allowances and contributions to an approved mine rehabilitation fund.
- Assessed losses relating to farming, mining and prospecting can be carried forward indefinitely and utilised against future taxable profits. Assessed losses from other businesses have a carry forward period of five years and must be utilised within that time. Capital losses are available to be carried forward for one year.
- Value Added Tax (VAT) is levied at a rate of 12% on standard rated supplies. Certain specified supplies are zero rated or exempt from VAT.
- Capital gains tax applies to companies and individuals. The capital gains tax rate for companies is the same as their income tax rate (22%). Individuals are liable based on a progressive tax rate scale up to a maximum rate (taxable gains over BWP 144,000) of BWP 13,950 + 25% of excess over 144,000.
- Employment remuneration, which includes salaries, wages, bonuses, commissions, allowances, and the value of taxable benefits, is taxed under the PAYE system and employers are obliged to withhold the respective tax from an employee's remuneration each month. Please note, there are certain exemptions and tax free benefits available for Individuals.

A. TAXES PAYABLE

COMPANY TAX

Botswana's tax system is source-based. All companies registered in Botswana must also register for corporate income tax (CIT). CIT is levied at a single flat rate of 22%.

- **Manufacturing companies:**

  Manufacturing companies which have been approved by the Minister of Finance are taxed at a special rate of 15%.

- **International Financial Services Centre (IFSC)**

  Companies must obtain a certificate and engage in the specified activities only. Profits from an IFSC (approved services) are taxed at a flat rate of 15%. Other taxable income is taxed at 22%

- **Mining companies**

  Profits form mining activities, excluding profits from diamond mining, are taxed by applying the following formula: Annual tax rate = 70 minus (1,500/x).

'x' in the above formula represents the taxable income as a percentage of gross income. Please note that the tax rate cannot be less than 22% (the CIT rate) and is normally a rate between 22% and 55%. Diamond mining is generally taxed in accordance with the terms of a specific agreement agreed with the Botswana government.

Other tax rates that apply to certain profits or income are as follows:

- The corporate income tax rate applying to non-resident companies (branches) is 30%;
- Foreign dividends are taxed at 15%;
- Other taxable income is taxed at a rate of 22%;
- Taxable income of an Accredited Innovation Hub (AIH) business is taxed at 15%.

Standard rate	22%
Approved manufacturing taxable income	15%
Capital gains	22%
Foreign dividends	15%

Mining taxable income (excluding diamonds)	22% - 55%
Accredited innovation hub business	15%
IFSC company – approved service income	15%
IFSC – other taxable income	22%
Non-resident company (branch)	30%

ADMINISTRATION - COMPANY

Companies must file an income tax return (Form ITA22) four months following the year end. Where a company's final tax liability exceeds BWP 50,000 it will be subject to quarterly self-assessment tax (SAT) payments. SAT payments are calculated to be no less than 80% of the final tax liability.

CAPITAL GAINS TAX

The capital gains tax rate for companies is 22%, the same rate as the CIT rate. Where the gain arises from the sale of shares, only 75% of the amount realized is taxable. Gains from shares which are listed on the Botswana Stock Exchange will be tax exempt if the seller holds no more than 49% of the shares. However, gains from the disposal of IFSC shares are fully exempt from tax.

BRANCH PROFITS TAX

Branches of non-residents companies are subject to 30% corporate tax. There is no branch remittance tax in Botswana.

VALUE ADDED TAX (VAT)

VAT is imposed comprehensively on an end-user basis at the rate of 12% on standard rated supplies. Certain specified supplies are either zero rated or exempt from VAT. Registration is mandatory where turnover (12 months) is expected to be BWP 1,000,000 or more.

VAT is payable by the importer of services not utilised in the making of taxable supplies. Input tax includes Transfer Duty payable under the Transfer Duty Act and any tax deemed to have been paid in respect of the supply of second hand goods. Input tax claims should be made within the following time limits:

a) Where returns are filed every month, within a period of four months;

b) Where returns are filed every two months, within two tax periods;

c) For tax paid with respect of imports, within two tax periods.

Zero-Rated supplies include:

- Exports of goods and services;
- International transport services;
- Supplies of going concerns;
- Sorghum, maize meal, millet, wheat, sugar and flour for human consumption;
- Fertilizers for farming purposes, some pesticides and farming tractors;
- Supplies to the Head of State;
- First 5,000 litres per month of water supplied to a residential dwelling by the Water Utilities Corporation (with exceptions).

Exempt supplies include:

- Prescription drugs and condoms;
- Residential accommodation;
- Education at approved institutions;
- Public medical services;
- Non-fee based financial services;
- Passenger transport (excluding the transportation of tourists)
- Donations and grants;
- Farm implements.

VAT tax returns must be filed on or before the 25th of the month following the end of the tax period.

- Late VAT returns penalty: The greater of BWP 50 per day or 10% per month or part thereof of the tax due.
- Late payment of VAT: Compound interest at 1.5% per month or part thereof on both outstanding tax, penalties and interest charged
- VAT refunds: Interest at 1% per month or part of a month is payable if the refund is not made within two calendar months from the due date of the return (1 month for IFSC companies, approved manufacturers and exporters)

LOCAL TAXES

There are no local, provincial government or state taxes on income in Botswana.

B. DETERMINATION OF TAXABLE INCOME

Income tax is charged on the gross income (i.e. the total amount in cash or otherwise, excluding exempt income or any amount of a capital nature) of all companies and businesses which is received or accrued from sources within Botswana or from sources deemed to be in Botswana, less any allowable deductions.

Normal business expenses wholly, exclusively and necessarily incurred in the production of assessable income are allowed as deductions for tax purposes.

CAPITAL ALLOWANCES

Capital allowances are deductible

Heavy plant or machinery used in construction	25%
Motor vehicles and aircraft	25%
Plant and machinery used directly in manufacturing or production	15%
Other plant or machinery including farming equipment	15%
Computer hardware	25%
Computer software – off the shelf	100%
Furniture and fittings including soft furnishings	100%
Industrial buildings: Initial allowance Annual allowance	 25% 2.5%
Commercial buildings	2.5%
Farm buildings, improvements, water suppliers and other farm capital works	100%

DISALLOWED EXPENSES

Standard disallowable expenditure exists which is not deductible from taxable profits such as donations, general provisions, school fees, etc.

CAPITAL GAINS AND LOSSES

Capital gains are taxed at a rate of 22%. Capital losses may be offset only against capital gains in the year in which the loss is incurred and in the following year. However, for farming businesses, unutilized losses from farming (excluding allowances granted in respect of development expenditure) in the year of disposal of the farm and the five preceding years are deductible in computing capital gains

LOSSES

Company tax losses (except farming, mining and prospecting losses) can only be carried forward for five years and if not utilised within five years they are lost. Farming, mining and prospecting losses can be carried forward indefinitely until utilised by set off against available taxable profits arising in subsequent periods.

FOREIGN SOURCE INCOME

Tax is levied on income from a source within Botswana or a source deemed to be within Botswana. Similarly, only capital gains arising in Botswana or deemed to arise in Botswana are subject to tax in Botswana. Therefore, all foreign-sourced income or capital gains that are not otherwise deemed also to be derived from a Botswana source, are not subject to tax in Botswana.

C. FOREIGN TAX RELIEF

Unilateral relief is available, the method being an ordinary credit, i.e. the lesser of the foreign tax paid and the tax charged under domestic income tax law. In other words, the foreign tax credit allowed is equivalent to the proportion of the domestic tax which the foreign-sourced income bears to the taxable income for the tax year. Treaty relief is mandatory

D. CORPORATE GROUPS

There are no generally applicable group consolidation rules in Botswana.

E. RELATED PARTY TRANSACTIONS

There are no specific transfer pricing nor CFC (Controlled Foreign Companies) rules in Botswana.

F. WITHHOLDING TAX

Payment	Resident Rate	Non- Resident Rate	Final / Advanced
Interest	10%	15%	Final for residents / Advanced for non-residents
Dividends	7.5%	7.5%	Final
Commercial Royalties	-	15%	Final
Management and consultant fees	-	15%	Final
Entertainment fees	-	10%	Final
Construction	3%	3%	Advanced
Mine rehabilitation	10%	10%	Final
Rent	5%	5%	Advanced
Brokerage or commission	10%	10%	Advanced
Sale of cattle	4%	4%	Advanced

G. EXCHANGE CONTROL

There are no exchange control restrictions.

H. PERSONAL TAX

Botswana citizens are taxed on their worldwide income whereas non-citizens are only taxed on income generated in Botswana. Employment Income includes salaries, wages, terminal payments, directors and other fees, bonuses, commissions, allowances and the value of benefits. Employment income from, or deemed to be from a source within Botswana is taxable in Botswana All employment income, including benefits in kind, is subject to monthly withholding tax (PAYE).

Exemption and Tax Free Benefits for Individuals:

- The value of contractual travel benefits for employees and their families;
- Medical fund contributions and medical attention paid for by the employer;
- Contractual terminal gratuities payable to expatriate employees are exempt to the extent of one-third Bank and building society interest of BWP 7,800 per annum, for resident individuals;
- Severance pay and certain gratuities payable to citizen employees are exempt to the extent of one third;
- Investment of such payments directly into an approved pension or retirement annuity fund results in 100% exemption;
- Retrenchment package: one third or BWP 36,000 whichever is greater is exempt.

Benefits Valuation:

- Housing: 10% of municipal valuation or 8% of current capital valuation, (BWP 250 × floor area);
- Use of employer's furniture: 10% of the excess over BWP 15,000 of the cost to the employer;
- Loans: Difference between the concessionary rate interest and the prime lending rate announced by the Bank of Botswana on 1 July of the tax year;

- Other benefits such as school fees and utilities: Cost to the employer or market value, whichever is the greater.

B

Business and employment income rates:

BWP 0 – BWP 36 000	BWP 0
BWP 36 001 – BWP 72 000	BWP 0 + 5% of excess over BWP 36,000
BWP 72 001 – BWP 108 000	BWP 1,800 + 12.5% of excess over BWP 72,000
BWP 108 000 – BWP 144 000	BWP 6,300 + 18.75% of excess over BWP 108,000
Over BWP 144 000	BWP 13,050 + 25% of excess over BWP 144,000

Individuals are subject to a progressive capital gains tax rate up to a maximum rate of 25% applied to gains in excess of BWP 144,000.

From (BWP)	To (BWP)	Tax liability
0	18,000	0%
18,001	72,000	BWP 0 + 5% of excess over BWP 18,000
72,001	108,000	BWP 2,700 + 12.50% of excess over BWP 72,000
108,001	144,000	BWP 7,200 + 18.75% of excess over BWP 108,000
144,001	---	BWP 13,950 + 25% of excess over 144,000

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)	Interest (%)	Royalties (%)	Management, consultancy and technical fees (%)
Domestic rates				
Companies	7.5	0/15	0/15	
Individuals	7.5	15	15	
Treaty countries				
Barbados	5/7.5[2]	10	10	10
France	5/7.5[2]	10	10	7.5
India	7.5[3]	10	10	10
Ireland4	5[5]	7.5	5/7.5[1]	7.5
Mauritius	5/7.5[2]	12	12.5	15
Russia	5/7.5[2]	10	10	10
Seychelles	5/7.5[2]	7.5	10	10
South Africa	7.5[3]	10	10	10
Sweden	7.5[3]	15	15	15
United Kingdom	5/7.5[2]	10	10	7.5
Zambia	5/7[6]	10	10	10
Zimbabwe	5/7.5[2]	10	10	10

Notes:

1. The lower rate applies to industrial, commercial and scientific equipment royalties, the higher rate to other cases.
2. The 5% rate applies if the beneficial owner is a company which holds directly at least 25% of the capital

of the paying company. The domestic 7.5% rate applies in all other cases because the treaty rate is higher than the domestic rate.

3. The domestic rate of 7.5% applies because the treaty rate is higher than the domestic rate.
4. The treaty is effective from 4 March 2016 (withholding taxes) and 1 July 2017 (other taxes).
5. The treaty rate is lower than the domestic rate so the former prevails.
6. The 5% rate applies if the beneficial owner is a company which holds at least 25% of the capital of the dividend-paying company. The 7% treaty rate applies in all other cases as it is lower than the domestic rate so the former prevails.

BRAZIL

MEMBER FIRM

City	Name	Contact Information
São Paulo	Paulo Crepaldi	+55 11 4890 1270 +55 11 9 8577 0252 paulo.crepaldi@pkfbr.com

BASIC FACTS

Full name:	Federative Republic of Brazil
Capital:	Brasilia
Main languages:	Portuguese
Population:	210.57 million (2018 estimate)
Monetary unit:	Brazilian Real (BRL)
Internet domain:	.br
Int. dialling code:	+55

KEY TAX POINTS

- Corporate income tax (CIT) is charged at a set rate of 15% plus a surcharge of 10% on profits over a set level, and there is also a social contribution tax on profits charged at a rate of 9% for legal entities in general or at 15% in case of legal entities considered to be financial institutions, private insurance and capitalization.
- Most companies with prior year revenue below a prescribed amount can, under certain circumstances, choose to pay income tax and social contributions calculated under the 'presumed profit method'.
- Other federal taxes include fringe benefits tax, social security contributions (COFINS), social integration program contribution (PIS), payroll tax including employer social security contributions (INSS), value added tax on sales and transfers of products manufactured in or imported into Brazil (IPI), financial operations tax (IOF), and rural real estate tax (ITR).
- Municipal taxes include Services Tax (ISS or ISSQN), and estate transfer tax (ITBI) payable at a rate of up to 4% on inheritances and donations of properties and rights, and a services tax is imposed by many cities, with rates varying substantially between municipalities.
- Profits and gains from foreign sources are taxable in Brazil. Tax credits are available to relieve double taxation subject to a maximum of the Brazilian tax payable on the income.
- Almost all remittances (except for dividends) to companies or persons domiciled abroad are subject to withholding tax.
- Taxes payable by individuals include personal income tax, social security tax and gift and inheritance tax.
- Brazilian resident individuals are taxable on their worldwide earnings, as well as gains on the disposal of worldwide assets and rights.

- Personal income tax is withheld at source (at progressive rates from 7.5% to 27.5%).
- Capital gains arising other than out of financial instruments are subject to income tax at 15%. As from 2017 tax rates applicable to capital gains are as follows:
  - 15% up to BRL 5 million;
  - 17.5% from BRL 5 million to BRL 10 million;
  - 20% from BRL 10 million To BRL 30 million;
  - 22.5% up to BRL 30 million.

A. TAXES PAYABLE

CORPORATE TAX

There are three different methods to calculate corporate income tax (CIT): the actual profit method (Lucro Real), the presumed method (Lucro Presumido) and the arbitrated method (Lucro Arbitrado).

ACTUAL PROFIT METHOD

The Actual Profit Method called "Lucro Real" is the method whereby the taxpayer pays CIT called "IRPJ" based on its actual taxable income, after computing all income, gains and tax deductible costs and expenses, including net operating losses of prior years. The taxpayer is required to maintain current and accurate accounting and tax books and records, and also corresponding supporting documentation. Failure to maintain accurate accounting and supporting documentation may lead to disallowance of an expense requiring it to be added back to taxable income.

In general, taxable income must be recognised monthly following the accrual basis criteria and subject to IRPJ. The tax return must be filed annually. Corporate taxable income is taxed under a unitary system whereby a single tax rate is applied. This rate is 25%, being 15% plus 10% on pre-tax profits over BRL 240,000 annually. Corporate income tax is generally computed on a calendar year basis. However, payments are made monthly on estimated advance taxes. Social Contribution on Net Profit called "CSL" is another federal tax and is calculated on pre-tax profits. The rate is 9% computed on an annual or quarterly basis. Calculations and payments are made monthly as estimated advance taxes. Both taxes on profits add up to 34% (25% plus 9%).

PRESUMED PROFIT METHOD

The Presumed Profit Method called "Lucro Presumido" is a simpler IRPJ calculation method that allows the taxpayer to pay income tax and CSL based only on its quarterly gross revenues. That means that costs and expenses are irrelevant to determine IRPJ and CSL liability at the end of the quarter. Due to its simplicity, Lucro Presumido is more suitable for small and medium-sized businesses not to mention the method's limitations and restrictions of use by large companies. Companies with prior year revenue of up to BRL 78 million can choose, under certain circumstances, to pay income tax and social contributions under the Presumed Profit Method, which is calculated as a percentage of the quarterly gross revenue on a cash basis.

Under Lucro Presumido IRPJ is calculated quarterly and, for most activities the presumed profit margin is 8% of monthly gross income corresponding to sales operational activities and 32% to services revenues, and depending on the specific industry other rates apply. Based on the presumed net income resulting from the application of the profit margins on gross income a 15% IRPJ rate applies while net income in excess of BRL 60,000 per quarter is subject to an IRPJ surtax of 10%, similar to the "estimated" calculation for Lucro Real.

ARBITRATED PROFIT METHOD

Lucro Arbitrado applies to only a few situations, most of them related to inaccuracy or unreliability of the taxpayer's accounting records (under Lucro Real). It is an extreme tool used by the tax administration to determine unilaterally and ex officio the taxpayer's taxable income and IRPJ due. Lucro Arbitrado has also consequences for other federal taxes, in particular CSL, PIS and COFINS because they are determined based on the taxpayer's accurate gross income.

FRINGE BENEFITS TAXATION

Companies participate mandatorily in different forms of social security obligations to federal agencies. These either directly or indirectly benefit pension programs, working time compensation, social work assistance and health programs, among others. All contributions are deductible for corporate income tax purposes.

PROGRAM FOR SOCIAL INTEGRATION CONTRIBUTION (PIS)

PIS is a federal social contribution levied on taxpayers' monthly gross income. PIS has been subject to several changes, many of them creating separate PIS regimes depending on the taxpayer's business or income tax calculation method. There are two basic PIS regimes dependent on the corporate income tax method elected by the taxpayer (Lucro Presumido or Lucro Real): the cumulative and the non-cumulative regime.

These contributions are payable each month as a fund to employees. This is calculated based on 1.65% of monthly gross revenue. The PIS rate is generally 1.65% of the monthly sale, in a non-cumulative way. It means, deductions are allowed in respect of services and material costs applied in companies' operating activities. For companies that choose to be taxed by the Presumed Profit Method, PIS will be

0.65% of the monthly sale in a cumulative way, without the aforementioned allowed deductions.

CONTRIBUTION FOR THE FINANCING OF SOCIAL SECURITY (COFINS)

COFINS is also a federal social contribution levied on the corporate taxpayer's monthly gross income. COFINS also has three basic tax regimes: the cumulative, the non-cumulative (created in 2004) and the single-phase regime. The COFINS tax rate under the cumulative regime is 3%, while the rate is 7,6% under the non-cumulative regime. Rates under the single-phase regime vary from business to business.

Although regulated by different laws, PIS and COFINS regimes, whether cumulative or non-cumulative, are almost identical. For cumulative COFINS the difference is basically the rate (3% for cumulative COFINS and 0.65% for cumulative PIS). Companies under the Lucro Presumido pay COFINS according to the cumulative regime, i.e. at the rate of 3% with no COFINS tax credit available.

PAYROLL TAX

This is a monthly obligation for social security and other funds levied on payroll.

Tax	Rate
Social Security (INSS)	20%
Accident Insurance (SAT)	1% to 3%
Employee Indemnity Guarantee Fund (FGTS)	8%
Education Fund (SE)	2.5%
Other	3.3%

Employees contribute monthly to the social security system at rates from 8% to 11% on a progressive-scale base salary taking into account a maximum base salary of BRL 5,531.31. Federal law obliges companies to distribute part of their annual net income to employees. Participation is negotiated by each company and disputes are settled by arbitration. Amounts distributed are deductible for corporate income tax purposes and not subject to social security.

The Brazilian Government changed the criteria for companies in some business sectors to calculate the collection of INSS. Basically, the law changed the basis for calculation of INSS from 20% under payroll salary to apply 4.5% or 2% under revenue generated monthly by the companies which are subject to the new rules. According to Law 12.546/2011 and 13.161/2015, companies that render IT services, technologies, and hotels will be subject to contribute 4.5% of their monthly gross revenue except for call centres that increase to 3%. Companies that manufacture fluids for hydraulic brakes, plastic, clothing and accessories, fur, leather, silk, wool, rugs and other coatings to floors, hats and artefacts of similar use, machinery and appliances, pressure reducing valves, among others will be subject to contribute 2,5% of their monthly gross revenue.

LOCAL TAXES

STATE VALUE ADDED TAX (ICMS)

ICMS is a near Value Added Tax on sales of most goods and certain services. It is payable to state governments upon imports of goods into Brazil and sales or transfers of goods within Brazil. It is also payable upon supply of electricity, the provision of interstate and inter-municipal transport services and communication services. ICMS is levied on the sale or physical movement of goods, freight, transportation, communications services and electric energy. Intrastate transactions are taxed at 18%, interstate transactions are taxed at 7% or 12%, and most imports are taxed at a rate between 18% and 25%. The lower rates are normally charged on transfers to less developed states. Some states offer rate reductions or later payment dates as a tax

incentive for the installation of factories. Communication services are taxed at a rate between 13% and 25%.

As of 1 January 2013, the ICMS rate for interstate transactions involving imported goods is at 4% (instead of the standard 7% or 12%) subject to certain conditions. The new tax rate, established by Senate Resolution no 13/2012, aims to eliminate unfair competition among Brazilian states to encourage customs clearance (and, thus, ICMS revenues) of imported goods even when the goods are destined for another state.

REAL ESTATE TRANSFER TAX (ITBI)

ITBI is the municipal real estate transfer tax that applies on most onerous transfers of real estate. The tax is payable upon each and every taxable transfer of real estate property. Rates vary according to the actual value of the relevant transaction, or the recipient party value of property (as determined by the municipal tax administration), whichever is higher. The Constitution allows ITBI rates to be progressive according to the value of the property. It also allows the application of different rates according to the location and destination of the relevant property average. The ITBI rate is 2% in most municipalities.

SERVICES TAX (ISS OR ISSQN)

ISS is the municipal tax levied on the provision of services of any kind by taxpayers located within the jurisdiction of a given municipality. ISS can also include services rendered within the boundaries of a given municipality even though the services provider is located in another municipality.

The ISS rates vary from municipality to municipality, but rates cannot be lower than 2% and not exceed 5%. The minimum 2% tax rate for ISS was established businesses to their jurisdictions. But some municipalities bypass this minimum 2% rate by granting other incentives that reduce the ISS overall tax burden, such as tax base reductions. The tax applies to the taxpayer's monthly services gross income and is payable on a monthly basis. The ISS also applies to imported services.

OTHER TAXES

TAX ON MANUFACTURED PRODUCTS (IPI)

IPI is a federal excise tax levied on manufactures products as they leave the plant where they have been manufactured. It also applies to imported products at the time of importation and the first resale of the imported product by the importer. IPI is not levied on exports. IPI tax rates vary depending on the products: the more essential the lower the rates. The rates are listed per tariff code in the IPI Table called "TIPI", which uses the Mercosur Common Tariff (NCM) as a basis.

The exports (export of manufactured products) are exempt from IPI. Imports of goods (raw material and products) are normally taxed at the same rate as Brazilian-made products. Rates change frequently. For imported goods or products, the IPI (and other taxes due) must be collected upon customs clearance of the goods or products.

IMPORT TAX

The import tax is a federal tax due upon customs clearance of the imported products, usually pursuant to an ad valorem tax rate. The tax rate varies according to the tariff classification of the imported goods under the Mercosur Common Tariff (NCM), as described above in section IPI (Tax on Manufactured Products). The tax base is the sales price shown in the commercial invoice issued in the country of origin. However, during customs clearance procedures, the administration has discretionary powers to reject the transaction price if there is evidence that it is not the market value. A review of the sales price is usually based on international customs valuation rules.

FINANCIAL OPERATIONS TAX (IOF)

IOF is a federal tax that generally applies to different types of transactions such as loans and credit operations, insurance policies and foreign exchange operations for certain services rendered. IOF regulations are extensive and change constantly. The tax is mainly used as an instrument of economic policy to regulate the credit, currency exchange, insurance, and securities markets rather than to generate tax revenues.

CONTRIBUTION FOR INTERVENTION IN THE ECONOMIC DOMAIN (CIDE)

The government introduced a special contribution in the year 2000. Brazilian legal entities that license, purchase or otherwise acquire technological knowledge must pay a special contribution of 10% on activities such as: trademarks, technical services assistance, administrative services and any royalty payments. Based on the law in force, CIDE must even be paid on activities that do not involve the transfer of technology.

TAX ON FUEL (CIDE)

The CIDE will be paid monthly on the import and export of petroleum, derived and natural gas, and fuel alcohol. The rate will be based on the value in Reals of the cubic meters or tons of fuel.

RURAL REAL ESTATE TAX (ITR)

Property taxation of rural and urban land receives a different tax treatment. Urban land is subject to the municipal real estate ownership tax called IPTU and rural land is taxable by ITR. The definition of land as rural or urban is then relevant because it determines the competent authority to levy tax on property ownership. Classification stems from exclusion: when land is considered to be urban it will be subject to IPTU while if it is not considered to be urban it will be treated as rural for tax purposes and will consequently be subject to ITR.

The basic rate is calculated annually based on certain premises on assessed property values and depending on the stage of use and exploration of the property. Very small properties are exempt and the maximum rate applied corresponds to 20% of the land value without any improvements.

B. DETERMINATION OF TAXABLE INCOME

IFRS - INTERNATIONAL FINANCIAL REPORTING STANDARDS

Brazil adopted the IASB's International Accounting Standards in 2008 on a gradual basis and the full IFRS since 2010. As a consequence, there are several important changes to Brazilian accounting practices, the most important of which is that these new accounting practices are required not only in consolidated financial statements but also in the individual financial statements (Law 11638/07). These include the recognition of leasing transactions, depreciation treatment, the recognition of intangible assets, the impairment concept etc.

Taxable income is generally computed in accordance with accounting rules and tax legislation (i.e. accounting profits adjusted for tax purposes), subject to certain exceptions. Brazilian GAAP were adjusted in 2007 in order to be aligned with IFRS. Law 12.973/2014 of 13 May 2014 dealt with the tax effects arising from the changes to the new accounting standards (previously, a transitory regime applied, in which legal entities could use old accounting rules for tax purposes). According to this Law, as from 2015 legal entities must observe the new accounting standards also for tax purposes (and no longer apply the transitory regime), unless regulated otherwise by the law. In view of this, Law 12.973/2014 brought into force relevant changes to tax legislation concerning the assessment of CIT, PIS and COFINS, the tax treatment of dividends, interest on net equity, the equity pick-up (método de equivalência patrimonial) and tax amortization of goodwill, among other things.

DEPRECIATION

Fixed assets shall be depreciated over their estimated useful lives for accounting purposes (IFRS). For tax purposes, the straight-line method is usually adopted, using the following annual rates: buildings 4%; machinery and equipment 10%; vehicles 20%; IT equipment 25% etc. Assets subject to depletion (mines, quarries, etc.) may be amortised proportionately to the units extracted in each period.

STOCK / INVENTORY

The cost of goods sold for production is generally valued using the weighted average cost method, although the FIFO (first in, first out) basis may be elected. The method adopted determines the basis for the valuation of closing inventory.

DIVIDENDS

Brazil follows a dividend exemption system. Amounts distributed to shareholders resident in Brazil or abroad (since the investment is registered at the Brazilian Central Bank (BCB)) are not subject to withholding tax.

INTEREST DEDUCTIONS

There is a limitation on interest expenses to be deductible:

a) Loan from non-resident companies (thin capitalisation); and,

b) Loan from abroad must be registered at Central Bank of Brazil (transfer pricing).

Interest due must be at fair market value and necessary to business activities and will be subject to withholding tax on an accrual basis. The calculation of interest on a partner's or shareholder's capital (JCP) is allowed. However, for remittances if it is considered to be a dividend (it means the Brazilian Co needs to be profitable). The interest is deductible for income tax and social contribution purposes up to the limit of the official long-term interest rate (TJLP). Profits for the current period or previous periods must be at least double

the value of the interest to be distributed. Interest is subject to a 15% withholding tax. Interest should be paid or possibly capitalized.

B

Thin capitalization

Brazil has thin capitalization rules in force since 2010 that limit the ability for corporate taxpayers under "Lucro Real" to fully deduct interest expenses associated with loans contracted with foreign related parties or parties domiciled in low tax jurisdictions and/or under a favourable tax regime in a foreign location. Such law states a limitation for corporate income tax purposes related to deductible interest, accrued or paid, in favour of a foreigner not resident in a tax haven. Under the rules, interest paid to related parties that are not located in a tax haven jurisdiction or that do not benefit from a preferential tax regime may be deducted on an accrual basis for corporate income tax purpose only:

- If the expenses are necessary for the company's activities; and,
- Both of the following thresholds are met:
  a) The related party debt-to-equity ratio does not exceed 2:1 (calculated on the proportion of related party debt to direct equity investment made by related parties); and,
  b) The overall debt-to-equity ratio does not exceed 2:1 based on the proportion of total debt to total direct in investment made by related parties.

If the debt payable to the non-resident investor exceeds the above ratios, then the excess portion of the interest expense payable by the Brazilian subsidiary is not deductible for the purposes of corporate income taxes.

In addition, interest payable by a Brazilian entity to a non-resident creditor (related or not) domiciled in a low-tax jurisdiction or benefiting from a privileged tax regime may be deducted for the purposes of corporate income taxes only if the interest expense is necessary for the company's activities and the amount of the Brazilian entity's indebtedness to all entities located in low-tax jurisdictions or benefiting from privileged tax regimes does not exceed 30% of the equity of the Brazilian borrower.

If the debt payable to the non-resident creditor exceeds the above ratios, then the excess portion of the interest expense recognized by the Brazilian subsidiary is non-deductible.

Finally, thin capitalization rules also apply to transactions where a non-related financial institution is used as a mere intermediary between the Brazilian company and its related party domiciled abroad. However, loan transactions entered into between two Brazilian related residents are not subject to thin capitalization rules, even if the guarantor, attorney-in-fact or any intervening party is a related party domiciled abroad or a resident of a low-tax jurisdiction or of a country with a privileged tax regime.

TAX LOSSES CARRIED FORWARD

Tax losses can be carried forward to offset against future profits of up to 30% of the real profits arising in each period (year). Losses that are offset may be carried forward indefinitely. There are restrictions on losses transferred as a result of a company merger or where there is a change in the control and activity of the loss generating company. Loss carry-back is not allowed.

INCENTIVES

Brazil offers incentives through the reduction of domestic taxes or exemption from withholding tax in the forwarding of royalties or commissions on international financing. In addition to incentives for exports, there are incentives for the implementation of industrial units in specific regional areas.

ROYALTIES AND TECHNICAL ASSISTANCE EXPENDITURES

Royalties are deductible expenses but are restricted to between 1 % and 5% of sales revenue for companies that make cross-border trademark and patent royalty payments. Expenditure incurred in the creation of patents and manufacturing formulas and processes are considered capital intangible assets and are amortised over the life of the asset. This is also true for trademarks, whereas copyright, software, and franchising are generally deductible from operational results if they are related to the activities of the company.

Technical, scientific and administrative expenditures and royalties paid to foreign companies which have direct or indirect control of the Brazilian company are deductible if the contracts are duly registered with the Brazilian Institute of Industrial Property (INPI) and with the Brazilian Central Bank (BCB). There are no restrictions for the remittance of these monies abroad. However, some remittances of funds abroad are subject to 15% withholding tax and 10% CIDE or only 25% withholding tax, depending on the case.

C. FOREIGN TAX RELIEF

Unilateral relief is granted to corporate taxpayers by means of an ordinary foreign tax credit system.

Taxes paid abroad on income directly derived by the Brazilian resident taxpayer may be claimed as a credit against domestic tax liability. This foreign tax credit is limited to the amount of domestic tax that is imposed on the foreign-sourced income. For these purposes, the Brazilian tax liability includes both IRPJ and CSLL. The Brazilian tax administration holds the position that resident entities opting for the presumed profit regime of taxation (Lucro Presumido) and directly providing services abroad are not allowed to offset taxes paid abroad with taxes paid in Brazil. However, this exclusion does not apply if the service is provided within countries with which Brazil has signed a double tax treaty where the elimination of international double taxation is agreed upon through the use of the credit method, without restrictions connected to the taxation regimes opted by the taxpayer in Brazil.

An ordinary foreign tax credit is available in respect of the tax on profit distributions by foreign subsidiaries, if any, and the underlying tax paid by the distributing subsidiary in the jurisdiction where the foreign entity is located.

D. CORPORATE GROUPS

For tax purposes, consolidation of affiliated companies is not allowed. Losses can only be offset against profits of the same company. However, Law 12.973/2014 introduced a special treatment applicable until 2022 where positive and negative results (excluding foreign exchange results) by foreign entities controlled by Brazilian legal entities may be consolidated for purposes of application of the Brazilian CFC rules, subject to certain conditions.

E. RELATED PARTY TRANSACTIONS

Since 1997 Brazil has transfer pricing rules in place to prevent undue allocation of income in international transactions between related parties. The system adopted is one of determining the maximum amounts of deductible expenses, and the minimum amount of taxable income, for Brazilian companies engaged in transactions with related parties outside of Brazil or non-resident parties domiciled in a listed low-tax jurisdiction or under a listed favourable tax regime. Domestic transactions are not subject to transfer pricing regulations as they are governed by other anti-avoidance rules.

As opposed to other countries, where the arm's length principle and comparable prices are the rule, the Brazilian rules take another direction by basically establishing fixed formulas to determine the accepted transfer price. Although Brazil does not completely ignore comparable prices or the arm's length principle, it does limit its application by setting accepted standards for their application.

Brazil established a transfer pricing system for imports with affiliated companies of goods, services and rights acquired abroad. The prices are based on three methods: Comparative Independent Price (PIC), Resale Price Less Profit (PRL), or Production Cost Plus Profit (CPL) and Commodities Price Method (PCI). The same system applies to exports to non-resident related parties, with the following methods: Export Revenues Method - PVEx, Country Destiny Price of exports revenue Method - PVA and PW, Cost Acquisition or Manufacture plus Tax and Profit - CAP also known as Method of Price Under Quotation on Export ("PECEX"), which is briefly defined as the average amounts of the quotation of assets or rights subject to public prices in internationally recognised commodities and future exchanges.

Since the end of 2012, Brazil has been changing some of the methods applicable to Transfer Pricing on imports and also creating additional methods. Basically, PRL presumed profit margin was changed from 60% to 40%, 30% and 20% depending on the business sector in which companies operate. According to the Federal Law 12.715/2012, two new methods were established, one applicable to imports and other applicable to exports. In accordance with the method applied, the hprice is defined as the average daily amount of assets or rights subject to public prices in internationally recognised commodities and future exchanges.

The taxpayer must disclose transfer pricing methods in its annual tax return and eventually prove that the corresponding costs, expenses and charges that exceed the elected transfer pricing method must be added back as taxable income and be subjected to the IRPJ and CSL.

Country-by-Country Reporting (CbCR)

Normative Instruction 1.681/2016 provides for the obligation of submitting CbCR by the ultimate holding of multinational groups which is a resident for tax purposes in Brazil and whose economic group has generated consolidated revenue exceeding BRL 2.26 billion or EUR 750 million in the tax year prior to the tax year of the report. Through the CbCR, the Brazilian tax authorities will have access to information aggregated by each jurisdiction in which the multinational group operates:

B

- Consolidated revenues, segregating those obtained in transactions with related and unrelated parties;
- Income or losses before income tax;
- Income tax and, in the case of Brazil, also the amount of CSLL paid;
- Retained earnings;
- Capital stock;
- Income tax due;
- Number of employees, workers and other associates;
- Tangible assets other than cash and cash equivalents.

In addition to this, the reporting entity shall identify each entity that is a member of the multinational group, its jurisdiction of residence for tax purposes, the place of incorporation (only when the tax residence does not correspond to the place of incorporation) and the nature of its main economic activities. Multinational companies that are obliged to submit CbCR must provide information from the economic group to the Brazilian tax authorities, who will exchange this information with the other countries under the Multilateral Agreement of Competent Authority Agreement on the Exchange of Country-by-Country Reports, which was signed on 21 October 2016.

F. WITHHOLDING TAX

Almost all remittances (except dividends) to companies or persons domiciled abroad are subject to withholding tax. Interest, royalties and services paid to non-residents are generally subject to a 15% withholding tax unless when the beneficiary is resident of a low-tax jurisdiction in which case the rate is 25%.

G. EXCHANGE CONTROLS

The Central Bank allows the official exchange rate to float freely within periodically established bands but participation is restricted to authorised dealers. The bank intervenes when there are signs of speculative operations. There is an official tourist rate that ranges normally close to the commercial rate.

H. PERSONAL TAX

Brazilian resident individuals are taxable on their worldwide income, as well as gains on the disposal of worldwide assets and rights. An individual is resident in Brazil if he:

- Has an habitual residence in Brazil;
- Works for a Brazilian government department or agency outside Brazil;
- Enters Brazil under a permanent visa;
- Enters Brazil under a temporary visa to work and remains in Brazil for more than 184 days within a 12-month period.

All personal income in general is subject to tax at progressive rates from 0% (monthly taxable income not exceeding BRL 1,903.98) to 27.5% (monthly taxable income exceeding BRL 4,664.68). Payments are made monthly and a personal income tax return is filed annually. Capital gains that do not arise from financial investments are subject to income tax at 15%.

I. TREATY AND NON-TREATY WITHHOLDING RATES

	Dividends(%)		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	0	0	0/15/25	15/25
Individuals	0	0	0/15/25	15/25
Treaty countries:				
Argentina	--[1]	--[1]	--[1]	--[1]
Austria	15	15	15[11]	10/15/25[18]

Belgium	15	10[3]	10/15[11, 12]	10/15/20[17]
Canada	--[1]	15[4]	10/15[11, 12]	15/25[16]
Chile	15	10[5]	15	15
China	15	15	15[11]	15/25[16]
Czech Republic	15	15	10/15[11, 14]	15/25[16]
Denmark	25	25	15[11]	15/25[16]
Ecuador	15	15	15[11]	15/25[16]
Finland	10	10	15[11]	10/15/25[17]
France	15	15	10/15[11, 12]	10/15/25[17]
Hungary	15	15	10/15[11, 15]	15/25[16]
India	15	15	15[11]	15/25[16]
Israel	15	10[5]	15[11]	10/15[16]
Italy	15	15	15[11]	15/25[16]
Japan	12.5	12.5	12.5[11]	12.5/15/25[19]
Korea	15	10/15[6]	10/15[11, 12]	10/15/25[20]
Luxembourg	25	15[4]	10/15[11, 12]	15/25[21]
Mexico	15	10[7]	15[11]	10/15[22]
Netherlands	15	15	10/15[11, 12]	15/25[16]
Norway	--[1]	--[1]	--[1]	15/25[16]
Peru	15	10[8]	15[11]	15
Philippines	25	15[2]	15[11]	15/25[21]
Portugal	15	10[9]	15[11]	15
Russia25	15	10[24]	15	15
Slovak Republic	15	15	10/15	15/25[16]
South Africa	15	10[5]	15[11]	10/15[16]
Spain	15	10/15[6]	10/15[11, 14]	10/15[23]
Sweden	25	25	15/25[11, 13]	15/25[16]
Turkey	15	10[10]	15	10/15[16]
Ukraine	15	10[5]	15[11]	15
Venezuela	15	10[5]	15[11]	15

Notes:

1. There is no reduction under the treaty, the domestic rate applies.
2. The lower 15% rate applies to dividends distributed to companies, including partnerships.
3. The lower rate applies to a direct participation of at least 10% of the capital.
4. The 15% rate applies to an equity percentage of at least 10%.
5. The 10% rate applies to participations of at least 25% of capital or voting power.
6. The general treaty rate is 15%, which is reduced to 10% for participations of at least 25% of capital under

the application of a most favoured nation clause (Brazil-Israel treaty).

7. The lower 10% rate applies to participations of at least 20% of voting power.
8. The lower 10% rate applies when the beneficial owner is a company controlling directly or indirectly at least 20% of voting power.
9. The 10% rate applies to participations of at least 25% of capital held for an uninterrupted period of 2 years prior to distributing the dividends.
10. The 10% rate applies to participations of at least 25% of capital.
11. Interest paid to the government of the other contracting state, a political subdivision thereof or an agency (including a financial institution) wholly owned by that government or political subdivision is exempt from tax.
12. The 10% rate applies to interest on certain bank loans with a minimum term of seven years.
13. The 25% rate applies if the recipient is an individual or a partnership, 15% in all other cases.
14. The 10% rate applies to interest on certain long-term (at least 10 years) bank loans.
15. The 10% rate applies to interest on certain long-term (at least 8 years) bank loans.
16. The higher rate applies to trademark royalties.
17. The general rate under the treaty is 15%. The 10% rate applies to copyright royalties (including films, etc.). The 20% rate applies to trademark royalties (the rate was reduced from 25% to 20% by a protocol that entered into force on 1 January 2008).
18. The general rate under the treaty is 15%. The 10% rate applies to copyrights royalties (excluding films, etc.). The 25% rate applies to trademark royalties.
19. The general rate under the treaty is 12.5%. The 15% rate applies to copyright royalties of cinematograph films, etc., and the 25% rate applies to trademark royalties.
20. The rates under the treaty are 25% for trademark royalties and 15% for other royalties which are reduced under the application of a most favoured nation clause: the rates for royalties are reduced to 15% for trademark royalties and to 10% for other royalties (Brazil-Israel treaty).
21. The 25% rate applies to trademark royalties and royalties for the use, or right to use, films, tapes etc. while the 15% rate applies to general royalties.
22. The rate under the treaty is 15%, which is reduced under the application of a most favoured nation clause to 10% for any royalties other than those from trademarks (Brazil-South Africa treaty).
23. The rate under the treaty is 10% for copyrights royalties (including films, etc.) and 15% for all other royalties which are reduced under the application of a most favoured nation clause: the rates for all types of royalties with the exception of trademark royalties are reduced to 10% while the rate for trademark royalties remains at 15% (Brazil-Israel treaty).
24. The 10% rate applies if the beneficial owner holds directly at least 20% of the total capital of the dividend-paying company.
25. Entry into force: 16 June 2017. Effective date: 1 January 2018.

BRITISH VIRGIN ISLANDS

MEMBER FIRM

City	Name	Contact Information
Road Town	Mead Malone	+1 284 494 2240 mmalone@pkfbvi.com

BASIC FACTS

Full name:	British Virgin Islands
Capital:	Road Town

Main languages:	English
Population:	31,649 (2018 estimate)
Monetary unit:	USD
Internet domain:	.vg
Int. dialling code:	+1

A. TAXES PAYABLE

COMPANY TAX

Income tax is zero rated in the British Virgin Islands and as such there is effectively no corporate income tax.

CAPITAL GAINS TAX

There is no capital gains tax in the British Virgin Islands.

BRANCH PROFITS TAX

There is no branch profits tax in the British Virgin Islands.

SALES TAX / VALUE ADDED TAX (VAT)

There is no VAT on the British Virgin Islands.

OTHER TAXES

HOTEL ACCOMMODATION TAX

Hotel Accommodation Tax is levied on all charges made to the person in respect of accommodation and all services rendered to the person by or on behalf of the proprietor. The tax base is the figure to which the tax rate is applied. The tax base is calculated by deducting the charges that are not associated with those made to the person in respect of accommodation, and all services rendered to the person by or on behalf of the proprietor from the gross amount collected for the month. The tax rate is 10%.

STAMP DUTY

Instruments to which stamp duty would typically apply include share transfers, charges over and transfers of real estate. The amount of stamp duty payable on a particular instrument will depend on the nature of the instrument.

CUSTOMS DUTY

Customs duties are levied on most goods imported into the British Virgin Islands at ad valorem rates, expressed as a percentage of the value of the goods. These rates range from 5% to 20%. Goods are valued at the open market price. Some categories of imports are exempt from customs duties, such as personal effects of returning residents and diplomatic personnel, specified drugs and medical equipment and aircraft servicing equipment and fuel, and certain raw materials for local manufactures.

REAL ESTATE TAX

The Property Tax Act establishes an annual tax on real property which is either, or a combination of, land tax and a building or house tax. British Virgin Islanders are liable for land tax at USD 10 for the first acre and at USD 3 for each additional acre.

Rates for expatriates are as follows: USD 50 on one half acre or less, USD 150 on more than one half acre but not exceeding one acre and USD 50 on each additional acre or part thereof exceeding one acre.

PAYROLL TAX

Payroll Tax is charged on actual remuneration paid, given or assessed by any employer or self-employed person, to every employee and deemed employee, plus any benefits derived by the employee, deemed employee or self-employed person as a result of his/her employment, whether paid in cash or kind. Payroll tax rates are as follows:

- The Class 1 employer and the class 1 self-employed person pay at a rate of 10% of the tax base.

- The Class 2 employer and the class 2 self-employed person pay at a rate of 14% of the tax base.

Effective 2007 employment income up to USD 10,000 is tax free.

B

SOCIAL SECURITY

Social security is deducted from all employment income to a maximum of USD 40,714 (insurable earnings) as follows:

- Private employees: 8.5% of insurable earnings (employers contribution 4% and employee 4.5%);
- Civil servants: 7.5% of insurable earnings (employers contribution 3.5% and employee 4%);
- elf-employed persons: 8.5% of insurable earnings;
- Voluntary contributors: 7% of earnings by the Board.

NATIONAL HEALTH INSURANCE

Employers are required to from insurable income (wages or salary) contribution rate of 7.5% (employer 3.75% and employee 3.75%). The maximum amount on which NHI premiums will be assessed, is two times the upper wage limit for social security contributions, which presently equals USD 6,716.68 per month. Therefore the maximum amount payable by employees and employers would be USD 251.87 each.

VARIOUS LEVIES

The following annual fees are levied on BVI companies. The fees vary by authorised share capital and by type of license.

Details	Annual Fees
Up to USD 50,000 or Foreign currency equivalent or authorised to issue up to 50,000 shares	USD 450 effective 1 January 2018
Exceeding USD 50,000 or foreign currency equivalent or authorised to issue more than 50,000 shares	USD 1,200 effective 1 January 2018
General banking license	USD 50,000
Restricted Class I bank license	USD 32,000
Restricted Class II banking license	USD 32,000
Insurance company license	Up to USD 10,000
Class I trust license	USD 16,000
Class II trust license	USD 14,000
Class III trust license	USD 12,000
Restricted trust license	USD 5,000

B. DETERMINATION OF TAXABLE INCOME

Not applicable.

C. FOREIGN TAX RELIEF

Not applicable.

D. CORPORATE GROUPS

Not applicable.

E. RELATED PARTY TRANSACTIONS

The British Virgin Islands do not have anti-avoidance legislation in force.

F. WITHHOLDING TAX

There is no withholding tax on interest, dividends or royalties paid by BVI companies. However the BVI (like other dependent territories) applies the European Union (EU) Savings Directive effective since 1 July 2005.

G. EXCHANGE CONTROL

Not applicable.

H. PERSONAL TAX

As income tax in the British Virgin Islands is zero rated, there is effectively no personal income tax in the British Virgin Islands.

Payroll tax is charged on every employer who carries on business on the British Virgin Islands in respect of:

- Remuneration paid by him to every employee; and
- Deemed remuneration paid by him to every deemed employee for services rendered by the employee or deemed employee wholly or mainly on the British Virgin Islands, whether or not the remuneration is paid on the British Virgin Islands. In addition, a self-employed person is liable to payroll tax on his deemed remuneration.

An employer may deduct and retain from the remuneration paid to an employee during any financial year 8% of the remuneration to cover the employer's payroll tax liability. However, no deduction may be made with respect to the first USD 10,000 of actual remuneration paid to an employee, deemed employee or self-employed person in any financial year.

A self-employed person is deemed to employ himself and to pay himself "deemed remuneration", which is the greater of his actual remuneration or his "notional remuneration". A self-employed person is an individual who carries on business, otherwise than as an employee, and benefits from income of the business, otherwise than by way of being paid actual remuneration.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

The British Virgin Islands have concluded double tax treaties with Australia, Denmark, Finland, New-Zealand, Norway, Sweden and the United Kingdom. In addition, the BVI has entered into tax information exchange agreements with Canada, China, Japan and the United States and with 22 European countries including France, Germany, Ireland, the Netherlands and the United Kingdom.

BULGARIA

MEMBER FIRM

City	Name	Contact Information
Sofia	Venzi Vassilev	+359 887 854 668 venzi.vassilev@pkf.bg

BASIC FACTS

Full name:	Bulgaria
Capital:	Sofia
Main languages:	Bulgarian
Population:	7.05 million (2018 estimate)
Monetary unit:	Bulgarian Lev (BGN)
Internet domain:	.bg
Int. dialling code:	+359

KEY TAX POINTS

- Corporate Income tax in Bulgaria is a 10% flat rate on the taxable profit.
- The standard VAT rate is 20%. There is a reduced rate of 9% for hotel accommodation services.
- Withholding tax is due on dividends, interest, royalties and various other types of income, when distributed to a non-resident entity.
- Bulgarian tax residents are taxed on their worldwide income. Non-residents are taxed only on their Bulgarian-sourced income.
- An inheritance received by the surviving spouse, children and their descendants is exempt. Various rates of inheritance tax apply to other relatives.

B

A. TAXES PAYABLE

COMPANY TAX

Corporate income tax in Bulgaria is levied at a 10% flat rate on taxable profits. Taxable entities are:

- Companies and partnerships established under Bulgarian law; and,
- Permanent establishments of non-resident entities in Bulgaria.

The taxable profit is the financial result adjusted for tax purposes. Accounting and reporting rules usually apply IFRS or use local Bulgarian GAAP (for small and medium-sized enterprises). The annual corporate tax return has to be submitted by 31 March of the following year. The tax year is the calendar year. The corporate tax also has to be paid by 31 March. Quarterly or monthly advance corporate tax instalments are due during the year.

Possibility to file a corrective annual corporate income tax return

Taxpayers are able to file a one-off corrective corporate income tax return in case of errors identified after 31 March of the following year and the submission of the regular corporate income tax return. The corrective return may be filed by 30 September of the following year.

The corrective procedures, which include the notification of the National Revenue Agency ("the NRA"), will continue to apply in all other cases.

The scope of events that may trigger a correction has increased. It will now include adjusting events within the meaning of the applicable accounting standards.

Mandatory electronic submission of returns as of 1 January 2018

As of 1 January 2018, taxpayers will be obliged to submit all returns under the Corporate Income Tax Act electronically. The discount granted so far for electronic submissions will be discontinued after 1 January 2018.

ONE-OFF TAX ON CERTAIN EXPENSES

Certain expenses paid to employees, or on behalf of employees, are subject to a one-off tax. Expenses subject to the one-off tax are "representative" expenses; social expenses provided in-kind to the employees (e.g. fringe benefits) except for food vouchers and voluntary insurance contributions (social, health and life insurance) up to BGN 60 each per employee per month; expenses related to personal use of company assets. The one-off tax rate is 10% on the above expenses. Both the respective expense and the one-off tax applicable to it are deductible for corporate income tax purposes. The taxes are due by 31 March of the following year.

CAPITAL GAINS TAX

Capital gains of companies are treated as ordinary trading income and are taxed at the corporate tax rate of 10%.

BRANCH PROFITS TAX

Branch offices of foreign registered companies are taxed as domestic entities.

There is no branch remittance tax in Bulgaria.

VALUE ADDED TAX (VAT)

The Bulgarian VAT legislation is based on the EU VAT rules and Directive 2006/112/ EC. The VAT rates are:

- 20% for domestic supplies, intra-community acquisitions and importation from non-EU countries; and,
- 9% for hotel accommodation services

Exemptions:

- With the right to deduct input VAT - intra-community supplies, export to non-EU countries, international transport of goods and passengers, certain supplies related to international transport, sale of duty free goods under certain conditions, certain transactions related to international trade, specific supplies under international treaties, etc.
- No right to deduct input VAT - transfer or rental of land or rights over land (except for building land and land adjacent to new buildings), the transfer of old buildings or parts thereof, rental for residential purposes to individuals (an option to tax these transactions is available); financial and insurance services; gambling; certain services related to health, education, religion, culture, etc.; other specific supplies (e.g., importation of certain goods and up to a certain limit).

VAT Registration:

Entities are obliged to register for Bulgarian VAT purposes if they have performed:

- Transactions with a place of supply in Bulgaria for which VAT should be charged by the supplier exceeding BGN 50,000 (approximately EUR 25,600) for the last 12 months;
- Intra-community acquisitions exceeding BGN 20,000 (approximately EUR 10,200) during the calendar year; or,
- Distance sales in Bulgaria exceeding BGN 70,000 (approximately EUR 35,800) during the calendar year; or,
- Businesses that are providing telecommunications, broadcasting and electronic services have to register for local VAT purposes if their customers are established in Bulgaria, subject to certain conditions. This is in accordance with the provisions of Directive 2008/8/EC, which establishes the rules concerning the place of supply of telecommunications, broadcasting and electronic services rendered to non-taxable persons within the EU.

Entities established in an EU Member State performing supply of goods with installation in Bulgaria to customers non-registered for VAT purposes are obliged to register irrespective of their taxable turnover. Foreign entities which receive services with a place of supply in Bulgaria for which the recipient has to self-charge Bulgarian VAT are also obliged to register irrespective of their taxable turnover. Any entity may apply for voluntary VAT registration. However, if voluntarily registered, such entity will not be able to deregister for two years following the year of registration.

VAT Returns and payment:

Monthly VAT returns are filed and the tax is due by the 14th of the following month. The tax period is a calendar month. European sales list (VIES) returns have to be filed monthly by the same deadline if intra-community supplies of goods or certain services have been performed during the respective month.

VAT Refund:

VAT can be refunded through a VAT return within:

- 2 months (period for carry forward and offsetting of input VAT against output VAT) and 30 days of filing the last VAT return (period for effective refund); or,
- 30 days of filing the VAT return for entities which have performed certain zero rated supplies exceeding 30% of the total turnover from taxable supplies for the last 12 months.

An investor in a large investment project which has received authorization by the Ministry of Finance can receive a refund within 30 days. The investor can also apply reverse charge for VAT on import of goods (without effective cash outflow). EU based foreign entities which are not registered and established for VAT purposes in Bulgaria can receive a refund of the local input VAT incurred for goods and services used for supplies with a place of supply outside Bulgaria. A specific procedure with the authorities of the EU Member State of establishment has to be followed. Non-EU based entities may be entitled to a refund on a reciprocal basis (i.e., if their country of tax residence provides the right to a VAT refund to Bulgarian entities).

Pro-rata VAT deduction in specific cases:

VAT-registered persons will be obliged to claim a pro-rata VAT credit for the acquisition of long-term assets, which will be used both for business and personal use. A VAT credit can be claimed only for the part used for economic activities. The pro-rata should be determined based on an allocation key, which guarantees the most precise calculation of the VAT which can be deducted.

The pro-rata deduction above is different from the existing proportional (partial) deduction. The latter applies when the acquired goods or services are used both for taxable and exempt services. For example, if the part of the long-term asset used for the economic activity of the entity is utilized both for taxable and exempt supplies, the taxable person will be entitled to claim a pro-rata VAT deduction, as well as a proportional (partial) VAT deduction.

There is a new definition of long-term assets for VAT purposes. It includes real estate, vehicles and other goods and services, which are or would have been long-term assets under the Corporate Income Tax Act with a value of BGN 5,000 (EUR 2,550) or greater.

Taxable persons will be able to claim a pro-rata VAT credit for the acquisition of goods and services, which are not or would not have been long-term assets, if these goods and services are used partially for personal needs or VAT exempt supplies. In this case, the taxable person could claim a VAT credit only for the part used

for taxable supplies. This part should be determined based on a reasonable method. If the taxable persons decide to use this option, they will not have to observe the rules for proportional (partial) deduction in respect of the same goods and services, when these are also used for exempt supplies.

B

LOCAL TAXES

REAL ESTATE TAX

Real estate tax is levied between 0.01% and 0.45% annually on the higher of the gross book value and the tax value of the immovable property (on the tax value for residential property). The exact rate is determined by the municipality in which the real estate is situated.

TRANSFER TAX

Transfer tax is levied between 0.1% and 3% on the higher of the sales price and the tax value of the transferred real estate/the insurance value of cars. The exact rate is determined by each municipality.

VEHICLE TAX

Vehicle tax is levied depending on the type and characteristics of the vehicle. It applies to cars, ships and airplanes. The tax rate is determined by each municipality within the ranges stipulated in the law.

DONATION TAX

Donation tax is levied between 3.3% and 6.6% on the value of the donation. The exact rate is determined by each municipality. Lower rates and exemptions apply to donations between relatives

INHERITANCE TAX

An inheritance received by a surviving spouse, their children and their descendants are exempt. The tax is between 0.4% and 0.8% on an inheritance exceeding BGN 250,000 (approximately EUR 128,000) in favor of brothers, sisters and their descendants (between 3.3% and 6.6% for other heirs). The exact rate is determined by each municipality.

TOURIST TAX

Tourist tax is levied between BGN 0.2 and 3 (approximately EUR 0.1 and 1.5) per night. The exact rate is determined by the municipality in which the accommodation facilities are located.

B. DETERMINATION OF TAXABLE INCOME

Profits include all income and capital gains. The taxable basis is the accounting profit adjusted for prescribed items. Broadly, expenses incurred wholly and exclusively for business purposes are deductible. The accounting profit is adjusted in accordance with the rules of the corporate income tax legislation, the most important of which are listed below.

DEPRECIATION

For tax purposes, the straight-line method is normally adopted. Assets purchased during the year should have the depreciation time apportioned.

Asset	Annual rate of depreciation (%)
Buildings, industrial facilities, communication devices and lines, electricity grid	4
Machinery, fittings and manufacturing equipment	30/50*
Vehicles, excluding automobiles; roads and airplane runways	10
Computers, software and rights of using software	50
Automobiles	25
Assets with limited term of use under contract or under legal obligations	100/years of use; not more than 33 1/3
All other depreciative assets	15

*Possibility to be 50% when new investment is made and the equipment is brand new.

INVENTORY

Inventory is generally valued at the lower of cost or market value. Cost may be determined on the basis of FIFO or average cost method.

CAPITAL GAINS AND LOSSES

In general, capital gains and losses are included in the trading income of companies, and in normal income for individuals, and taxed accordingly with the normal rates of corporate or personal income tax.

DIVIDENDS

Subject to 5% withholding tax when distributed to individuals, resident non-profit entities and non-residents (except for EU/EEA entities). Dividends distributed to resident companies are not included in their taxable income except for dividends distributed by:

- Special purpose investment companies; and,
- Non-EU/EEA foreign entities.

INTEREST DEDUCTIONS

Interest paid by a company is treated as an ordinary business expense unless it falls under the provision of thin capitalisation. Under the thin capitalization rules, if the debt-to-equity ratio of the company exceeds 3:1 (some of) the interest expense may not be tax deductible in the current year. However it may become tax deductible in the following five consecutive years subject to certain conditions.

LOSSES

Corporate tax losses can be carried forward over the next five consecutive years. Losses can not be carried back against profits of previous years.

FOREIGN SOURCED INCOME

The Bulgarian tax authorities levy taxes on resident companies on all profits arising from foreign sources in the same way as income from local sources.

INCENTIVES - TAX HOLIDAY

The amount of the annual corporate income tax due by entities on their profits from manufacturing, including toll manufacturing, may be partly or fully reduced. The application of the tax holiday is subject to certain limitations and conditions, including EU state aid restrictions.

EXEMPTIONS FROM CORPORATE TAX

Special purpose investment companies, collective investment schemes authorized for public offering in Bulgaria and national investment funds are not subject to corporate income tax.

C. FOREIGN TAX RELIEF

Bulgaria has some 70 international treaties for avoiding double taxation (see table below and comments in the "Withholding Tax" section below). Foreigners may also be exempt from social security contributions in Bulgaria or the contributions they make can be recognized in their home country under an applicable bilateral or multilateral social security agreement.

D. CORPORATE GROUPS

There is no group taxation for corporate income tax or for VAT purposes in Bulgaria.

E. RELATED PARTY TRANSACTIONS

The Bulgarian transfer pricing rules require that taxpayers apply arm's length prices in their related party transactions. This requirement is imposed both on cross-border and domestic transactions. Largely based on the 1995 OECD Guidelines, the Bulgarian transfer pricing rules envisage five methods for determining arm's length prices:

- The Resale Minus Method;
- The Comparable Uncontrolled Price Method;
- The Cost Plus Method;
- The Transactional Net Margin Method; and,
- The Profit Split Method

A taxpayer is obliged to prove the arm's length character of its related party transactions during a tax audit by applying one of the above methods. A transfer pricing manual released by the Bulgarian Revenue Administration in February 2010 mentions the items that would appear appropriate to be included in the documentation. The manual contains a set of other useful guidelines relating to different transfer pricing topics. For instance, with respect to intra-group services, the manual suggests specific profit mark-up ranges that have proved customary for Bulgaria.

F. WITHHOLDING TAX

Withholding tax is due on the following types of income when distributed to a non-resident entity:

- Dividends and liquidation quotas;
- Interest, royalties, franchising and factoring fees; exemptions apply to interest on bonds issued by EU/EEA entities, traded on regulated markets, and loan interests for loans provided by EU/EEA entities to local entities, where the EU/EEA entity has issued bonds in order to provide the loan, and these bonds are traded on a EU/EEA regulated market;
- Technical (including consultancy) and management services fees;
- Income from hiring out movable or immovable property;
- Capital gains from transfer of real estate;
- Capital gains from disposal of financial assets issued by resident entities or the State and municipalities (exemption for capital gains from disposal of shares on a regulated Bulgarian/EU/EEA market);
- Penalty or damages payments (except for insurance compensation) distributed to entities tax resident in low tax jurisdictions.

Withholding Tax Rates

- 5% on the gross amount of dividends and liquidation quotas (0% for distributions to EU/EEA entities);
- 0% on interest and royalties distributed to related party legal entities resident in the EU (subject to certain conditions);
- 10% on the gross amount for all other taxable income.

The withholding tax rates may be reduced under an applicable double tax treaty.

Refund Opportunities

Entities resident in the EU/EEA may declare tax deductible expenses and claim a corresponding refund of the withholding tax paid on a gross basis. The claim is annual and should be filed by 31 December of the following year.

Payment

The tax should be withheld by the resident payer and remitted to the budget within one month following the quarter of accrual of the income. In case of capital gains, it is their recipient which should remit the withholding tax due within the term indicated above.

Tax Treaty Application

If available, double tax treaty relief may be applied by the income recipient directly if the income accrued for the calendar year does not exceed BGN 500,000 (approximately EUR 255,000). In all other cases a non-resident can benefit from tax treaty relief if an advance clearance is obtained from the Bulgarian tax authorities under a specific procedure.

G. EXCHANGE CONTROLS AND LIMITATIONS OF PAYMENTS IN CASH

There are no exchange controls in Bulgaria. The limit for cash payments is BGN 10,000.

H. PERSONAL TAX

The personal income tax rate is a flat rate of 10% on the taxable income for individuals and 15% for the taxable income of sole traders. In general, individuals are considered Bulgarian tax residents if:

- They have stayed in Bulgaria for more than 183 days in any 12-month period;
- The center of their vital interests is in Bulgaria (determined in view of their personal and economic ties to the country, e.g. factors like permanent address in Bulgaria, family, employment, possession of property, etc.).

Generally, taxable income includes monetary income, as well as benefits received in-kind (except for non-taxable items and "in-kind social expenses"). Bulgarian tax residents are taxed on their worldwide income, while non-residents are taxed only on their Bulgarian-sourced income.

EXEMPT INCOME

Certain types of income are exempt from taxation, including capital gains from the disposal of shares on a regulated Bulgarian/EU/EEA market, income from disposal of certain real estate, etc.

DEDUCTIONS

Tax deductions apply in some cases, including:

- Mandatory social security and health insurance contributions;
- Statutory deductions for freelancers, for rental income, etc.;
- Voluntary personal insurance up to certain limits;
- Certain donations and other specific situations (e.g. disabilities).

LUMP-SUM TAXATION

Lump sum taxation is applicable to certain sole traders with annual turnover less than BGN 50,000 (approximately EUR 25,000).

FILING PERSONAL TAX RETURNS

The annual personal income tax return has to be submitted by 30 April of the following year (the tax year coincides with the calendar year). The tax has to be paid by the same deadline. A 5% reduction of the outstanding tax can be applied if:

- The annual tax return is filed electronically and the tax is paid before 31 January of the following year; and,
- The taxpayer currently has no outstanding liabilities towards the Budget.

Individuals who fulfil the above requirements may utilise the 5% discount from their outstanding tax liability, but no more than BGN 500 (EUR 256). Individuals are generally not obliged to file annual tax returns if they have received only employment income for which the full tax due has been withheld by the employer on a 'pay as you earn' basis, non-taxable income and/or income subject to one-off tax.

Individuals will be allowed to file a corrective tax return once until 30 September of the following year if they find an error in their submitted annual tax return. Certain types of foreign-sourced income under Art. 38 of the PITA (e.g. dividends, interest, etc.), which was previously subject to quarterly reporting and taxation by Bulgarian tax residents is now reported and taxed with the individual's annual Bulgarian tax return for the respective year.

Successors will be able to file annual tax returns for the income of deceased individuals. If one of the successors submits a tax return, the others are exempted from this obligation.

ONE-OFF TAXATION OF CERTAIN INCOME

One-off tax is due on income received by non-resident individuals from:

- Dividends and liquidation quotas distributed by a Bulgarian resident company;
- Management and technical services fees;
- Interest, royalties, franchising and factoring fees;
- Income from hiring out movable and immovable property;
- Capital gains from disposal of real estate and financial assets; and,
- Certain other income.

One-off tax is due on dividends and liquidation quotas distributed to a Bulgarian resident by a Bulgarian or by a non-resident entity. EU resident individuals may declare deductible expenses and claim a corresponding refund of the one-off tax paid on a gross basis under certain conditions.

ONE-OFF TAX RATES

- 0% for capital gains from the disposal of shares on a regulated Bulgarian/EU/EEA market by EU/EEA residents;
- 5% for dividends and liquidation quotas;

- 7% for income from voluntary life insurance received after the termination of the insurance policy (if the policy term is more than 15 years);
- Interest income from all types of bank accounts is taxed without exceptions at 8%;
- 10% for all other income.

The one-off tax rates may be reduced under an applicable double tax treaty.

SOCIAL SECURITY AND HEALTH INSURANCE

MANDATORY INSURANCE CONTRIBUTIONS

Between 32.7% and 33.4% paid by both the employer and the employee according to 55:45 ratio. This includes:

- 14.8% - pension fund;
- 5% - universal pension fund;
- 0.4% - 1.1 % - occupational accident and professional disease fund (rate depending on the field of activity);
- 3.5% - general illness and maternity fund;
- 1 % - unemployment fund; and,
- 8% - health insurance fund.

The social security base is the gross remuneration less statutory deductions in some cases and is capped at BGN 2,600 (approximately EUR 1,330) monthly.

I. BULGARIA DOUBLE TAX TREATIES AND RATES

	Dividends (%)	Interest (%)	Royalties (%)
Treaty countries:			
Albania	5	10	10
Algeria	5	10	10
Armenia	5	10	10
Austria	0	0	0
Azerbaijan	8	7	5/10
Bahrain	5	5	5
Belarus	5	10	10
Belgium	0	10	5
Canada	5	10	10
China	5	10	7/10
Croatia	5	5	0
Cyprus	0	7	10
Czech Republic	0	10	10
Denmark	0	0	0
Egypt	5	10	10
Estonia	0/5	5	5
Finland	0	0	0/5
France	0	0	5
Georgia	5	10	10
Germany	0	0	5

Greece	0	10	10
Hungary	0	10	10
India	5	10	10
Indonesia	5	10	10
Iran	5	5	5
Ireland	0	5	10
Israel	5	5/10	7.5
Italy	0	0	5
Japan	5	10	10
Jordan	10	10	10
Kazakhstan	5	10	10
Korea (D.P.R.K.)	5	10	10
Korea (R.O.K.)	5	10	5
Kuwait	0/5	5	10
Latvia	0	5	5/7
Lebanon	5	7	5
Lithuania	0	10	10
Luxembourg	0	10	5
Macedonia	5	10	10
Malta	0	0	10
Moldova	5	10	10
Mongolia	5	10	10
Morocco	5	10	10
Netherlands	0	0	0
Norway	0	0	0
Poland	0	10	5
Portugal	0	10	10
Qatar	0	3	5
Romania	0	10	10
Russia	5	10	10
Serbia	5	10	10
Singapore	5	5	5
Slovakia	0	10	10
Slovenia	0	5	5/10
South Africa	5	5	5/10
Spain	0	0	0
Sweden	0	0	5
Switzerland	0	10	0
Syria	5	10	10

Thailand	5	10	5/10
Turkey	5	10	10
Ukraine	5	10	10
United Arab Emirates	0/5	2	5
United Kingdom	0	0	0
United States	5	0/5/10	5
Uzbekistan	5	10	10
Vietnam	5	10	10
Zimbabwe	5	10	10

CAMEROON

MEMBER FIRM

City	Name	Contact Information
Douala / Buea	Christopher Awungjia	+237 676548777 or +237 696859024 cawungjia@acncoaccountants.com

BASIC FACTS

Full name:	Republic of Cameroon
Capital:	Yaoundé
Main languages:	English, French
Population:	24.58 million (2018 estimate)
Monetary unit:	Central African CFA franc (XAF)
Internet domain:	.cm
Int. dialling code:	+237

KEY TAX POINTS

- Cameroon operates a declarative tax system in which the taxpayer declares and pays monthly tax collections to the taxation authorities. False declarations are punishable by penalties and interest on late payments.
- In Cameroon, there are two types of income taxes:
  - Income tax on individuals;
  - Income tax on entities.
- There is a tax on turnover, borne by the final consumer known as the value added tax.

A. TAXES PAYABLE

COMPANY TAX

Income tax in Cameroon is imposed on undertakings deemed to be operating in Cameroon, which are the following:

- Undertakings headquartered in Cameroon or with an effective management office in Cameroon;
- Undertakings that have a permanent establishment in Cameroon;
- Undertakings that have a dependent representative in Cameroon.

The profits of undertakings that do not fulfil the conditions referred to above are taxed in Cameroon if they carry out activities that form a full business cycle in Cameroon.

Tax Rates

The regular corporate income tax rate is 30% (plus a 10% additional tax council). For companies operating under the real earnings tax regime, the minimum tax payable is 2% (plus 10% additional council tax) of monthly gross sales (turnover). The minimum tax payable is higher for companies under the simplified tax regime (3.3% for non-importing traders, and 5.5% for producers, service providers and importation traders). The minimum tax is creditable against corporate tax due for the current financial year.

The 2018 Finance Law establishes the option, already introduced by the 2017 Finance Law Circular, between the income tax instalment on turnover and that on the gross margin (article 21 of the CGTC). The tax rate on gross margin being 14% while the rates on turnover remain the same as above.

CAPITAL GAINS TAX

Capital gains include gains on the sale of real estate, corporate shares and business assets. However, the tax can be deferred or eliminated in the event of a merger.

BRANCH PROFITS TAX

Profits realized in Cameroon by branches of foreign companies are presumed to be distributed and are consequently subject to a branch withholding tax of 16.5% on after-tax income. This rate is subject to reduction by a double tax treaty.

SALES TAX / VALUE ADDED TAX (VAT)

- The effective standard VAT rate is 19.25% (17.25% VAT and a 10% surcharge).
- All corporate businesses with taxable turnover are required to register. Non-resident VAT payers are required to appoint a solvent resident representative to be jointly responsible for the payment of VAT and the discharge of other VAT obligations.
- VAT returns (and any tax payable) are due by the 15th of each month. Late payment incurs interest penalties at a rate of 1.5% per month up to a maximum of 50% of the principal liability. Fines are levied for various omissions in discharging VAT obligations.
- For taxable transactions of at least XAF 100,000, the right to deduction may be authorized only where they have been carried out through bank transfers.
- There is a list of basic necessities that are VAT exempt in the general tax code.

LOCAL TAXES

No local taxes are payable in respect of income of companies.

OTHER TAXES

Business license tax: the rate varies depending on the amount of turnover.

FRINGE BENEFITS TAX

Fringe benefits are considered to be a part of the salary paid to an employee: they are subject to social security and personal income taxes. Taxable fringe benefits are evaluated on the basis of their market value and there is a maximum amount that can be taxed

REGISTRATION DUTY

Registration duty on a rent contracts is 10% of the annual rent. Government Contracts are taxed on 4% of the contract amount.

REAL ESTATE WITHHOLDING TAX

15% withholding tax on annual rent retained and paid by the tenant.

B. DETERMINATION OF TAXABLE INCOME

Taxable income is based on financial statements prepared according to generally accepted accounting principles and the OHADA (organization for the harmonization of business law in French-speaking Africa) standard statements.

Business expenses are generally deductible unless specifically excluded by law or by the provisions of an international convention. Expenses that are not deductible include the following:

- Head office overhead, research costs and technical, financial and administrative assistance fees paid to

residents or non-residents that exceed any of the following:

- 5% of taxable profits for ordinary law companies before their deduction;
- 2.5% of turnover for public works projects;
- 7.5% of turnover for design and engineering services.

- Royalties from patents, brands, models or designs paid to a non-CEMAC corporation participating directly or indirectly in the management of, or owning shares in, the Cameroonian corporation are deductible up to an overall limit of 2.5% of taxable income before the deduction of the expenses.
- Rent expense for movable equipment paid to a shareholder that manages the company in fact or by right and holds, directly or indirectly, more than 10% of the capital.
- Losses related to bad debts that do not comply with the enforcement measures provided for in the OHADA Uniform Act relating to the organization of simplified procedures for collection and enforcement.
- Liberalities, gifts and subsidies exceeding 0.5% of the turnover of research, philanthropic, development, educational, sports, scientific, social and family institutions or bodies.
- Gifts and subsidies exceeding 5% of turnover of clubs participating in official national competitions and the bodies in charge of organizing these competitions.
- Interest paid to shareholders in excess of the central bank annual rate plus two points. Under the 2014 Financial Law, the deductibility of interest paid to shareholders owning directly or indirectly at least 25% of the capital or voting rights of the company is subject to the following two cumulative conditions:
  - Interest paid may not exceed one and one-half of the amount of real capital for all shareholders;
  - Interest paid to such affiliates may not exceed 25% of the income before income tax and deduction of such interest and depreciation.
- Commissions and brokerage fees for services on behalf of companies located in Cameroon that exceed 5% of purchased imports and sales of exports.
- Remuneration granted to wage earners that are excessive in comparison to the services rendered and that do not correspond to effective work and conventional norms.
- Amounts set aside for self-insurance.
- Certain specific charges (such as contributions other than those for retirement paid to a foreign social security organization, which are deductible up to a limit of 15%, and insurance premiums paid to companies located in Cameroon for employees' retirement indemnities), gifts, subsidies and penalties (to some extent).
- Expenses paid in cash of XAF 500,000 or more. The XAF 500,000 limit is assessed with respect to the total amount of specific expenses recorded in the expenditures account. Accordingly, splitting an expense worth XAF 500,000 into two equal parts of XAF 250,000 each and paying them in cash does not result in the deductibility of the expenses. Under the 2014 Financial Law, all reimbursements of loan advances to shareholders paid in cash are treated as dividends and are accordingly subject to dividend withholding tax.
- Expenses paid to local suppliers without reference to a Cameroonian tax identification number and without an invoice that complies with the standard requirements for the deductibility of expenses.
- Remuneration paid to liberal professionals in violation of the regulations governing their respective professions.
- Expenses for services and certain purchases paid to natural persons or non-resident legal entities established in territories or states considered to be tax havens.
- Disbursements from tax havens invoiced to local companies by other companies located in or outside tax havens.
- Losses resulting from irregularities, misappropriation or fraud within an enterprise where the irregularities, misappropriation or fraud is directly or indirectly attributable to the directors, shareholders or partners.

CAPITAL ALLOWANCES

Land and intangible assets, such as goodwill, are not depreciable for tax purposes. Other fixed assets may be depreciated using the straight-line method at rates specified by the tax law. Small equipment and other items that have a value not exceeding XAF 500,000 without tax are directly accounted for as charges and considered deductible expenses.

DEPRECIATION

The Cameroon General Tax code specifies allowable depreciation rates: any deviation is disallowed for tax purposes.

STOCK / INVENTORY

Inventory is normally valued at the acquisition cost or at the lower of cost or market value. Cost must be determined on a weighted average cost-price method. The first-in, first-out (FIFO) method is also generally acceptable.

CAPITAL GAINS AND LOSSES

Capital gains are taxed at a rate of 16.5%, subject to tax treaties. Capital gains realized in Cameroon or abroad from the direct or indirect transfer of stocks, bonds and other capital shares of enterprises located in Cameroon are subject to tax. If the business is totally or partially transferred or discontinued (such as in the event of a merger, liquidation or sale of the business), only one-half of the net capital gains is taxed if the event occurs less than five years after the start-up or purchase of the business, and only one-third of the gains is taxed if the event occurs five years or more after the business is begun or purchased.

Capital gains realized on the Cameroonian stock market are exempt from corporate income tax and the tax on movable capital. However, under the 2014 Financial Law, capital gains realized in Cameroon or abroad that are derived from the sale of shares by an individual or corporate entity holding an exploitation or exploration permit for natural resources extracted from the Cameroonian subsoil are subject to income tax on the gains.

DIVIDENDS

Dividends paid to residents in Cameroon are subject to a 16.5% withholding tax (15% plus the 10% council surtax). Resident recipients must include the gross dividend in taxable income, but they receive a corresponding 16.5% tax credit to prevent double taxation. Dividends paid to non-residents are subject to a 16.5% withholding tax, which is a final tax.

A parent corporation may exclude up to 90% of the dividends received from a 25%-owned subsidiary if the parent company and the subsidiary have their registered office in a Central African Economic and Monetary Community (CEMAC) country (Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea and Gabon). In this case, however, no withholding tax credit is allowed. Instead, the tax can be offset against any withholding tax due on its own dividend distributions.

INTEREST DEDUCTIONS

The 2014 Finance Law introduced thin capitalization rules. Interest paid to shareholders on amounts which they lend to or put at the disposal of the company exceeding their shares in capital are generally deductible for the part not exceeding the central bank's reference rate increased by 2 percentage points. Furthermore, the deductibility of interest paid to shareholders owning directly or indirectly at least 25% of the capital or voting rights of the company is subject to the following two cumulative conditions:

- Interest paid may not exceed one and one-half of the amount of real capital for all shareholders.
- Interest paid to such affiliates may not exceed 25% of the income before income tax and deduction of such interest and depreciation.

LOSSES

Losses may be carried forward for four years while losses attributable to depreciation may be carried forward indefinitely. Losses may not be carried back.

FOREIGN SOURCE INCOME

Generally, foreign tax credits are not allowed. Foreign-source income is taxable after deduction of any related foreign tax. Bilateral relief is provided under Cameroonian double tax treaties. Non-resident legal entities are taxable only on their Cameroon-sourced income.

TAX INCENTIVES

The law of 18 April 2013 introduced investment incentives, which are summarized below.

Installation phase:

Incentives that are available during the installation phase (five years after the issuance of the approval) include exemption from registration duties, transfer duties, customs duties and VAT for certain items.

Operational phase:

Incentives available during the operational phase (10 years for all companies qualifying for the incentives) include exemptions or reductions with respect to minimum tax, corporate tax, customs duties on certain items and other specified taxes and fees.

In the first year of operation, the company is exempt from the tax on the business license. In addition, companies may carry forward losses to the fifth year following the year in which the losses are incurred.

C. FOREIGN TAX RELIEF

Generally, foreign tax credits are not allowed. Foreign-source income is taxable after deduction of any related foreign tax. Bilateral relief is provided under Cameroonian double tax treaties. Non-resident legal entities are taxable only on their Cameroon-sourced income. The French tax treaty, however, provides a tax credit that corresponds to withholding tax on passive income.

D. CORPORATE GROUPS

The Cameroon tax code does not provide for taxation of local group companies: each company is evaluated and taxed independently.

E. RELATED PARTY TRANSACTIONS

In 2012, Article M19bis in Book II of the General Tax Code on Manual of Tax Procedures was introduced to increase the regulation and control of transfer pricing. Under the new rules, if in the course of an accounts audit, the administration has evidence that a company has indirectly transferred profit, it may request that the company provides information and documents with respect to certain items, including the following:

- Relationships between the company and one or more companies or groups established outside Cameroon.
- The pricing method for industrial, commercial or financial operations in which the company engages with the related parties mentioned in the first bullet and justification for this method and the agreed consideration in these operations.
- The activities carried out by the related parties mentioned in the first bullet.
- The tax treatment for the company and related parties mentioned in the first bullet with respect to the operations performed with the related parties.

The 2014 Finance Law requires “a detailed statement of transactions with companies which control or which are controlled by them up to 25%, in addition to other existing disclosure and documentation requirements.” Companies in the large taxpayers unit must transmit the following information to the tax authorities by 15 March of each year at the same time as the filing of the annual tax return:

- A statement of their shareholdings in other companies if the holdings exceed 25% of the share capital;
- A detailed statement of intergroup transactions.

Cameroon’s Directorate General of Taxation has published Circular 003 of 15 January 2018, which outlines the application of the tax measures of the 2018 Finance Law. Some of the main TP measures affecting companies include:

- The introduction of an automatic transfer pricing documentation filing requirement for companies managed by the Large Taxpayers Office, including that the documentation should be submitted by 15 March of the following year (tax return deadline) and that a penalty of up to XAF 50 million will apply for failing to submit or submitting false or incomplete information (submission requirement applies for the results of the 2018 fiscal year);
- The extension of transfer pricing rules to transactions with unrelated enterprises established in tax havens, with tax havens defined as:
  - Jurisdictions where the income rate is less than one-third of that applicable in Cameroon; or
  - Jurisdictions that are considered non-cooperative in matters of transparency and exchange of information for tax purposes.

F. WITHHOLDING TAX

Description	Rate (%)
Dividends	16.5 (a)
Interest	0/16.5 (b)
Rents	15
Royalties from Patents, Know-how, etc.	15
Fees for Technical Services, Digital Services and Professional Activities	15 (c)
Specific Payments to Resident Individuals or Companies	5.5 (d)
Branch Remittance Tax	16.5

a) This withholding tax also applies to directors' fees, non-deductible expenses and adjustments of profits following a tax audit. The withholding tax also applies to allowances granted to members of commissions, ad hoc or permanent committees and to members of public, semi-public, regional or local bodies and apply as well to residents and non-residents.

b) Interest on savings of up to XAF 10 million is exempt from withholding tax. Interest on state bonds is exempt from corporate income tax and the tax on movable capital (this tax is withheld at a rate of 16.5% from income on shares and negotiable bonds and from certain other income). The 2014 Finance Law confirms that interest on loans paid to non-resident lenders or creditors is exempt from withholding tax. Special income tax applies to all types of deliveries that are part of public contracts or orders and that are paid for by state, regional or local authorities, public institutions, public corporations or semi-public companies, or that are paid for through external financing. The rate is 15%, which is withheld at source.

c) This withholding tax applies to non-residents. The 2012 Finance Law provides that this tax also applies to "software," which is defined as computer applications and programs relating to the operation or functioning of an enterprise.

d) This withholding tax applies to fees, commissions, emoluments and remuneration for services that are paid to resident individuals or companies. These payments include the following:

- Payments made to persons in the self-employed professions, such as consultants, experts, architects, physicians, auditors in charge of damages, trade intermediaries and salesmen;
- Payments made to magistrates and representatives of the law (attorneys, bailiffs and notaries);
- Payments made to forwarding agents, customs brokers, stevedores, accounting firms and internet service providers.

The withholding tax does not apply to payments made for services related to transport, bank interest, insurance premiums and commissions, air ticket expenses and commissions, and water, electricity and telephone expenses. The 10% surtax applies to the withholding tax rate of 5%, resulting in a total withholding tax rate of 5.5%.

G. EXCHANGE CONTROL

All transfers of funds outside the CEMAC, including loans obtained by resident companies abroad and the solicitation of foreign securities in the CEMAC Zone must be declared and are subject to special control measures for statistical purposes. Transfers of amounts in excess of XAF 5 million must be lodged with an authorized intermediary (i.e. a bank authorized by the Central Bank). Documentation must be submitted to the authorities for currency transfers in settlement of imports in excess of XAF 100 million. Expatriate employees may apply for authorization to repatriate their net earnings on a regular basis. Any savings accumulated by expatriates may be repatriated upon departure from Cameroon. All foreign direct investment exceeding XAF 100 million is subject to prior notification to the Ministry of Finance and a post notification after realization.

H. PERSONAL TAX

Income Tax Rates for Individuals (XAF)		
Taxable Income exceeds	**But does not exceed**	**Rate**
-	2,000,000	10%
2,000,001	3,000,000	15%
3,000,001	5,000,000	25%
Over 5,000,000		35%

Progressive rates are imposed from 10% to 35%. A surcharge of 10% of the principal tax is also levied on the rates (for additional council tax).

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends %	**Interest %**	**Royalties %**
Non-treaty countries:	16.5	0/16.5	15
Treaty countries:			
Canada	15/20 (a)	15/20 (a)	15/20 (a)
Central African Republic	– (c)	16.5 (b)	– (d)
Chad	– (c)	16.5 (b)	– (d)
Congo	– (c)	16.5 (b)	– (d)
Equatorial Guinea	– (c)	16.5 (b)	– (d)
France	15	16.5 (b)	7.5/15 (e)
Gabon	– (c)	16.5 (b)	– (d)
Tunisia	12	15	15

Notes:

(a) The 15% rate applies to payments from a Cameroonian source. The 20% rate applies to payments from a Canadian source.

(b) If from a Cameroonian source, the payments are subject to withholding tax under Cameroonian domestic tax law. See Section A.

(c) Withholding rates are determined under the domestic tax law of the state of domicile of the payer.

(d) Withholding tax is not imposed. The income is subject to tax in the state of the recipient.

(e) The 7.5% rate applies to payments for financial services, accounting services and technical assistance. The 15% rate applies to other royalties.

CANADA

MEMBER FIRM

City	Name	Contact Information
Calgary	Carl Scholz	+1 403 375 9955 erkin@pfcaccounting.com

BASIC FACTS

Full name:	Canada
Capital:	Ottawa
Main languages:	English, French
Population:	36.9 million (2018 estimate)
Monetary unit:	1 Canadian dollar (CAD)
Internet domain:	.ca
Int. dialling code:	+1

KEY TAX POINTS

- Companies pay federal, provincial and municipal taxes. The combined federal and provincial or territorial corporate tax rates vary depending upon the province or territory where a corporation conducts business and the nature of its operations.
- There is a 25% branch tax on non-resident companies carrying on business in Canada, payable on notional distributions of branch profits to the foreign head office. The rate of tax is subject to reduction by treaty.
- The federal government imposes a Goods and Services Tax (GST) of 5% on a wide range of goods and services. Exemptions are provided for basic foods, health care and education.
- No provision is made for filing consolidated tax returns for corporate groups. However, loss utilisation among members of a corporate group is often implemented by amalgamation or merger of group members.
- Non-resident withholding tax applies to many types of income paid or credited to non-residents including dividends, interest, royalties, pension payments and rents. The statutory rate of withholding is 25% but this may be reduced or eliminated by treaty provisions.
- Individuals resident in Canada for tax purposes are subject to tax on their worldwide income. Non-residents are subject to tax in Canada on Canadian-sourced employment income and business income; 50% of the capital gains from the disposition of certain specified Canadian assets; and 100% of gains on dispositions of certain property such as resource property or certain life insurance policies.

A. TAXES PAYABLE

FEDERAL TAXES AND LEVIES

Legal entities subject to corporate income tax include the following:

- All corporations resident in Canada; and
- Non-resident corporations, but only to the extent of income from certain Canadian sources.

The corporate income tax rate depends on the type of income earned, the status of the corporation and the Canadian province or territory in which the income is earned. The general federal tax rate on corporations is 38%. A 10% rebate applies to the extent the income has been earned in a Canadian province, bringing the federal rate down to 28%. The tax rate on corporate income that is earned in a Canadian province and that does not currently benefit from a preferential tax treatment is further reduced by a general rate reduction of 13%. This makes the general rate 15%.

Various types of corporate income currently benefit from a preferential treatment and do therefore not qualify for the reduced rate, including Canadian manufacturing and processing income, investment income earned by a Canadian-controlled private corporation, income from non-renewable natural resource activities and income earned by mutual fund corporations, mortgage investment corporations and investment corporations.

A non-resident company is subject to a 25% branch profits tax on taxable income earned in Canada (after deduction of federal and provincial income tax and after deduction of an allowance for investments in certain types of Canadian property), which may be reduced under a double tax treaty.

The appropriate provincial income tax rate is added to the federal rate (general or reduced) to get the effective combined tax rate. The rates of provincial income tax vary. Following are the combined general federal and provincial tax rates effective 1 April 2018:

Province	General rate (%)	General reduced rate (%)	M&P[4] rate (%)	CCPC[1] active rate (%)
Alberta	40	27	27	12
British Columbia	40	27	27	12
New Brunswick	42	29	29	12.5
Manitoba	40	27	27	10[2]
Northwest Territories	39.5	26.5	26.5	14
Newfoundland	43	30	30	13
Nunavut	40	27	27	14
Nova Scotia	44	31	31	133
Prince Edward Island	44	31	31	14.5
Saskatchewan	40	27	25	12
Quebec	39.7	26.7	26.7	17
Yukon Territory	40	27	17.5	12
Ontario	39.5	26.5	25	13.5

1 Canadian-controlled private corporation.

2 Income between CAD 425,000 and CAD 500,000 is subject to a 23% rate.

3 Income between CAD 350,000 and CAD 500,000 is subject to a 27% rate.

4 Manufacturing and processing.

Corporate income taxes are payable in monthly instalments, with balances owing due two months after the corporation's taxation year-end or, in the case of an eligible CCPC, three months after the year-end. Returns must be filed no later than six months after the year-end, with no extensions available. Even if there is no tax liability, a non-resident corporation is required to file a return and is subject to a penalty if the filing deadline is not met. Generally, a refund will not be issued if the income tax return is not filed within three years of the end of the year (four years for a Quebec income tax return filed by a non-CCPC).

INVESTMENT TAX CREDITS (ITC)

Qualified expenditures in respect of scientific research and experimental development (SR&ED) in Canada qualify for a 15% federal ITC. Certain qualifying CCPCs are entitled to a 35% federal ITC on SR&ED up to specified maximums.

The ITCs may be used to offset federal income taxes payable in the current year, the preceding three years, or the 20 succeeding years. CCPCs may qualify to receive a cash refund when ITCs claimed exceed tax payable for the year. Nine provinces (all but Prince Edward Island) and the territories offer provincial or territorial tax credits as an incentive for conducting qualifying SR&ED activities in their jurisdiction. The amount of federal ITC claimed is included in taxable income in the year following the claim. Provincial credits are generally included in taxable income in the year of entitlement.

The acquisition of qualified property for use in Atlantic Canada, the Gaspé Peninsula or prescribed offshore regions (other than qualified resource property) may qualify for a federal ITC of 10%. Qualified property encompasses a wide range of assets related to manufacturing and processing operations as well as assets used in specific industries. The acquisition of qualified resource property used mainly in Atlantic Canada, the Gaspé Peninsula or prescribed offshore regions and used primarily for oil and gas, and mining activities, if acquired after 28 March 2012, and before 1 January 2016 may qualify for a 5% federal ITC. In 2016, a transitional relief rate applied for certain qualified resource property. This credit is eliminated for assets acquired after 2015. The federal ITC on certain pre-production mining exploration and development expenditures was eliminated for amounts incurred after 2015.

BRANCH PROFITS TAX

The federal government imposes a 25% branch tax on non-resident corporations carrying on business in Canada. The tax is payable on notional distributions of branch profits to the foreign head office. A treaty

may reduce the rate of tax and may provide a cumulative exemption amount (e.g., CAD 500,000 under the Canada-US Treaty).

GOODS AND SERVICES TAX (GST)

The federal government imposes a goods and services tax (GST) of 5% on a wide range of goods and services. Exemptions are provided for basic foods, health care and education. All businesses providing taxable services or selling taxable goods in excess of CAD 30,000 in a single calendar quarter or in the last four consecutive calendar quarters must register for and collect the GST. All taxable purchases from a GST registrant bear the GST. GST paid on purchases made by a registrant is credited against its GST collections on its GST return. A net credit is refunded.

With the exception of the three territories and Alberta, all provinces impose a provincial sales tax on a wide variety of goods. The application of sales tax to services will vary depending on the province. General provincial sales tax rates vary from 6% to 10% as described below. The federal government and the provinces of Newfoundland, New Brunswick, Nova Scotia, Prince Edward Island, and Ontario are parties to a sales tax harmonisation agreement. Under the harmonised sales tax (HST) agreement, the participating provinces have ceased to collect provincial sales tax. In its place, the federal government collects HST under the GST rules. The HST is 13% in Ontario and 15% in Newfoundland, Nova Scotia, New Brunswick and in Prince Edward Island.

British Columbia, Saskatchewan, Manitoba and Quebec are not harmonized with the Federal government and have their own Provincial Sales Tax regimes (and independently collect their own Provincial Sales taxes). The rates of Provincial Sales Tax for these provinces are as follows: British Columbia (7%-discussed below), Saskatchewan (6%), Manitoba (8%) and Quebec (9.975% discussed below).

British Columbia was party to the sales tax harmonization agreement, but as a result of a British Columbia referendum in 2011, British Columbia removed the HST and reinstated the former 7% British Columbia provincial sales tax (PST) and 5% GST effective 1 April 2013. In Quebec, the GST and Quebec sales tax (QST) systems are essentially harmonised and administered by Quebec. As of 1 January 2013, QST was increased to 9.975% but was levied on the price before GST. Therefore, the effective rate will remain unchanged at 14.975% (GST of 5% and Quebec sales tax of 9.975%).

FRINGE BENEFITS TAX (FBT)

The Northwest Territories and the provinces of Newfoundland, Quebec, Ontario and Manitoba levy a tax on payroll costs to support provincial health care and other programs. Rates and exemptions vary from province to province. The territory of Nunavut levies a payroll tax on high income employees.

The federal government does not impose FBT on employers but requires employer (and employee) contributions to Employment Insurance (EI) and the Canada Pension Plan (CPP) based on payroll costs. Employers are required to remit EI, CPP and income tax with respect to their employees who are in regular and continuous employment in Canada, regardless of whether the employees (or employer) are resident in Canada. This can be reduced by a social security agreement between Canada and the home country. Certain fringe benefits are taxable to employees and are required to be reported on their personal income tax returns.

LOCAL TAXES

Provincial, territorial and municipal governments impose various taxes that need to be confirmed in each particular situation. These taxes include real property taxes, real property transfer taxes, carbon taxes, business licences and a number of industry-specific taxes such as mining and petroleum resource taxes, logging tax and hotel tax.

OTHER TAXES

The federal government also imposes certain industry-specific taxes in addition to customs and excise duties. The federal large corporations tax, which was a minimum tax based on capital, was repealed effective 1 January 2006. There are no provincial capital taxes for general businesses. The federal government and several provinces still have capital taxes that apply to certain types of financial institutions and life insurance corporations. For corporations with a permanent establishment in Ontario, Ontario imposes a corporate minimum tax on corporations with total assets or gross revenues above certain threshold amounts in certain circumstances.

B. DETERMINATION OF TAXABLE INCOME

The taxable income of a corporation is determined using the accrual method of accounting. Certain

professional, agricultural or fishing businesses are permitted to follow a cash or modified cash method of accounting. For a corporation resident in Canada, taxable income is based on its worldwide income less allowable deductions. For a non-resident corporation, taxable income earned in Canada is essentially defined to include:

- Income from carrying on business in Canada;
- 50% of capital gains from the disposition of certain specified Canadian assets or specified foreign assets with significant values attributable to underlying specified Canadian assets included in the definition of 'taxable Canadian property';
- Income from the disposition of resource property and certain other assets included in the definition of 'taxable Canadian property';
- Income from the disposition of certain other assets with a connection to Canada included in the definition of 'taxable Canadian property'; and
- Recaptured Canadian tax depreciation.

The scope of the definition of 'taxable Canadian property' was significantly narrowed effective 4 March 2010 to exclude shares of corporations and certain other interests (such as an interest in certain partnerships and trusts) that have not derived their fair market value principally from real property situated in Canada, Canadian resource property or timber resource property, at any time within the 60 months immediately preceding the disposition. A treaty may limit Canada's ability to tax a non-resident on the various components of taxable income earned in Canada listed above.

DEPRECIATION

Canada has a complex system of determining the tax depreciation in respect of capital assets. Depreciable property is subject to a number of detailed regulations that specify the amount that may be written off in any particular year. There are also a number of detailed restrictions that have the effect of limiting write-offs for depreciable property. Expenditures for exploration, development and maintenance of resource properties are subject to rules that categorise the expenditures and specify the amounts which may be deducted in a year. Qualifying Canadian exploration costs may be deducted at 100% against any type of income if desired. Canadian development expenses can be deducted at a rate of 30% per year. Other expenditures are subject to less generous deductions. Capital assets used for SR&ED are subject to regular tax depreciation rules rather than a 100% deduction if they were acquired after 2013

INVENTORY

Inventory must be valued at the lower of cost or fair market value unless the taxpayer elects to value all inventory at fair market value. Special rules apply for the valuation of animals and certain derivatives.

CAPITAL GAINS AND LOSSES

Taxable capital gains are included in taxable income and taxed at normal rates. A capital gain is essentially the proceeds of disposition for a capital property less the aggregate of the cost of the property and costs of disposition. However, only 50% of the gain is taxable. Capital losses may only be used to offset capital gains but may be carried back three years and forward indefinitely, subject to change of control rules (discussed under the 'Losses" heading below). As noted above, under 'Determination of Taxable Income', non-residents are only taxed on certain specified capital gains.

DIVIDENDS

Dividends received by a private Canadian corporation from another resident corporation are subject to a refundable tax of 38.33% (2016: 38.33%) of the amounts received. In the event that the recipient corporation holds more than 10% of the payor-corporation (measured by votes and value), refundable taxes payable are based on the amount of tax refunded to the payor-corporation as a result of the dividend.

Dividends received by most public corporations from another Canadian corporation are effectively excluded from income. Dividends received from non-resident corporations are subject to tax unless received from a subsidiary out of its active business profits from a designated treaty country (a country with which Canada has entered into a comprehensive agreement or convention for the elimination of double taxation on income, or a comprehensive tax information exchange agreement).

Other dividends from foreign affiliates are netted against a grossed-up adjustment for the underlying foreign affiliate tax and withholding tax. Portfolio dividends from foreign corporations are included in taxable income, but the Canadian-resident recipient is entitled to a foreign tax credit for the foreign withholding tax.

INTEREST DEDUCTIONS

Interest paid on funds borrowed to finance business operations or the acquisition of income-producing assets is generally fully deductible. In certain cases, interest payable relating to the acquisition of bare land is only deductible to the extent the land generates net income. The deductibility of interest incurred during the construction of real property is also restricted. Interest payable on funds borrowed to pay dividends is deductible as long as the corporation has taxed retained earnings at least equal to the amount of the dividend.

Statutory 'thin capitalization' rules restrict the deductibility of interest paid to a non-resident shareholder or group that owns 25% or more of the shares of a Canadian corporation. Essentially, these rules prevent the deduction of interest paid to these particular non-residents (or non-residents not dealing at arm's length with them) where the ratio of outstanding debt to shareholders' equity exceeds 1.5-to-1 for taxation years beginning after 2012. A ratio of 2-to-1 applies for taxation years that begin prior to 2013. The equity is measured by taking the aggregate of the retained earnings at the beginning of the year and the average paid-up capital of shares owned by certain non-resident shareholders and related contributed surplus computed on a monthly-average basis. Effective 29 March 2012, the disallowed interest will be treated as a deemed dividend paid to the non-resident and will be subject to withholding tax of 25%, unless reduced by a treaty.

For taxation years beginning on or after 29 March 2012, the thin capitalization rules apply to partnerships which have a Canadian-resident corporation partner and for taxation years that begin after 2013, the thin capitalization rules apply to Canadian resident trusts, and non-resident corporations and trusts that operate in Canada.

LOSSES

Losses arising from business operations may be carried back three years and forward twenty years. The carry-forward period increased from seven to ten years and from ten to twenty years for losses arising in taxation years ending after 22 March 2004 and after 31 December 2005, respectively. Capital losses are discussed separately above. In the event of a change of control of a corporation, there is a deemed taxation year-end. Business losses incurred prior to the change of control may only be deducted in subsequent years from income from the same or similar business but only if the business which generated the losses continues to be carried on with a reasonable expectation of profit. A similar restriction applies to the carry-back of subsequent business losses to the three years preceding a change of control.

On a change of control, a number of complementary rules come into play that have the effect of deeming most types of assets to be disposed of at fair market value if fair market value is less than that particular asset's tax carrying value. The purpose of these rules is to realize any unrealised losses that may exist at the time of the change of control. These deemed losses are added to the existing losses and are subject to the carry-forward restrictions mentioned above. Unclaimed net capital losses expire on a change of control. A special election to crystallize unrealized capital gains to use expiring capital losses should be considered when filing a change of control tax return. Post-change of control capital losses cannot be carried back to pre-change of control taxation years.

FOREIGN SOURCE INCOME

Canadian corporations are taxable on worldwide income regardless of source. Income earned by foreign affiliates in active businesses is generally not subject to taxation in the Canadian parent until the profits are repatriated (refer to the discussion on Dividends above). Corporations having an investment in a controlled foreign affiliate earning passive income, or deemed passive income, are subject to tax on that income in the year it is earned by the foreign corporation.

C. FOREIGN TAX RELIEF

Foreign income earned by a Canadian corporation is generally subject to tax in the year received or receivable. Credit is given for foreign income taxes paid, including withholding taxes. Depending upon the tax rate of the foreign country, foreign tax credits may or may not provide full relief for the foreign taxes paid. The amount of the foreign tax credits are effectively limited to the amount of Canadian tax paid on the foreign income. Foreign business income taxes not utilized in a particular year may be carried forward ten years (seven years if incurred before 23 March 2004) and back three years. Excess foreign non-business income tax paid cannot be carried over but may be available as a deduction in computing income.

Dividends arising from active business income received from foreign affiliates residing in treaty countries are not subject to further tax in Canada if the business is carried on in Canada or a designated treaty country. No credit is given for foreign withholding taxes in these cases. Dividends arising from other business income received from foreign affiliates are netted against a grossed-up adjustment for the underlying foreign tax and withholding tax. Dividends arising from passive income received from controlled foreign affiliates residing

in treaty countries or arising from all sources in non-treaty countries are subject to tax as ordinary income. Deductions will be given for underlying foreign tax and withholding tax, as well as Canadian tax which may have been payable at the time the income was earned.

D. CORPORATE GROUPS

No provision is made for filing consolidated tax returns for corporate groups. Certain tax provisions require the aggregation of amounts for members of related groups for purposes of determining access to certain tax incentives and benefits. Loss utilisation among members of a corporate group is often effected by amalgamation or merger of group members.

E. RELATED PARTY TRANSACTIONS

Domestic transactions between related parties are subject to rules that require such parties to transfer property at fair market value. Failure to effect transfers at fair market value may result in one-sided adjustments to income or cost basis. Charges between domestic group members are also subject to reasonableness and income earning tests. Transactions with related non-residents are subject to both transfer pricing and foreign reporting rules. Contemporaneous documentation of transfer pricing methodologies is required to avoid exposure to transfer pricing penalties on adjustments. Substantial penalties may be levied where transactions with related non-residents are not in compliance with prescribed procedures.

Certain multinational entities, with taxation years commencing after 1 January 2016, will be required to disclose information relating to each country in which the multinational group operates; only multinational entities within multinational groups with combined revenues of EUR 750 million or more will be subject to such reporting requirements.

F. WITHHOLDING TAX

Canada imposes non-resident withholding tax on many types of income paid or credited to non-residents including dividends, interest, royalties, pension payments and rents. The statutory rate of withholding is 25% but may be reduced or eliminated by treaty provisions. Section I Treaty and Non-Treaty Withholding Tax Rates summarises the rates of withholding under Canada's present income tax treaties. As of 1 January 2008, withholding tax is not payable under Canada’s domestic legislation on most interest payments made by Canadian borrowers to arm’s length non-resident lenders.

Canada also has a clearance certificate procedure that requires a purchaser to withhold from the proceeds paid to a non-resident seller on the sale of certain Canadian properties.

The amount of withholding is generally 25% (50% for certain types of properties) of the net gain on disposition if proper notice is given to the tax authorities and a clearance certificate is provided to the purchaser. If a clearance certificate is not obtained, the amount of withholding tax increases to 25% (or 50%) of the gross proceeds instead of the net gain. Amounts withheld are creditable against Canadian taxes payable by the non-resident seller. In the event that the amount withheld exceeds the Canadian taxes payable by the non-resident seller, a refund will be given on filing a Canadian federal tax return. The March 2010 changes to the definition of ‘taxable Canadian property’ have streamlined the withholding and compliance procedures impacting non-residents and those that acquire property from them. In addition to the federal withholding tax, Quebec has a similar withholding tax regime on sales of taxable Quebec property. The general rate of withholding is 12.875% and can be higher for certain types of property.

Non-residents are also subject to a 15% withholding on amounts received for services rendered in Canada. This particular withholding is credited on the non-resident's Canadian income tax return and will reduce the tax due or result in a refund. A refund due to a corporation will not be processed if the particular return is not filed within three years of the end of the taxation year. In addition to the federal withholding tax, Quebec has a 9% withholding tax on services rendered in Quebec by non-residents of Canada.

G. EXCHANGE CONTROL

Canada imposes no currency or exchange controls.

H. PERSONAL TAX

Individuals resident in Canada for tax purposes are subject to tax on their worldwide income. Non-residents are subject to tax in Canada on Canadian-sourced employment income and business income; 50% of the capital gains from the disposition of certain specified Canadian assets; and 100% of gains on dispositions of certain property such as resource property or certain life insurance policies. Investment or passive income earned by non-residents is subject to withholding tax as discussed above.

Residency is determined based on common law tests of residency relating to social and economic ties. Individuals who stay in Canada for 183 days or more in a particular year may be deemed to be resident in Canada. Canada's tax treaties may contain further provisions regarding determination of residency. Tax returns are filed based on the calendar year and generally are due by 30th April of the following year. An extended deadline of 15th June of the following year is available for business proprietors and partners of most partnerships, as well as their spouses. There is no provision for joint spousal tax returns. Certain pension benefits may be allocated between two spouses by election.

Virtually all income earned is subject to taxation. Employment income (including certain employment benefits) and some forms of investment income are included in taxable income on a cash basis. Business income and some investment income, notably interest, are included in income on an accrual basis. Income earned from farming, fishing and certain professions is subject to a cash or modified cash method of accounting. Taxable Canadian dividends received by an individual resident in Canada are subject to a gross-up and dividend tax credit mechanism.

Employees are subject to withholding on their earnings from employment in respect of income tax and contributions for Canada Pension Plan and Employment Insurance. Self-employed individuals and those with income from other non-employment sources are required to make quarterly instalments of estimated taxes due for the year. The balance of taxes and Canada Pension Plan owing for a calendar year is due by 30th April of the following year for all individuals.

Individuals are permitted various deductions including contributions to Registered Pension Plans and Registered Retirement Savings Plans, interest paid on funds borrowed to earn income, and qualifying alimony or spousal support payments. Child maintenance payments are neither deductible by the payor nor taxable to the recipient if paid pursuant to an agreement entered into after 30 April 1997 or if an agreement or Court Order made before that date is modified after 30 April 1997. There are also tax credits available for personal exemptions, donations, medical and education expenses and Canada Pension Plan and Employment Insurance contributions.

Personal income tax rates are progressive with the maximum federal rate being reached at CAD 205,843 of taxable income in 2018. A new top Federal rate of 33% applies for 2016 and beyond. The thresholds for the maximum provincial rate vary between the provinces.

Taxable income (CAD)	Tax rate (%)
Up to 46,605	15
46,606 – 93,208	20.5
93,209 – 144,489	26
144,490 – 205,842	29
Over 205,842	33

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Due to space limitations, the following summary does not reflect detailed information on the statutory or treaty provisions relating to withholding tax rates. Rates shown are in effect on 1 January 2018 subject to the notes at the end of the table below.

The reader should ensure careful reviews of the statutory rules and treaty provisions are undertaken when considering a particular cross-border transaction. For example, refer to note 1 pertaining to the elimination of Canadian withholding tax on arm’s length interest payments. The domestic rate may be lower than the treaty rate. Special care should also be taken to review the effective date of changes for new treaties and protocols. Particular care should be taken with respect to Canada-US payments involving fiscally transparent entities with changes effective in 2009 and 2010 (see note 14).

The Canada Revenue Agency (CRA) has provided declaration forms that are recommended for use by non-residents of Canada to provide the CRA and Canadian resident payers with information regarding their residency status and eligibility for treaty benefits.

C

	Dividends (%)	Interest[1] (%)	Royalties (%)
Corporations and individuals resident in Canada:	Nil	Nil	Nil
Non-resident corporations / individuals of non-treaty countries:	25	25	25
Treaty countries:			
Algeria	15	15	15[6]
Argentina	10/15[2]	12.5	15[6]
Armenia	5/15[2]	10	10
Australia[11]	5/15[2]	10	10
Austria	5/15[2]	10	10[6]
Azerbaijan	10/15[2]	10	10[6]
Bangladesh	15	15	10
Barbados	15	15	10[6]
Belgium	5/15[2]	10	10[6]
Brazil	15/25[2]	15	25[6]
Bulgaria	10/15[2]	10	10[6]
Cameroon	15/20[4]	15/20[4]	15/20[4]
Chile	10/15[2]	15	15
China (PRC)[9, 11]	10/15[2]	10	10
Colombia	5/15[2]	10	10
Croatia	5/15[2]	10	10
Cyprus	0/15[16]	15	10[6]
Czech Republic	5/15[2]	10	10
Denmark	5/15[2]	10	10[6]
Dominican Republic	18	18	18[6]
Ecuador	5/15[2]	15	15[6]
Egypt	15	15	15
Estonia	5/15[2]	10	10
Finland	5/15[2]	10	10[6]
France	5/15[2]	10	10[6]
Gabon	15	10	10
Germany	5/15[2]	10	10[6]
Greece	5/15[2]	10	10
Guyana	15	15/25[4]	10
Hong Kong	5/15[2]	10	10[6]
Hungary	5/15[2]	10	10[6]
Iceland	5/15[2]	10	10[6]
India	15/25[2]	15	20[6]
Indonesia	10/15[2]	10	10
Ireland, Republic of	5/15[2]	10	10[6]

Israel	5/15[2]	10	10[6]
Italy	5/15[2]	10	10[6]
Ivory Coast	15	15	10
Jamaica	15	15	10
Japan	5/15[2]	10	10
Jordan	10/15[2]	10	10
Kazakhstan	5/15[2]	10	10
Kenya	15/25[2]	15	15
Korea	5/15[2]	10	10
Kuwait	5/15[2]	10	10
Kyrgyzstan	15	15	10[6]
Latvia	5/15[2]	10	10
Lebanon[10]	5/15[2]	10	10[6]
Lithuania	5/15[2]	10[7]	10
Luxembourg	5/10/15[2]	10	10[6]
Madagascar[10]	5/15[2]	10	5/10[6]
Malaysia[11]	15	15	15[6]
Malta	15	15[7]	10[6]
Mexico	5/15[2]	10	10[6]
Moldova	5/15[2]	10	10
Mongolia	5/15[2]	10	10[6]
Morocco	15	15	10[6]
Namibia[10]	5/15[2]	10	10
Netherlands[11]	5/15[2]	10	10[6]
New Zealand[8]	5/15[2]	10	5/15
Nigeria	12.5/15[2]	12.5	12.5
Norway	5/15[2]	10	10[6]
Oman	5/15[2]	10	10[6]
Pakistan	15/20[5]	15/25[4]	15/20[4,6]
Papua New Guinea	15/25[4]	10	10
Peru	10/15[2]	15	15
Philippines	15/25[4]	15	10/25[4]
Poland	5/15[2]	10	5/10[6]
Portugal	10/15[2]	10	10
Romania	5/15[2]	10	10[6]
Russia	10/15[2]	10[7]	10[6]
San Marino[12]	N/A	N/A	N/A
Senegal	15/16[4]	15/16/20[4]	15
Serbia	5/15[2]	10	10
Singapore	15	15	15

Slovak Republic	5/15[2]	10	10[6]
Slovenia	5/15[2]	10	10
South Africa	5/15[2]	10	10[6]
Spain	5/15[2]	10	10[6]
Sri Lanka	15	15	10[6]
Sweden	5/15[2]	10	10[6]
Switzerland	5/15[2]	10	10[6]
Tanzania	20/25[2]	15[7]	20
Thailand	15/20[5]	15/25[4,7]	15[6]
Taiwan	10/15[2]	10	10
Trinidad and Tobago	5/15[2]	10	10[6]
Tunisia	15	15	20[6]
Turkey	15/20[2]	15	10
Ukraine	5/15[2]	10	10[6]
United Arab Emirates	5/15[2]	10	10[6]
United Kingdom	5/15[2]	10	10[6]
United States[14,15]	5/15[2]	0[13]	10[6]
Uzbekistan	5/15[2]	10	10[6]
Venezuela	10/15[2]	10	10[6]
Vietnam	5/10/15[3]	10	10[6]
Zambia	15	15	15
Zimbabwe	10/15[2]	15	10

Notes:

1. Effective 1 January 2008, Canada's Income Tax Act eliminates the Canadian withholding tax on arm's length payments of interest (other than participating debt interest) to all non-residents of Canada.
2. Depending upon the particular treaty, the lower rate applies where a corporate recipient of a dividend (beneficial owner) holds, at least, 10% to 25% of the voting control or at least 10% to 25% of the share capital of the company paying the dividend.
3. The 5% rate applies if at least 70% of the voting power is controlled by the recipient corporation. The 10% rate applies if between 25% and 70% of the voting power is controlled by the recipient corporation.
4. The lower rate only applies if the payment arises in Canada.
5. The 15% rate is applicable where the payment arises in Canada or if paid from a company engaged in an industrial undertaking.
6. Maximum withholding rate. Lower rates may apply depending on the nature of the royalty.
7. Lower rates apply to banks, insurance companies and lending institutions.
8. A protocol signed on 12 September 2014 entered into force on 26 June 2015 and is effective as of 1 August 2015 (withholding taxes) and 1 January 2016 (other taxes) for Canada and as of 1 August 2015 (withholding taxes) and 1 April 2016 (other taxes) for New Zealand.
9. See separate listing for treaty with Hong Kong, signed on 11 November 2012 (entry into force on 29 October 2013).
10. Initial treaty which is not in force as of 10 January 2017. Table shows rates which will be in force when implemented. General rates are in effect until that time.
11. Canada is presently renegotiating a treaty with this country.
12. Canada is presently negotiating an initial treaty with San Marino.

13. The withholding rate for non-arm's length interest paid to the US was reduced to 0% effective 1 January 2010. The rate for arm's length interest payments was reduced to 0% effective 2008. Interest on participating debt is excluded from these exemptions, but the withholding rate on such interest is limited to a 15% withholding rate.
14. Effective 1 January 2010, changes to the Canada – US Tax Treaty eliminated treaty benefits for payments from an entity which is treated as a corporation by Canada but as a fiscally transparent entity in the US and certain other conditions are met. For example, a payment from a Canadian unlimited liability company to its US owner will not be eligible for a treaty rate reduction where the tax treatment of the transaction under US rules differs from the treatment it would have received if the payer was not fiscally transparent for US purposes. Effective 1 February 2009, payments from Canada to a US fiscally transparent entity such as a US limited liability company, or a US partnership require consideration of the US treaty status of the individual members of the recipient entity. A US S Corporation will also generally be a fiscally transparent entity subject to the same look-through rules but Canada has indicated that it will give an S Corporation a reduced treaty rate where it qualifies for such rate as a recognized entity under the treaty. Specific tax advice should be sought to establish the withholding rate for Canada – US cross-border payments involving fiscally transparent entities. In April 2011, the CRA issued forms NR302 and NR303 for declaring the eligibility for treaty benefits for a partnership and other fiscally transparent or hybrid entities. The applicable withholding rate is calculated on worksheets included with these forms.
15. The limitation of benefits clause in the Canada-US Tax Treaty became effective on 1 February 2009 for Canadian withholding taxes, and may in certain circumstances deny treaty benefits on payments to US entities with non-US owners.
16. Dividends paid by a company resident in Cyprus to a Canadian owner are not subject to withholding tax. Dividends paid by a company resident in Canada to an owner in Cyprus are subject to a withholding tax of 15%.

CAPE VERDE

MEMBER FIRM

City	Name	Contact Information
Santa Maria	José Sousa Santos	+238 242 2716 Sousasantos@pkf.pt

BASIC FACTS

Full name:	Republic of Cabo Verde
Capital:	Praia
Main languages:	Portuguese, Cape Verdean Creole
Population:	552,099 (2018 estimate)
Monetary unit:	Cape Verdean Escudo (CVE)
Internet domain:	.cv
Int. dialling code:	+238

KEY TAX POINTS

- Resident corporations are subject to Cape Verde corporate income tax (IUR) on their worldwide income.
- The standard rate of VAT is 15%.
- Payments between resident companies are generally subject to withholding tax.
- Income tax is payable by individuals on employment income. Resident individuals are subject to income tax on their worldwide income whilst non-residents are liable to income tax only on income sourced in Cape Verde.

C

A. TAXES PAYABLE

COMPANY TAX: GENERAL REGIME

Resident corporations are subject to Cape Verde corporate income tax (CIT) on their worldwide income. Resident companies are those which have their head office or place of effective management, in Cape Verde. Companies not having their head office or place of effective management in Cape Verde territory are subject to IUR only on income obtained in Cape Verde.

The IUR is charged on the profits of companies or other similar entities, of individuals treated as companies, of individual enterprises engaged in commercial, industrial, agricultural, fishing or service benefits, and of profit attributable to a permanent establishment located in the Cape Verdean territory.

For the purposes of determining taxable income, CIT payers can be taxed under two methods/regimes as follows:

- Special regime for micro and small-sized companies:
  - Micro-sized company: An entity that employs up to five persons with an annual turnover (gross amount of sales and services) that does not exceed 5 million Cabo Verdean escudos (CVE).
  - Small-sized company: An entity that employs between six and ten persons with an annual turnover (gross amount of sales and services) of between CVE 5 million and CVE 10 million.
- Standard organised accounting regime (standard/normal regime under which the computation of profits follows the local accounting rules).

Resident companies are subject to a tax rate of 25%, where taxable income corresponds to the profit less any tax benefits and any losses carried forward, as stated in the tax return. The tax rate of 25% is also applicable to PEs of non-resident companies.

Micro and small-sized companies are subject to a single special tax (SST) of 4% levied on the gross amount of sales obtained in each taxable year, to be paid quarterly. The SST replaces the CIT, fire brigade surtax, and value-added tax (VAT), as well as the contribution to social security attributable to the company.

Non-resident companies without a PE are subject to withholding tax (WHT) rates applicable to each income category foreseen in the Tax Code, which range between 1% and 20%.

The tax year usually coincides with the calendar year (1 January to 31 December). Tax is payable as follows:

Taxable Persons	Tax Payment
Resident entities whose main activity is commercial, industrial or agricultural and non-residents with a permanent establishment in Cape Verde	Payments on account in January. The balance is due by the date when the tax return is filed – generally 31 May.
Non-profitable entities.	Tax is payable by the end of the fifth month following the end of the tax year – generally 31 May.
Non-resident entities without a permanent establishment.	Tax is payable by the end of the fifth month following the end of the tax year – generally 31 May.

VALUE ADDED TAX (VAT)

Cape Verde has adopted VAT which is a sales tax levied on the supply of goods and services as well as on the import of goods into Cape Verde. The VAT system in Cabo Verde closely follows the European Union (EU) VAT system and is assessed at the standard rate of 15%. The standard VAT rate of 15% is a general tax on consumption, applicable to the import and sale of goods and services in Cabo Verde territory. VAT exemptions are laid down in particular to medical services, services related to education and social support and vocational training, banking and financial transactions, insurance and reinsurance operations, as well as exemptions for the importation of certain goods.

OTHER TAXES

MUNICIPAL TAX ON REAL ESTATE (IUP)

The IUP is a municipal tax levied on the value of properties in the territory of each municipality, dividing, in accordance with the classification of buildings in rustic and urban, the value of free transmissions or expensive real estate, the value of corporate transactions subject to public deed, such as social pacts changes, transfer of shares and other like nature, the value in use or enjoyment of motor vehicles subject to registration and, finally, capital gains arising from the valuation of land for building, broadcasts of buildings or other real estate.

The standard rate is 1.5%.

Exemption from IUP due on the acquisition is granted to:

- Cabo Verdean emigrants who own saving bank accounts;
- Projects with Tourist Utility Status.

STAMP DUTY

The Stamp Duty (IS) focuses on different tax events, and in particular on financial transactions, corporate transactions, capital transfers and documented legal acts. The rates are as follows:

Item	Stamp duty rate
Loans	0.50%
Bank interest	3.50%
Bank fees and commissions	3.50%
Insurance	3.50%
Guarantees	0.50%
Promissory notes, securities	0.50%
Emoluments, registration acts	15%
Contracts	CVE 1,000

B. DETERMINATION OF TAXABLE INCOME (IUR)

GENERAL REGIME

Net income, or taxable income, is arrived at by adjusting the accounting profits for non-taxed income and non-deductible expenses. As a general principle, costs are only deductible when necessarily incurred tor the purpose of producing income.

DEPRECIATION

Depreciation is considered a deductible cost with respect to all fixed assets (except land), up to the limits determined by the applicable tax law. As a general rule, depreciation must be computed by using the straight-line method. The tax authorities may allow other depreciation methods on the basis that the actual depreciation is higher than the one calculated at regular rates or according to the taxpayer's accounting practice. Under the straight-line method, the maximum depreciation that is deductible is calculated by applying the general depreciation rates set out by Decree No. 42/2015 of 24 August to the adjusted purchase cost or production cost.

Land is not depreciable.

STOCKS / INVENTORY

Tax law does not foresee any mandatory inventory valuation method that should be adopted by Cabo Verdean taxpayers. For tax purposes, accepted inventory methods should be consistent with the accounting rules in force and with generally accepted policies. Such methods should be applied in a consistent manner over the financial years and based on the prices effectively paid or established by official documents. Inventory must normally be valued at the effective cost of acquisition or production (historic cost). Other methods which may be adopted include:

- The standard cost method, which must be calculated in accordance with the appropriate technical and accounting principles;
- The sale price method, based on the market value less a normal profit margin.

LOSSES

Operating losses incurred by resident companies may be carried forward to be set off against taxable profits for three years.

FOREIGN SOURCED INCOME

Resident companies are taxed on their worldwide income.

C. WITHHOLDING TAX

Payments between resident companies are generally subject to withholding tax. The rates vary between 10% and 20%. The following types of income are subject to withholding tax, according to the table below:

Type of income	Tax rate
Income Capital Application:	
- Bank deposits Interest, with the exception of emigrant deposits	20%
- Dividends and other income derived from capital investment including shares in profits of companies, profits and capital gains anticipation.	10%
- Royalties	20%
- Revenue from games gains, lotteries and betting.	15%

Dividends are subject to WHT at a rate of 10%. The WHT may be waived if the following conditions are cumulatively met:

- Direct or indirect participation in share capital of at least 10;.
- The participation is held consecutively for one year prior to the date on which the profits are made available;
- None of the entities benefit from a favourable tax regime as defined in the General Tax Code.

D. PERSONAL TAX

Personal income tax will be due by natural persons residing in Cape Verdean territory and also by those not residing in Cape Verde, but obtain income in Cape Verde. of an individual is taxed according to different categories. Personal income tax regulations provide for the following categories: property income, commercial and industrial income, including capital gains and the provision of services, and income agricultural, livestock and fishing, capital income and other income, such as from the game, lottery and betting, and finally, income from work, dependent and independent, including pensions and annuities or temporary.

Taxable income results from the aggregation of the various categories of income, although exempt, earned each year, after the deductions and rebates defined in Regulation IUR. Capital gains and losses realized on the onerous transfer of shares and other securities are subject to withholding tax. In determining the tax base, the gains must be subject to aggregation and are considered at 50% of their value. There are specific deductions for each category of income, using as criteria the costs or charges necessary to attain them. Thus, expenditure on health and education, pensions, housing rents, housing debt interest, construction and improvement of real estate, the premiums of illness or personal accident insurance, as well as some life insurance, and the amounts invested annually in government bonds and contributions to social security or single social tax for the taxable person or their dependents may be deducted from the taxable income. Can also be deducted from the total income, net of deductions, donations of public interest.

Employment and pension income

Employment and pension income is generally subject to monthly WHT. As a rule, the monthly WHT is levied as a final taxation, unless the taxpayer chooses to file a tax return in which case the withheld tax acts as an advance payment.

Bracket	Taxable income		WHT rate (%)	Deduction (CVE)
	From	To		
1	0	80,000	15	5,500
2	80,000	150,000	21	10,300
3	150,000	--	25	16,300

Employees are subject to a tax payment of 8% (contribution to Social Security). Self-employed persons are subject to payment of contributions at 11% in restricted schemes, and at 19.5% in extended schemes. The payment of contributions shall take place by the 15th of the subsequent month to which they relate. Tax returns submitted in a paper form are due by 31 March of the subsequent tax year.

Non habitual tax Residents

A scheme has been introduced for non-habitual resident taxpayers, according to which non-habitual residents who obtain income from dependent and independent work resulting from activities considered to be of 'high added value with a scientific, artistic or technical character', to be defined in by the member of the Government responsible for the area of finance, will be subject to taxation at a special rate of 10%.

In addition, the regime establishes an exemption from taxation for foreign source income, provided certain conditions are met. The scheme shall apply for a period of 10 consecutive years. The scheme for non-resident residents applies to taxpayers who acquire tax residence in Cape Verde and who have not had tax resident status in Cape Verde in any of the previous 5 years.

The non-habitual resident status is acquired by registering this status in the taxpayer register of the Tax Administration until March 31 of the year following that in which they become tax residents in Cape Verde.

E. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Cape Verde signed double tax treaties with Portugal and Macau. In addition, negotiations are ongoing to conclude a double tax treaty between Cape Verde and Spain.

	Dividends (%)	Interest (%)	Royalties (%)
Non-treaty countries	10	10/20[2]	20[3]
Treaty countries:			
Portugal	10	0/10[1]	10
Macau	10	10	10

Notes:

1. The 0% rate applies, among others, to interest paid by public bodies.
2. As from 1 January 2015, interest paid to non-residents is subject to a final withholding tax of 20%, except interest on bonds, government bonds and similar public securities derived from public debt, financial investment instruments such as promissory notes and bills of exchange, which are subject to a final withholding tax of 10%.
3. Royalties (representing know-how, technical assistance and leasing of equipment) paid to non-resident companies are subject to a final withholding tax of 20%.

CHILE

MEMBER FIRM

City	Name	Contact Information
Santiago	Antonio Melys	+56 22650 4332 amelys@pkfchile.cl

BASIC FACTS

Full name:	Republic of Chile
Capital:	Santiago
Major language:	Spanish
Population:	18.17 million (2018 estimate)
Monetary unit:	Chilean Peso (CLP)
Internet domain:	.cl
Int. dialling code:	+56

C

KEY TAX POINTS

- The Chilean income tax system applies to all individuals and entities domiciled or resident in Chile in respect of their worldwide income. Non-residents are subject to tax on Chilean-sourced income.
- Two categories of income tax apply in relation to different types of income (activities). The rules for calculating tax under each category are different.
- In general, profits from commercial activities (including relevant capital gains) are taxed at 25 % under 'First Category tax'.
- Notwithstanding the foregoing, since 1 January 2017 two tax systems co-exist affecting profits made by enterprises that determine the income tax taking into account the results of financial statements based on full accounting records. These systems have a maximum tax burden of 35% (Attributed income system) and 44,45% (Partially integrated system), taking into account both the tax of the company (First Category tax) and the owners (Additional tax or Global Complementary tax). Under the Partially integrated system the higher burden results from the owners having to refund 35% of corporate tax (First Category Tax) on the same taxable profit distributed or withdrawn. There are exceptions that make the tax burden similar in both systems. In fact, the restriction in the use of corporate tax as a credit will not be applicable to investors domiciled or resident in countries that have a double tax treaty with Chile, in which the application of the Additional Tax on the income distributed or withdrawn has been agreed upon provided that the First Category Tax is deductible of said tax, or another clause is contemplated producing the same effect. This beneficial rule is also applicable when a double tax treaty with Chile has been signed before 1 January 2019 although it is not in force yet. This last rule will stay applicable up to 2021, the year when it is expected those conventions will be in force.
- Gross taxable income arising from wages, salaries, overtime payments, bonuses, fees, gratuities, profit sharing and any other form of remuneration is taxed under the Second Category which is a progressive tax, the highest rate of which is 35 %.
- Profits remitted or withdrawn from Chile (such as by way of payment of dividends to non-residents in enterprises subject to the Partially Integrated System) are subject to a 35% 'Additional Tax', although relief is given for any First Category tax paid on the relevant profits. Some of the taxpayers domiciled or resident abroad may have to refund the 35% of the tax credit, which means that in practice they could only use the 65% of the First Category tax as a tax credit. This restriction is applicable only to taxable income generated since 1 January 2017.
- Transfers and other operations regarded as sales, as well as services other than those rendered by employees and consultants, are subject to 19% Value Added Tax (VAT). Exports of all products and services qualified as exports by the Customs Service are exempt for VAT purposes. VAT paid on imports and on local sales and services may be deducted from VAT surcharged on sales or services rendered.
- There are various other types of payments to non-residents which are subject to withholding tax. Chile has signed double tax treaties with a number of countries under which the withholding tax rate may be reduced or the tax may not be applicable.
- Credits are available for overseas taxes paid on foreign-sourced income. Where the income consists of dividends or overseas profits, the credit is capped at a maximum of 32% of the gross dividends or profits. The credit will be up to a 35% rate on any kind of income subject to First Category tax from countries that have a double tax treaty with Chile in which a credit has been foreseen. Any other unrelieved foreign taxes are generally relievable as a deduction against taxable income.
- Although individuals resident in Chile generally pay income tax on their worldwide income, foreigners who establish their domicile or residence in Chile only pay income tax on their Chilean-sourced income for the first three years of residence.

A. TAXES PAYABLE

COMPANY TAX

The income tax legislation provides for a scheduler system divided as follows:

FIRST CATEGORY TAX

First Category tax is due on income derived from commercial, industrial and agricultural activities, mining, fishing and other extractive activities, investment, and real estate. All income not specifically taxed under another category and not tax exempt is included. Capital gains are included in gross income subject to First Category tax with certain exceptions which include:

(a) Gains from the sale of publicly traded Chilean corporations' stock acquired and sold under certain

conditions such as to be carried out on the Stock Exchange, which are tax exempt.

(b) Sale of mining rights up to the amount represented by the variation in the cost of living index between the date of purchase and that of sale, carried out by taxpayers not subject to the First Category tax on effective income.

(c) Sale of real estate other than that included in the assets of a taxpayer subject to the First Category tax on effective income. The maximum cumulative income not taxable under this rule amounts to 8,000 UF (USD 351,000), regardless of the number of operations made by the taxpayer.

FIRST CATEGORY INCOME TAX SYSTEMS

The structure of income taxes is the same for taxpayers that obtain income other than those generated by employees and professionals. However, enterprises determining the First Category income tax taking into account the results of financial statements based on full accounting records could be subject to one of the two following income tax systems in force since 2017:

a) **Attributed income system**. The corporate First Category income tax rate is 25% and it is fully credited against the income tax affecting stockholders, partners and individual entrepreneurs subject to personal income tax on such profits (Global Complementary Tax or Additional Tax, as the case may be). All of them must include such profits in their own income tax return, regardless of whether they have been distributed by the company. The tax burden on profits affecting investors without a domicile or residence in Chile under this system is 35% (Additional Tax). Income tax rates applicable to national investors range from 0% to 35% (Global Complementary Tax).

b) **Partially integrated system.** The corporate First Category income tax rate is 25.5% (27% from 2018 onwards). Stockholders, partners and individual entrepreneurs must include in their own income tax return only the profits distributed by or withdrawn from the company but in practice they can only use 65% of the corporate tax as a tax credit, since they have to refund 35% of the First Category corporate tax. Consequently, the maximum tax burden on profits affecting investors under this system is 44.45%. That restriction in the use of corporate tax as a credit is not applicable to investors domiciled or resident in those countries that have a double tax treaty with Chile, in which the application of the Additional Tax on the income distributed or withdrawn has been agreed upon provided that the First Category Tax is deductible of said tax, or another clause producing the same effect is contemplated. The same tax benefit is also granted when the double tax treaties have not yet entered into force yet but have been signed by Chile before 1 January 2017, but that rule will only stay applicable until 31 December 2021. Corporations and limited partnerships with share capital must be taxed under this system.

Some of the enterprises (except for corporations and limited partnerships with share capital) have the chance to opt for one of the tax systems, depending on their juridical structure. The tax system opted for cannot be changed by the taxpayer during a period of five years. However, in some cases a change in the juridical structure of the taxpayer can force it to switch the tax system.

SECOND CATEGORY TAX

Second Category gross taxable income refers to the one arising from wages, salaries, overtime payments, bonuses, fees, gratuities, profit sharing and any other form of remuneration. It is a progressive tax, the highest of which is 35%, applicable on a monthly basis to the excess of 120 monthly tax units (USD 9,240).

COMPLEMENTARY TAX (IMPUESTO GLOBAL COMPLEMENTARIO)

This is a progressive tax assessed on a resident individual or domiciled in Chile with respect to income received or withdrawn in the preceding year. Its highest rate is 35%, applicable to the excess of 120 yearly tax units (USD 110,880).

ADDITIONAL TAX (IMPUESTO ADICIONAL)

This tax affects, among others, the Chilean-sourced income withdrawn or remitted abroad to non-residents or non-domiciled individuals and of companies or juridical entities organised abroad with or without a permanent establishment in Chile in the form of branches, offices, agents or representatives. This tax also affects foreign payments such as royalties, technical assistance and others at varying rates.

SPECIAL TAX OF ARTICLE 21° OF THE INCOME TAX LAW

This tax affects almost all entities regardless of the legal structure they have (individuals, corporations, permanent establishments of non-resident entities, etc.). It is applied at a 40% rate on all amounts that are disallowed as an expense, when they represent disallowed actual disbursements or withdrawals of assets, regardless of the way in which they may have been accounted for. Under certain circumstances this kind of

disallowed expense must be included in the income tax return of the correspondent shareholder, partner or individual owner which has to pay a 10% additional surcharge on such amounts.

SPECIFIC TAX IN OPERATIONAL MINING INCOME

Since 2006, there is a specific tax on the operational income of the mining activity obtained by a mining operator. This progressive tax rate currently ranges from 0.5%, if annual turnover is equal to or exceeds 12,000 metric tons of fine copper, to 4.5% if annual turnover is between 40,000 metric tons and 50,000 metric tons. If turnover exceeds 50,000 metric tons, the tax is applied on the mining operational margin and the progressive tax rate ranges from 5% on the operational margin not exceeding 35,000 metric tons to 14% if the operational margin exceeds 85,000 metric tons. The operational taxable income on which this tax is applied is determined in a specific way. Certain expenses such as losses from past periods, accelerated depreciation of fixed assets, etc. are not allowed for this purpose. The mining operational margin is determined as a ratio of the operational taxable income to the mining operational turnover.

CLASSES OF TAXPAYERS

Any person or entity domiciled or resident in Chile must pay tax on income, whatever its origin, whether its source is located in Chile or abroad. Non-residents are subject to tax on income, the source of which is located within Chile. An individual is considered resident for tax purposes when remaining in Chile for more than six consecutive months in the calendar year or for more than a total of six months within two consecutive calendar years. Foreigners working in Chile are only subject to tax on their Chilean-sourced income during the first three years of domicile or residence period which may be extended. After this period, they become subject to tax on their worldwide income.

Thus, the income tax system covers individuals and juridical persons, resident or non-resident, foreign or national, whose income source is located in Chile and also, in the case of a resident's income, from abroad. For example, partnerships are subject to a 25% First Category tax on an accrued basis. The amounts attributed to non-resident or non-domiciled partners (Attributed income system) are subject to a 35% Additional Tax payable regardless of its distribution or remittance with a 25% First Category tax credit. If partners are domiciled or resident in Chile, the amounts distributed by the entity are subject to Complementary Tax, which is a progressive tax. These shareholders also have a 25% tax credit. Under the Partially integrated system the income tax of partners is payable or included in the personal income tax return when distributed or remitted abroad. The credit is 27% First Category tax but 35% of it must be refunded, except in some cases such as that of taxpayers of countries that have a double tax treaty with Chile (see paragraph First Category Income Tax Systems). Corporations and their stockholders can only be subject to the latter system.

VALUE ADDED TAX (VAT)

Transfers and other operations regarded as sales, as well as services other than those rendered by employees and consultants, are subject to 19% VAT. In addition, certain items are subject to sales tax. For imports, the taxable basis is the customs value or CIF value, including customs duties. Certain capital goods forming part of foreign investments of at least USD 5,000,000 may be exempt from VAT, for which the investor must submit an application to the Ministry of Finance .

The tax applies to the sale of all movable and immovable physical assets (except land) sold by a person who is a customary seller. The tax basis is the sales price, including monetary correction, interests, finance charges and penalty interests. The tax itself is excluded from the basis. Exports of all products are exempt for VAT purposes. VAT paid on imports and on local sales and services may be deducted from VAT surcharged on sales or services rendered. VAT paid on importation and on acquisition or services received, when accessory to operations exempt from VAT (unless they are exports) or not related directly to the activities of the seller, is not recoverable.

Some products like alcoholic and non-alcoholic beverages, jewels, furs, articles made of gold, silver or ivory are subject to a sale surtax at different rates.

LOCAL TAXES

No local income taxes are payable in addition to central government taxes. However, Chile imposes taxes on real estate and a stamp tax on documents that contain loans and credit operations (bill of exchange, promissory notes, etc.). Enterprises have to pay an annual municipal licence, calculated on the taxpayer's equity at a minimum rate of 0.25% and a maximum of 0.5%, set by each municipality. The total amount cannot exceed 8,000 monthly tax units (about USD 616,000), which is allocated among the municipalities in which the taxpayer has an office, factory or other establishment.

B. DETERMINATION OF TAXABLE INCOME

Gross income is arrived at by deducting from gross receipts the direct cost of goods and services required to produce such receipts. The direct cost of locally acquired goods will be the purchase price, to which the cost of freight and insurance to deliver to the taxpayers' premises may be added. For imported goods, it will include CIF value, duties and customs charges as well as local freight and insurance costs as above. For manufactured or processed goods, direct cost will include raw material, costs in the manner described, and labour charges. Business income is determined on the accrual basis, whereas the dividend income on corporate shares is assessed on a cash basis. In the case of long-term projects, the tax authorities are empowered to issue rulings regarding the determination of income for tax purposes.

Business expenses are deductible from gross income provided that they have not already been deducted in arriving at such gross income and that the expenses are required for the income to be obtained. Expenses incurred in the acquisition, maintenance or exploitation of assets not used in the regular course of business are not deductible. The accounting period in Chile coincides with the calendar year

CFC (Controlled Foreign Company) Rules

Certain foreign income is taxable in Chile not only when it is received but also accrued. In fact, profit consisting of passive income (interests, dividends, etc.) received or accrued by foreign entities controlled by Chilean taxpayers or patrimonies, must be considered as received or accrued by these Chilean taxpayers. The taxable profit of the foreign entity is determined by applying the Chilean tax regulations.

DEPRECIATION

Depreciation on fixed assets, except for land, is tax deductible under the straight-line method based on their useful lives in accordance with the guidelines of the Chilean Internal Revenue Service (IRS), computed on the restated value of the assets. A shorter lifespan is stated in the Income Tax Law as an option for depreciation, applicable to fixed assets purchased since 2003. The option means an accelerated depreciation for new assets when acquired locally, or new or used assets when imported, with useful lives of over five years. For this purpose, the assets will be assigned useful lives equivalent to one-third of the normal, eliminating fractions of months.

There is an alternative according to the amount of turnover of the taxpayers, which allows them to accelerate the depreciation to 1/10th of the normal lifespan of the fixed assets. The lifetime thus obtained cannot be less than one year. Taxpayers may discontinue the use of the accelerated method at any time but may not return again to the accelerated method. The difference between accelerated and straight-line method will not reduce the taxable profit that can be withdrawn by partners or distributed to shareholders.

No allowance is made for amortisation of intangible assets such as, patents, trademarks, etc. Goodwill in mergers and acquisitions that cannot be allocated to non-monetary assets, is considered as an expense only at the winding up of the enterprise. Depletion of ore in mining properties is not tax deductible.

STOCK / INVENTORY

The cost of goods sold or production materials and supplies consumed is based on the first-in, first-out (FIFO) basis, although the 'average' method may be elected. The method adopted determines the basis for the valuation of the closing inventory. The valuation so determined is, however, adjusted in the manner stipulated for the annual monetary correction procedures.

DIVIDENDS

Dividends received from Chilean corporations are exempt from First Category tax. Taxpayers subject to the Attributed Income system must add the taxable dividends received from a corporation to their taxable income, but they can use the First Category Tax which affected such dividends as a tax credit. The tax credit is 65% of the First Category Tax when the dividends are received from a company subject to the Partially Integrated income system. There is no distinction in Chile between dividends and inter-company dividends. A dividend in kind as such does not exist. Dividends are necessarily expressed in cash, notwithstanding the fact that the company may distribute certain assets corresponding in value to the dividend amount. Stock dividends in the form of bonus shares or increases in the par value of existing shares are not considered as income for tax purposes.

INTEREST DEDUCTIONS

Generally, interest accrued or paid in the financial year is a deductible expense, provided that it has been incurred in connection with loans related to the business. Regarding the interest and other amounts, when originating in acts or contracts concluded with related parties abroad, the expense will only be deductible in

the year such amounts are paid, credited to account or placed at the disposal of the beneficiary. It is also required that the correspondent Additional tax is paid unless such amounts are tax exempt.

LOSSES

Losses incurred in the fiscal year are deductible. Furthermore, there is no limit on carry forward of losses. There are no loss carry-back provisions, nor is it available to group profitable and unprofitable affiliates for tax purposes. However, dividends received or income withdrawn from third companies can be offset against losses for tax purposes. This leads to a refund of the First Category tax that affected the dividends or the income withdrawn.

FOREIGN SOURCE INCOME

Non-domiciled or non-resident corporations are only subject to income taxes on their Chilean-sourced income. If the domestic corporation receives amounts in excess of the book value of an investment when a foreign subsidiary is liquidated, these are considered as income subject to regular taxes. From 2012 onwards, the income received or accrued from derivatives such as forwards, futures, swaps and options, by persons or entities without domicile or residence in the country, will not be subject to income tax, except for those arising from derivatives that are settled by physical delivery of shares or rights in companies incorporated in Chile.

INCENTIVES

Foreigners may remit their earnings or be paid abroad. Remittances have to be reported to the Central Bank of Chile. Non-domiciled or non-resident individuals in Chile are subject to an Additional income tax, at a rate of 35%. However, if the foreign activities' nature is scientific, cultural or sports, the tax rate is only 20% as a sole tax provided the period of service is less than six months. This tax is also applicable to engineering or technical jobs and professional or technical services rendered, in Chile or abroad, by individuals or juridical entities at a 15% rate. This rate will be 20% in the cases pointed out in the summary showed below.

ROYALTIES

Royalties are deductible expenses:

(a) Provided they are necessary to produce income;

(b) Provided the rate is that normally paid in similar circumstances with respect to their nature;

(c) As a result of the relationship existing between the parties. In this case, the royalty is deductible when it is paid, credited to account or placed at the disposal of the beneficiary, and Additional income tax is paid unless the royalty is tax exempt.

Deduction of outbound royalties is limited to 4% of receipts from sales and services effected in the tax year. The 4% limit is not applied if in the tax year there is no capital, control or administration relationship, whether direct or indirect, between the taxpayer and the recipient of the royalties. Likewise, the 4% limit is not applied if the royalties are taxed in the recipient's country at a rate of at least 30%. In calculating the 4% limit, it is necessary to first compute the royalties not subject to the limit and then the royalties subject to the limit. Also the effect of double tax treaties entered into by Chile need to be considered.

C. FOREIGN TAX RELIEF

- Foreign tax credits are allowed in Chile. A resident taxpayer who is taxed in Chile on dividends or profits received from enterprises set up abroad which have already been taxed in the source country may be entitled to have the foreign tax levied on that income credited against his tax liability, with a cap equivalent to 32% of the gross dividends or profits. This credit must be computed into the tax basis. Foreign taxes paid in excess of the cap, which cannot be used as a tax credit, are allowed as a deduction from taxable income. The foreign tax is credited against First Category tax at the corresponding tax rate and the balance against the Additional or Complementary taxes.

  Foreign tax on income from agencies or permanent establishments that Chilean enterprises have set up abroad, or other income such as the one derived from trademarks, patents and technical assistance, will only be able to be credited against First Category tax up to the corresponding tax rate on the foreign income. In these last cases, the excess credit can be used in subsequent tax years.

  The credit will be up to a 35% rate on any kind of income subject to First Category tax from countries that have a double tax treaty with Chile in which a credit has been foreseen. This means that part of the tax credit is creditable against the corresponding First Category tax and the balance against the Additional or Complementary taxes. The part of the foreign income taxes that cannot be used as a tax credit is allowed as a deduction from taxable income.

- Law 19.840, published in the Official Gazette on 23 November 2002, allows foreign investors to establish Chile as a base for their investments into third countries. That law states special regulations (Article 41 D) to publicly traded corporations and closely held corporations ruled by the regulations of the former, constituted in Chile and in accordance with Chilean laws, incorporated with foreign capital permanently owned by partners or shareholders not domiciled nor resident in Chile, nor in countries or territories that are considered tax haven jurisdictions, or harmful preferential tax regimes. The same tax treatment will be applicable to non-domiciled or non-resident shareholders of said companies for remittances and distribution of profits or dividends obtained from them and from partial or total repatriations of capital, as well as for the capital gains obtained from the disposal of shares in companies governed by the abovementioned Article 41 D.

According to that article, such companies are not considered as domiciled in Chile for the purposes of the Chilean Income Tax Law and, therefore, they will only pay taxes in the country on their Chilean-sourced income. The line of business of the aforementioned companies must be the investment in Chile and abroad and the capital contributed by the foreign investor must have a foreign source. The regulations related to the bank secrecy will not be applied to them. This rule has been cancelled with effect from 1 January 2022. However, as of 23 November 2017 new companies cannot join this regime.

- Expenses incurred in approved training plans for personnel, up to 1% of the yearly payroll, are allowed as a credit against the First Category income tax.
- Immovable property tax will be creditable against the First Category tax only if paid by the owner or usufructuary of agricultural land or they have given the property on lease, usufruct or other forms of temporary assignment. Construction companies and real estate companies may credit property tax paid on immovable property built to be sold.

D. CORPORATE GROUPS

For tax purposes, consolidation of affiliated companies is not allowed. Losses can only be offset against profits of the same company or against dividends or taxable profits withdrawn from third companies.

E. RELATED PARTY TRANSACTIONS

Charges from foreign affiliates or head offices are only allowable for specific items related to the local company or branch. A pro-rata allocation of the foreign entity's expenses is not generally acceptable for tax purposes (see under ‘Royalties’ above).

F. PROFIT REMITTANCES, WITHDRAWALS OR DISTRIBUTIONS

Broadly speaking, profit remitted, withdrawn or distributed to investors not domiciled or resident in Chile that is taxed with the Additional Tax, is subject to a withholding tax. Regarding taxpayers subject to the Partially Integrated System, profit remittances and dividends paid to the shareholders not domiciled or resident in Chile are subject to Additional Tax on distribution at a rate of 35%, which has to be withheld. However, if the taxpayer has an accumulated credit originated in amounts subject to the First Category tax, a credit is given against the withholding tax, considering the First Category tax rate at the beginning of the year. It must be kept in mind that in such case 35% of the credit has to be returned by increasing the amount of the withholding, unless the taxable profit remitted has been generated before 2017, subject to the old tax regime. Anyway, such restriction is not applicable to investors domiciled or resident in those countries that have a double tax treaty with Chile (see paragraph “First Category Income Tax Systems” letter b). The same tax procedure is applicable to remittances of profit to partners or profit withdrawn by individuals not domiciled or resident in Chile. The withholdings applicable either on withdrawals of taxable profits or the yearly attributed income, are made by taxpayers subject to Attributed Income System at the end of the year, when the taxable income is determined.

G. THE 42% ALTERNATIVE

Foreign investors that have a Decree Law 600 contract entered into with the State of Chile and have opted for the 42% rate are subject to the First Category tax (payable by the branch or subsidiary) at the corresponding rate and an Additional tax at a rate that completes the 42%, on the same tax base. Thus, the total theoretical tax burden is 42% on pre-tax income instead of the 35% currently paid under normal taxation. The investor who has opted for the 42% invariable rate can elect at any time to be taxed at the normal rates. This election is irrevocable. Decree Law 600 has been abrogated with effect from the beginning of 2016, and has been replaced with a new regulation that does not consider any income tax rules. However, foreign investors are allowed in the next four years following the date the law is in force, to apply for investment contracts with the State of Chile subject to Decree Law 600. Anyhow, the invariable income tax rate will be 44.45%.

H. PAYMENTS ABROAD

Other payments to a non-resident not domiciled in Chile are subject to an Additional withholding tax as follows:

Type of Payment	Rate
Royalties	30%
Royalties paid abroad for patents of invention, industrial designs, new vegetal varieties, software and other specific cases	15%[1]
Engineering and technical jobs	15%[2]
Professional and technical services	15%[2]
Other services paid abroad	35%
Interest to foreign entities	35%
Interest to foreign banks	4%
Interest to foreign related banks, on the part of the loans that exceeds three times the equity (sole tax on excess indebtedness)	35%
Marine freight (exemptions on the basis of reciprocity)	5%
Insurance premiums to foreign insurers	22%
Reinsurance premiums to foreign insurers	2%
Individuals who carry out scientific, cultural or sports activities in Chile	20%

Notes:

1. The rate is 30% when the creditor or beneficiary of the remuneration is incorporated, domiciled or a resident in a country considered as a preferential tax regime according to the rules stated in article 41 H of the Income Tax Law.
2. The rate is 20% in the same situation as described in note 1 above.

I. PERSONAL TAX

All individuals, domiciled or resident in Chile are subject to income tax whatever the source of the income. Non-domiciled or non-resident individuals in Chile are subject to tax on their Chilean-sourced income. For tax purposes, a person is deemed to be non-resident when staying in Chile less than six months in two consecutive tax years. During the first three years of residence in the country, foreigners who establish domicile or residence in Chile pay income taxes only on their Chilean-sourced income. This term may be extended by the tax authorities for an additional three years after which they are taxed on their worldwide income. All remuneration for personal services as well as income derived from other services is included in gross income. All forms of remuneration are included in taxable salary. The only deduction is for social security contributions.

Items like reimbursement of travel expenses, housing provided for the sole interest of the employer, moving expenses, and reasonable relocation allowances are considered non-taxable income and are excluded from the tax calculation. Items like cost of living allowance, area allowance, car allowance, vacation travel, and utilities are taxable.

Capital gains of individuals are treated mostly as any normal income, subject to First Category tax and Complementary Tax. However, certain capital gains have special treatments as in the case of shares and immovables.

Necessary business expenses incurred on behalf of others are reimbursable and exempt from taxes, provided that they are duly proved. Professionals can deduct their effective expenses or standard deduction. The only deductible non-business expenses are social security contributions, on a voluntary basis where maximum amounts are determined in the same way as it is applicable to employees. (Employees must pay a variable percentage for pension plans of around 12% and 7% for health insurance, applicable on a maximum of up to 75.7 UF (USD 3,325), adjustable yearly. On a voluntary basis, employees are allowed to make additional contributions to the pension fund of up to 50 UF (USD 2,197), also deductible from salaries for tax purposes. Tax computation for individuals varies depending on the type of income.

Basically, the following categories exist:

(1) Professionals – working as independent consultants must compute all their yearly income less the expenses necessary to produce such income or presumed expenses of up to 30% of the annual gross income with a top limit equivalent to 15 yearly tax units (USD 13,860). They can also deduct the social

security contributions with equal caps applicable to employees.

(2) Employees – taxable income is the salary minus social security contributions either mandatory or voluntary (see paragraph above). No other deductions from taxable income are allowed. The tax applicable is the Sole Second Category income tax, mandatorily withheld by the employer on a monthly basis.

(3) Combined income – income received by individuals such as dividends, profits in partnerships or derived from personal business is subject to complementary tax. In the case of dividends and profits distributed by a First Category taxpayer, the individual has a credit originated in the payment of the First Category tax, whether the 35% tax credit should be returned or not. In the case of employment income, the individual has a credit for the payment of the Sole Second Category income tax.

(4) Professionals and employees domiciled or resident in Chile subject to Sole Second Category tax or Complementary Tax have a credit equivalent to foreign tax levied on their income they have made from countries that have a double tax treaty with Chile as professionals or employees. There is a cap of 35% on the gross foreign income.

EMPLOYEE REMUNERATION

A deduction is allowed for wages, salaries and remuneration paid for personal services, including bonuses paid in accordance with the law or a contract. Voluntary participations and profit sharing granted to employees and workers are deductible, provided they are distributed in proportion to wages, salaries, seniority, number of dependants, or other general rules applicable to all employees or workers of the enterprise.

A deduction is also allowed for that part of remuneration on which social security contributions have been paid for actual and permanent work to owners of sole proprietorships, partners of companies or persons and managing partners of partnerships limited by shares. Such remuneration is subject to withholding. With respect to other remuneration paid to persons who, due to their controlling position in the enterprise, are able to influence the fixing of their remuneration, the deduction is limited to that part which, in the opinion of the tax administration, is proportionate to the importance of the enterprise, its reported income, services rendered by the recipient and capital profitability.

A deduction is allowed for remuneration paid for services rendered abroad, provided that it is substantiated by reliable documents and provided that, in the opinion of the tax administration, the remuneration is necessary or convenient for the production of income in Chile. In practice, taxpayers tend to limit these expenses because of the tax cost involved.

J. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Chile has signed a number of double tax treaties referenced to in the table below. Chile has also signed treaties with the United States of America and Uruguay although they are not yet effective at the time of publication.

	Dividends (%)[4]		Interest (%)[4]	Royalties (%)[4]
	Individuals, companies (%)	Qualifying companies (%)		
Non-treaty countries	35% (Chilean sourced income)		0/4/35	0/15/30
Treaty countries				
Argentina	15	10	4/12/15[28]	3/10/15[19]
Australia	15	5[2]	5/10[7]	5/10[18]
Austria	15	15	5/15[8]	5/10[18]
Belgium	15	0[3]	5/15[8]	5/10[18]
Brazil	15	10	15	15[30]
Canada	15	5[4]	10/15[9]	10/15[20]
China	10	10	4/10[7]	2/10[18]
Colombia	7	0	5/15[10]	10[29]
Croatia	15	5[5]	5/15[10]	5/10[18]

Czech Republic	15	15	5/15[10]	5/10[18]
Denmark	15	5	5/15[11]	5/10[21]
Ecuador	15	5	5/15[11]	10[22]
France	15	15	5/10/15[8, 12]	5/10[18]
Ireland	15	55	5/15[8]	5/10[18]
Italy	10	5	4/5[8]/10/15[13]	2/5/10[23]
Japan	0/15	0/5[6]	4/10/15[14]	2/10[18]
Korea (Rep.)	10	5	5[11]/15	5/15[21]
Malaysia	15	5[5]	15	10
Mexico	10	5[5]	5/10/15[15]	10[24]
New Zealand	15	15	10/15[10]	5/10[25]
Norway	15	5	5/15[16]	5/10/15[21]
Paraguay	10	10	10/15[10]	15
Peru	15	10	15	10/15[26]
Poland	15	55	5/15[16]	5/10[21]
Portugal	15	10	5/10/15[17]	5/10[18]
Russia	10	5	15	5/10[18]
South Africa	15	5	5/15[8]	10/15[18]
Spain	10	5[5]	5/15[8]	5/10[18]
Sweden	10	5[5]	5/15[10]	5/10[18]
Switzerland	15	15	5/15[8]	5/10[18]
Thailand	10	10	10/15[10]	10/15[27]
United Kingdom	15	5[5]	5/15[8]	5/10[18]

Notes:

1. The rate applies to a participation of at least 25% of capital or voting power, unless stated otherwise.
2. Applies to a participation of at least 10% of voting power.
3. Applies to a participation of at least 10% of capital.
4. Treaty rate is 10%, which is reduced to 5% with respect to a participation of at least 25% of voting power (most favoured nation clause under the Chile-Mexico treaty. Circular 62 2005 Chilean IRS).
5. Applies to a participation of at least 20% of capital or voting power.
6. 5% if the beneficial owner is a company that has owned directly, for the period of six months ending on the date on which entitlement to the dividends is determined, at least 25% of the voting power in the company paying the dividends and 0% if the beneficial owner of the dividends is a pension fund, provided that such dividends are not derived from the carrying on of a business by such pension fund or through an associated enterprise.
7. The lower rate applies to interest derived by financial institutions.
8. 5% applies to interest derived from loans granted by banks and insurance companies, bonds or securities that are regularly and substantially traded on a regulated securities market and a sale on credit paid by the purchaser of machinery or equipment to a beneficial owner that is the seller of the machinery or equipment.
9. Treaty rate is 15%, which is reduced to 10% with respect to interest derived from loans granted by banks and insurance companies, bonds or securities that are regularly and substantially traded on a regulated securities market and a sale on credit paid by the purchaser of machinery or equipment to a beneficial

owner that is the seller of the machinery or equipment (most favoured nation clause under the Chile-Spain treaty. Circular 8 2005 Chilean IRS).

10. The lower rate applies to interest derived by banks and insurance companies from certain transactions.
11. 5% rate applies to interest derived from loans granted by banks and insurance companies, bonds or securities that are regularly and substantially traded on a regulated securities market and a sale on credit paid by the purchaser of machinery or equipment to a beneficial owner that is the seller of the machinery or equipment (application of most favoured nation clauses. Circular 62 and 8 2005 Chilean IRS).
12. Treaty rate is 15%, which is reduced to 10% (most favoured nation clause under the Chile-Australia treaty. However this reduction has not yet been confirmed by the Chilean IRS).
13. General rates under the treaty are 5% and 15%, which are reduced to (i) 4% if the beneficial owner of the interest is a bank, an insurance company, a lending or finance business, an enterprise selling machinery or equipment on credit, or any other enterprise, provided that in the three taxable years preceding the taxable year in which the interest is paid, the enterprise derives more than 50 per cent of its liabilities from the issuance of bonds in the financial markets or from taking deposits at interest, and more than 50 per cent of the assets of the enterprise consist of debt-claims against unrelated persons and to (ii) 10% for interest paid as part of an arrangement involving back-to-back loans or other arrangement that is economically equivalent and intended to have a similar effect to an arrangement involving back-to-back loans (most favoured nation clause under the Chile-Japan treaty). Moreover, under the MFN clause of the Chile-Japan treaty, the aforementioned 15% general rate will be reduced to 10% as from 1 January 2019 onwards.
14. The 15% general rate applies up to 31 December 2018 and 10% applies as from 1 January 2019 onwards. Regarding the application of the 4% and 10%, see footnote 13, (i) and (ii).
15. General treaty rate is 15%, which is reduced to 5% for interest from loans granted by banks and to 10% for interest from loans granted by insurance companies, from bonds or securities regularly and substantially traded on a recognized securities market and for interest related to sales of machinery and equipment on credit (application of most favoured nation clauses Circular 62 and 8 2005 Chilean IRS).
16. General treaty rate is 15%. The 5% tax rate applies to interest derived from loans granted by banks and insurance companies, bonds or securities that are regularly and substantially traded on a regulated securities market and a sale on credit paid by the purchaser of machinery or equipment to a beneficial owner that is the seller of the machinery or equipment (application of most favoured nation clauses, Circular 8 2005 Chilean IRS).
17. General treaty rate is 15%, which is reduced to 10% for interest from loans granted by banks and insurance companies and sales on credit of machinery and equipment where the beneficial owner is the seller and to 5% for interest from bonds or securities regularly and substantially traded on a recognized securities market.
18. The lower rate applies to royalties from the use of, or right to use, any industrial, commercial or scientific equipment.
19. General treaty rate is 15%, which is reduced 3% for news-related royalties and to 10% for copyright royalties (other than royalties related to films or tapes), patents, trademarks, know-how, certain lease-related royalties and technical assistance.
20. General treaty rate is 15%, which is reduced to 10% (most favoured nation clause under the Chile-Spain treaty. Circular 8 2005 Chilean IRS)).
21. General treaty rate is 15%, but reduced to general rate of 10% by virtue of a most favoured nation clause (Chile-Spain treaty. Circular 62 and 8 2005 Chilean IRS). 5% applies to royalties from the use of, or right to use, any industrial, commercial or scientific equipment.
22. General treaty rate is 15%, but reduced to general rate of 10% by virtue of a most favoured nation clause (Chile-Spain treaty. Circular 8 2005 Chilean IRS). 10% also applies to royalties from the use of, or right to use, any industrial, commercial or scientific equipment.
23. General treaty rate is 10% while 5% applies to royalties from the use of, or right to use, any industrial, commercial or scientific equipment. However, the 5% for such royalties is reduced to 2% under the application of a most favoured nation clause (Chile-Japan treaty).
24. General treaty rate is 15%, but reduced to general rate of 10% by virtue of a most favoured nation clause (Chile-Spain treaty Circular 62 and 8 2005 Chilean IRS).

25. General treaty rate is 10%, which is reduced to 5% under the application of a most favoured nation clause (Australia-New Zealand treaty) with respect to royalties paid for the use of, or the right to use, any industrial, commercial or scientific equipment.
26. General treaty rate is 15%, but reduced to general rate of 10% by virtue of a most favoured nation clause (Chile-New Zealand treaty. However this reduction has not yet been confirmed by the Chilean IRS).
27. General treaty rate is 15% while 10% rate applies to royalties from the use of, or the right to use, any copyright of literary, artistic or scientific work, or for the use of, or the right to use, industrial, commercial or scientific equipment.
28. Treaty rate is 15%, which is reduced to 12% with respect to interest derived from loans granted by banks and insurance companies, bonds or securities that are regularly and substantially traded on a regulated securities market and a sale on credit paid by the purchaser of machinery or equipment to a beneficial owner that is the seller of the machinery or equipment..
29. Technical and consulting services are included in the concept of royalty.
30. The provision of technical services and technical assistance are included in the concept of royalty.

Chile has also signed several agreements for the avoidance of double taxation of income from international shipping and/or air transport. Some of the agreements were concluded by means of an exchange of diplomatic notes. The agreements have been concluded with the following countries: Costa Rica (air transport), France (air transport), Germany (air transport and shipping), Panama (air transport), Singapore (shipping), Switzerland (air transport), the United States (air transport), Uruguay (air transport), United Arab Emirates (air transport and shipping) and Venezuela (air transport and shipping).

CHINA

MEMBER FIRM

City	Name	Contact Information
Shanghai	Allan Jiang	+86 21 6076 0876
		+86 13 501818404
		allan.jiang@pkfchina.com
Beijing	Rachel Zhang	+86 10 6591 7200
		+86 186 11393933
		rachel.zhang@pkftax.com

BASIC FACTS

Full name:	People's Republic of China
Capital:	Beijing
Main languages:	Mandarin Chinese
Population:	1.414 billion (2018 estimate)
Monetary unit:	1 Chines Yuan Renminbi (CNY) = 10 Jiao = 100 fen
Internet domain:	.cn
Int. dialling code:	+86

KEY TAX POINTS

- Corporate residents of China are taxed on their worldwide income. A foreign tax credit is allowed for income taxes paid in other countries. This credit is capped at the China income tax payable on the same income calculated under the Enterprise Income Tax Law.

- The Enterprise Income Tax Law unified the rate for domestic and foreign enterprises at 25% from 1 January 2008. For small profits making companies, the rate could be reduced to 20% or 10%.
- Foreign enterprises with establishments in China deriving the above income which is not effectively connected with that establishment is also subject to withholding tax. The statutory rate is 20% which is reduced to 10% by the Enterprise Income Tax Law Implementation Regulations. The 10% withholding tax may be reduced under an applicable treaty.
- Foreign enterprises without establishments in China are subject to Enterprise Income Tax on a withholding basis on the income of dividends, royalties, interest, rental income, earnings from assignment of assets in China and any other income derived from inside China.
- Individuals are taxed on wages/salaries and business income at progressive rates.
- There is no separate tax on capital gains. Capital gains will be considered as general taxable income and thus subject to Enterprise Income Tax or Individual Income Tax.
- Turnover taxes include VAT on all goods and services and Consumption Tax on consumable or luxury goods. Starting from 1 May 2016, Business Tax is completely replaced by VAT and is no longer levied in China.
- Land Value Appreciation Tax applies to transfers of land use rights and immovable properties.
- Stamp duty is levied on a variety of contracts and certain legal documents.

A. TAXES PAYABLE

ENTERPRISE INCOME TAX (EIT)

All foreign invested enterprises (FIEs) (i.e. sino-foreign joint ventures and wholly owned foreign enterprises) and foreign enterprises (FEs) with or without establishments in China are now taxed at the same rate as domestic enterprises. EIT is charged at the rate 25% on taxable profits in a calendar year. Subject to a preferential tax rate of 20% or 10% for qualified enterprises with small profits, both domestic companies and FIEs will be assessed at a unified tax rate of 25%.

All FIEs and those FEs having their effective management office in China are subject to EIT on their worldwide profits. FEs with permanent establishments (PEs) in China are subject to EIT on profits derived from and attributed to the PEs. FEs without PEs in China are subject to EIT on China-source income only.

The EIT Law introduced a wider concept of management in determining tax residency. A company is recognised as a Chinese tax resident if it is incorporated in China or its place of effective control and management office is in China.

The tax year in China is the calendar year (i.e. year ended 31 December).

BRANCH PROFITS TAX

When a corporate resident enterprise has branch offices registered in different regions in China, the head office and the branches are consolidated to calculate EIT payables. If a corporate resident enterprise has overseas branch offices, the loss of overseas branch offices could not deduct the profit made in China, while the profit of overseas branch offices need to be subject to EIT in China. If a FE has branches in China, the branches are subject to EIT in China.

CAPITAL GAINS TAX

There is no separate capital gains tax. Capital gains are subject to EIT as ordinary income and are combined together with operating income to calculate EIT.

VALUE ADDED TAX (VAT)

VAT is levied on the sales amount in respect of selling, transferring or importing of commodities, selling or transferring of properties and intangible assets, provision of repairs and processing, as well as rendering services covering research and development, and technical services; information technology services; cultural creative services; logistic auxiliary services; certification and consulting services; and tangible movable property leasing services; radio and television services; postage services, telecommunication services; construction; financing and consumer services et in China.

The VAT taxpayers could be classified into two categories: general VAT payers and small-scale VAT payers depending on the annual sales amount. Generally, for goods trade, processing, repair and replacement, a small scale business is broadly defined as one with an annual turnover of less than CNY 0.5 million or a

retailer or wholesaler whose annual turnover does not exceed CNY 0.8 million. For other taxable services or transfer of properties and intangible assets, the sales threshold is CNY 5 million to differentiate between general VAT taxpayers and small scale taxpayers under the VAT reform program.

For a general VAT taxpayer, the standard VAT rates for goods sales and services are listed below.

- Goods sale/processing/repair and replacement Revenue from provision of labour services: 17% or 11% (for a small category of goods such as agricultural products);
- Lease of movable tangible assets: 17%;
- Basic telecommunication services: 11%;
- Construction: 11%;
- Postal services: 11%;
- Transportation services: 11%;
- Real estate (leasing and sale of immovable properties): 11%;
- Transfer of land use rights: 11%;
- Consumer lifestyle services: 6%;
- Financial services: 6%;
- Value-added telecommunication services: 6%;
- Sale of intangibles (except land use rights): 6%;
- Other modern services: 6%.

A VAT credit mechanism is allowed for a general taxpayer where VAT payable equals output VAT less input VAT by means of VAT special invoices. Input VAT is incurred on the purchase of material, services as well as purchase or construction of fixed assets.

Taxpayers engaged in small scale business are subject to VAT at a special rate of 3%, but there is no credit for input VAT.

Generally, export goods are subject to a zero VAT rate and are entitled to a tax refund in relation to the purchase or manufacture of the exported goods on which VAT has previously been paid. The VAT refund rate depends on the categories of the goods exported.

For the transition period of property industries, a collection rate of 5% may also be applied to property leasing or property transfer.

CONSUMPTION TAX (CT)

CT is imposed on 15 categories of consumable or luxury goods (e.g. cigarettes, alcohol, petrol and motor vehicles). The tax is calculated based on the sales value of goods, the sales quantity or a combination of the two. CT rates range from 1% to 56%. Part collection of this tax has been shifted to the retailer and is levied by the tax authorities of the retailer's site.

FRINGE BENEFITS TAX

No separate fringe benefits tax is levied in China.

REAL ESTATE TAX (RET)

RET is imposed on owners, users or custodians of houses and buildings. RET is imposed at a flat rate of 12% on annual rental income of the leased property or at the rate of 1.2% on the purchase cost of self-used property. A discount of 10% to 30% on the purchase/construction cost is often offered by some local governments in determining the RET. The tax also applies to FIEs, FEs and foreign individuals. RET is deductible for EIT purposes.

LAND VALUE APPRECIATION TAX (LVAT)

LVAT applies to domestic enterprises, FIEs, FEs and individuals realising gains from the transfer of land use rights, buildings and premises and associated structures. LVAT is charged at progressive rates ranging from 30% to 60% depending on the percentage gain realised from the transfer of land use rights, buildings or associated structures. LVAT could be deducted when computing EIT.

DEED TAX (DT)

DT is imposed on the transferee or assignee to which land use rights or building ownership rights are transferred (sales, exchange or gifts). The tax rate ranges from 3% to 5% depending on the location of the

property. The transferee or the assignee is the taxpayer.

STAMP DUTY (SD)

Stamp Duty is levied on various contracts including purchase and sale contracts, property leasing, loan contracts, documents for the transfer of property rights, engineering and design contracts, construction and installation, commodity transportation, storage and property insurance contracts, and registered capital as well as accounting books. Tax rates range from 0.005% to 0.1%. A fixed amount of CNY 5 is charged on certificates evidencing rights, patents, trademarks, and licenses.

ENVIROMNMENTAL PROTECTION TAX

Enterprises, entities, other producers and operators that directly emit taxable pollutants into the environment within the territory and other sea areas under the jurisdiction of the People's Republic of China are taxpayers of environmental protection tax. This Law shall become effective as of 1 January 2018.

SOCIAL INSURANCE CONTRIBUTIONS

All enterprises are required to contribute to social security insurance (including pension, medical, unemployment, work-related injury, maternity), and housing funds (in certain cities) every month for their employees including foreign employees in China.

B. DETERMINATION OF TAXABLE PROFIT

The taxable profit of a corporate resident is calculated as 'taxable gross income less deductible costs, expenses, non-taxable and tax-exempt items, and losses incurred in a tax year'. It is normally calculated in accordance with audited accounts prepared on an accrual basis subject to tax adjustments by reference to the prevailing tax regulations.

TAXABLE GROSS INCOME

The taxable gross income of an enterprise refers to the revenues derived from various sources, whether in monetary terms or in-kind, which shall include:

- Revenue from sales of goods;
- Revenue from provision of labour services;
- Gross proceeds from transfer of property;
- Dividend income from private and listed enterprises and other distributions with respect to equity interests;
- Interest income;
- Rental income;
- Royalty income;
- Revenue from donations; and
- Other income.

DEDUCTIBLE COSTS

DEPRECIATION

Fixed assets under the EIT Law mean the non-monetary assets owned and used for over 12 months in production or business operations. Generally, fixed assets are depreciable on a straight-line basis over their useful lives. Enterprises shall, in terms of the nature and operating conditions of the fixed assets, reasonably evaluate the new residual value of the fixed assets.

The minimum depreciation periods for various kinds of assets are as follows:		Years
(a)	For houses and buildings	20
(b)	For airplanes, trains, ships, machinery and other production facilities	10
(c)	For apparatus, tools and furniture and fittings in connection with production / business operations	5
(d)	For transportation facilities other than airplanes, trains and ships	4

(e)	For electronic equipment	3
(f)	For production-nature biological assets in the nature of forestry	10
(g)	For production-nature biological assets in the nature of livestock	3
(h)	For acquired software (subject to approval)	2

Recently, the scope of fixed assets to enjoy the accelerated depreciation method is expanded. Fixed assets acquired on or after 1 January 2015 by companies in the following industries may be allowed to depreciate the assets using accelerated depreciation method.:

- Bio-pharmaceutical manufacturing;
- Special equipment manufacturing ;
- Railway, ship, aerospace and other transportation equipment manufacturing;
- Computer, communications and other electronic equipment manufacturing;
- Instrumentation manufacturing;
- Information transmission, software and IT services industries;
- Light industry;
- Textile industry;
- Machinery; and
- Automobile industries.

In respect of equipment and instruments which are newly purchased by small low-profit enterprises after 1 January 2015 for common R&D and production purposes, and if the unit price is below CNY 1 million, the entire cost could be deducted on a one-off basis when computing taxable income; If the unit price of such newly purchased equipment is above CNY 1 million, the enterprises may adopt an accelerated depreciation method.

There are two ways the accelerated depreciation method can be used:

- Shorter of depreciation life: A shorter of depreciation life should not be less than 60% of the regular depreciation life of the asset.
- Accelerated depreciation: An accelerated depreciation method can be a double declining method or a sum of the years' digit method.

AMORTISATION OF INTANGIBLE ASSETS

Intangible assets, including technical know-how, patents and trademarks, can be amortised using the straight-line method over a period of not less than ten years or the stipulated time limit as set out in the acquisition agreement.

PRE-OPERATION EXPENSES

Pre-operation period starts from the date when the enterprise is approved for set up until the enterprise begins operations (trial operation is included). The deductible pre-operation expenses include salary, office expenses, training expenses, travelling, printing expenses, registration fees and interest (that would not be capitalized) and foreign exchange gain/loss during the pre-operation period.

Pre-operation expenses can be deducted on a lump sum basis in the year in which the enterprise commences business operations or amortised as a long term prepaid expenditure to be amortized within three years.

RESEARCH AND DEVELOPMENT (R&D)

R&D expenses incurred for new and high technology, new products or new craftsmanship can enjoy an extra 50% super-deduction of the actual expenses incurred as a tax incentive after approval by the relevant tax authorities. If the R&D expenses are qualified for capitalization, an additional 50% super-deduction could be allowed for the amortization when computing annual EIT settlement.

According to Cai Shui [2017] No. 34, when a medium or small-sized technical enterprise incurs R&D expenses, it may deduct an additional 75% of the actual qualifying costs incurred when computing its EIT liability for the period 1 January 2017 to 31 December 2019, provided no intangible asset has been developed. If an intangible asset has been created as a result of the R&D, the qualifying costs may be amortized at a rate of 175% of the pre-tax cost of the assets for the above period.

STOCK/INVENTORY

Inventory is to be valued at cost and the acceptable allocation methods include first-in, first-out (FIFO), weighted average, or specific identification basis. The last-in, first-out (LIFO) basis is not acceptable for tax purposes. The method chosen must be applied consistently.

MANAGMENT FEE & INTERCOMPANY CHARGES

Management fees between enterprises shall not be deductible for EIT purposes. As management fees are generally regarded as shareholder costs, they cannot be deducted before income tax for China enterprises.

The intercompany charges need to pass the six tests of benefit, necessity, duplication, value creation, remuneration and authenticity carried out by the tax authorities before China enterprises could remit the charges to the offshore companies.

A Cost Sharing Agreement (CSA) for joint development of intangible assets and sharing of services (generally limited to group procurement and group marketing synergies) are allowed. Under the CSA, the principle of matching costs with expected benefits shall be followed. The taxpayer can claim the tax deduction for shared costs provided the CSA could be filed with the local tax authorities

LOSSES

Operating losses cannot be carried back but they can be carried forward for up to five years.

TAX INCENTIVES

In general, enterprises engaged in encouraged projects may apply for certain tax incentives.

HIGH & NEW TECHNOLOGICALLY ADVANCED ENTERPRISES (HNTE)

If the enterprise is qualified as an HNTE, it can enjoy a reduced EIT rate of 15%. An enterprise has to fulfil a set of prescribed criteria and be subject to annual assessment in order to be qualified as an HNTE.

On 29 June 2016, the Ministry of Science and Technology, Ministry of Finance and State of Administration of Taxation jointly released an announcement regarding the guidance for HNTE recognition to replace the previous regulations. The government authorities will exert a much more severe administration on HNTE enterprises.

SPECIFIED BASIC INFRASTRUCTURE

When enterprises are engaged in basic infrastructure such as harbours, wharfs, airports, railways, highways, city public transportation, electric power and water resources utilisation projects, such income generated can enjoy a '3+3 years' tax holiday which means, starting from the first income generating year, three years of exemption from EIT followed by three years of 50% reduction of applicable EIT.

ENVIRONMENT PROTECTION PROJECTS

When enterprises are engaged in environmental protection projects and energy/water conservation projects such as public sewage treatment, public refuse treatment, comprehensive development and utilisation of methane, technologies alteration for energy-saving and emission reduction and seawater desalination projects, such income generated can also enjoy a '3+3 years' tax holiday.

This means, starting from the first income generating year, three years of exemption from EIT followed by three years of 50% reduction of applicable EIT.

QUALIFIED TECHNOLOGY-ADVANCED SERVICE ENTERPRISES

From 1 January 2016 to 31 December 2018, qualified technology-advanced service enterprises in 31 cities (such as Beijing, Shanghai, Tianjin, Guangzhou, Shenzhen Shenyang, Changchun, Nantong etc.) qualify for a reduced EIT rate of 15%.

SOFTWARE PRODUCTION ENTERPRISES

Newly established software production enterprises can enjoy a '2+3 years' tax holiday before 31 December 2017 which means, starting from the first profit-making year, two years of exemption from EIT followed by three years of 50% reduction of applicable EIT.

SMALL SCALE ENTERPRISE

EIT rate shall be reduced to 20% for small-scale enterprises if they meet the following criteria:

- For industrial enterprises, the annual taxable income does not exceed CNY 300,000; the number of staff does not exceed 100; and the total assets do not exceed CNY 30,000,000.

- For other enterprises, the annual taxable income does not exceed CNY 300,000; the number of staff does not exceed 80; and the total assets do not exceed CNY10,000,000.
- For the period from January 1, 2017 to December 31, 2019, such enterprises having annual taxable income which does not exceed CNY 500,000 can enjoy a 50% deduction on calculating the taxable income and subject to a 20% of EIT rate.

WESTERN REGION DEVELOPMENT POLICY

From 1 January 2011 to 31 December 2020, enterprises (1) that are based in the western region; (2) whose primary business is listed in one of the industry items provided in the Catalogue of Encouraged Industries in Western Regions; and (3) the annual primary business revenue of which accounts for more than 70% of the total enterprise revenue, may pay EIT at the reduced tax rate of 15% subject to their application to the competent tax authority and upon the examination and confirmation by the said authority.

C. FOREIGN TAX RELIEF

Corporate resident can claim tax credits for corporate income taxes paid by them or their branches in other countries in respect of income derived from sources outside China based either on a country-basket principle or on a comprehensive basis that income from all countries and of all types are considered together to calculate the tax credit starting from January 1, 2017. Once the credit basis is selected, it shall not be changed within 5 years. However, the amount of tax credit is restricted to the Chinese tax payable on the foreign income as calculated according to the EIT law.

D. CORPORATE GROUPS

There are no group relief tax consolidation provisions in Chinese tax law.

E. RELATED PARTY TRANSACTIONS

All companies should conduct business with their associated companies on an arm's length basis. The Chinese tax authorities are empowered to disregard, vary or make any necessary adjustments to the arrangements that are carried out for tax avoidance purposes.

TRANSFER PRICING

The New Law imposes transfer pricing documentation requirements. Specific information must be submitted to the Tax Authorities together with the enterprise's annual income tax returns or subsequently in the course of a transfer pricing audit. Interest will be payable in respect of any late tax payments arising from a transfer pricing adjustment.

China adopts stringent requirements on the related party transactions disclosure and taxpayers have to disclose related party transactions in Related Party Transaction Forms. The acceptable transfer pricing methods are comparable uncontrolled price (CUP); resale price method (RPM); cost-plus method (CPM); transactional net margin method (TNMM); profits split method (PSM); and other methods that are consistent with the arm's length principle approved by the in charge tax authorities.

In June 2016, the China tax authorities issued new transfer pricing compliance requirements whereby transfer pricing documentation has adopted a three-tiered structure, i.e. Master File, Local File and Special Issue File. The Local File and Special Issue File should be completed by 30 June 2017 for related party transactions carried out during the year 2016; the Master File should be completed within 12 months after the end of the same fiscal year of the group’s ultimate holding company. Taxpayers should submit the transfer pricing report within 30 days upon the tax authorities’ request.

If the company meets either of the following criteria, it shall prepare a Master File

➢ Have cross-border related party transactions, and belong to a group which has prepared the master file, or

➢ The total annual related party transactions exceed CNY 1 billion.

For the Local File, the thresholds for preparing a local file depend on the types of related party transactions, which are listed below:

➢ CNY 200 million for tangible assets transfer (in the case of tolling manufacturing, the total amount in the annual customs record including raw material should be counted);

➢ CNY 100 million for financial assets transfer;

➢ CNY 100 million for intangible assets transfer; and

➢ CNY 40 million for other related party transactions in total.

The special issue file is required for taxpayers who are engaged in cost sharing agreements or fall in the thin capitalization threshold.

The new transfer pricing compliance regulations also require the submission of a Country-by-Country (CbC) report if a Chinese resident company is the ultimate holding company of the group and the consolidated revenue is over CNY 5.5 billion or it is nominated as the reporting entity by the group.

Chinese companies that only have domestic related party transactions do not need to prepare a master file, local file and special issue file.

Single function enterprises, which are making losses, are also required to prepare the contemporaneous documentation regardless of the transaction amount threshold.

When an enterprise is audited for transfer pricing issues, the enterprise will be followed up by the tax authorities for five years and during the follow-up period enterprises are also required to prepare the contemporaneous documentation.

ADVANCE PRICING AGREEMENT (APA)

An Advance Pricing Agreement (APA) is available in China. The State Administration of Taxation encourages taxpayers to use an APA to ascertain the transfer pricing position and reduce the tax compliance burden.

THIN CAPITALIZATION

In China, for non-financial enterprises, when the ratio of loans received from related parties to equity investments exceeds a prescribed ratio (2:1) (or 5:1 for financial institutions), the portion of interest expense related to the debt exceeding the ratio shall not be deductible when computing the taxable income in accordance with the thin capitalization rule under the EIT law. However, enterprises could provide supporting documents to demonstrate that the financing is set at arm's length in order to claim the EIT deduction upon the agreement of the tax authorities.

GENERAL ANTI-AVOIDANCE

China requires a bona fide business purpose for any commercial arrangement that could result in reducing, deferring or avoiding taxable revenue or taxable income. When the absence of reasonable purposes is sustained, the tax authorities are authorized to disregard the arrangement and impose EIT. Nowadays, China is more focused on cross-border anti-avoidance.

CONTROLLED FOREIGN COPORATION

Foreign controlled corporation (CFC) is defined as a non-Chinese company controlled by China tax residents (both companies and individuals, each of which must hold 10% or more of the voting shares and jointly own 50% or more of the shares) through direct or indirect share ownership.

CFC rules were introduced such that undistributed profits derived by CFCs located in low-tax jurisdictions with an effective corporate income tax rate of less than 12.5% may be taxed in China as a deemed distribution to the parent company in China.

BASE EROSION AND PROFIT SHIFTING (BEPS)

BEPS refers to tax planning strategies that exploit the gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity, resulting in little or no overall corporate tax being paid. The OECD and G20 countries worked together on an equal footing to tackle BEPS issues. The BEPS initiative aims to enhance the integrity and fairness of the international tax system by aligning jurisdictional tax rights with the location where value is created and business activities are actually incurred.

The new transfer pricing compliance requirements discussed in the Transfer Pricing Section are one of the most important developments of China's commitment to the BEPS action plans.

F. WITHHOLDING TAXES

Foreign enterprises without establishments in China are subject to Enterprise Income Tax on a withholding basis on the income of dividends, royalties, interest, rental income, earnings from assignment of assets in China and any other income derived from inside China. Foreign enterprises with establishments in China deriving the above income which is not effectively connected with that establishment is also subject to withholding tax. The statutory rate is 20% which is reduced to 10% by the EIT Law Implementation Regulations. The 10% withholding tax may be reduced under an applicable treaty.

When foreign enterprises obtain active income in China, the revenue is subject to turnover taxes, and EIT

will be levied on the active income if the foreign enterprises have or are deemed to have a permanent establishment ("PE") in China. The domestic payers are the withholding agents to retain such turnover taxes and EIT from the total payments to foreign enterprises.

G. EXCHANGE CONTROL

Foreign currency transactions are controlled by the State Administration of Foreign Exchange Control and its branch offices. Financial institutions cannot engage in foreign exchange business without prior approval.

H. PERSONAL TAX

Under the Individual Income Tax (IIT) Law, the following eleven categories of income are subject to IIT in China:

- Wages and salaries;
- Income of individual industrial and commercial operators from production or business operation;
- Income from business operations contracted or leased from enterprises or other undertakings;
- Income from labour service,;
- Remunerations to authors;
- Royalties;
- Interest and dividends;
- Income from leasing of property;
- Income from transfer of property;
- Contingency income;
- Other types of income specified as taxable by the financial departments under the State Council.

WAGES AND SALARIES

With effect from 1 September 2011, individual income tax rates for wages and salaries are taxed at progressive rates from 3% to 45% as follows:

Monthly Taxable Income*(CNY)	Tax Rate (%)	Quick Calculation Deduction (QCD)(CNY)
(Applicable to employees whose IIT is borne by themselves)		
0 – 1,500	3	0
1,501–4,500	10	105
4,501–9,000	20	555
9,001–35,000	25	1,005
35,001–55,000	30	2,755
55,001–80,000	35	5,505
80,001 or above	45	13,505

* Monthly taxable income =salaries/wages/allowances - fixed monthly deduction.

NOTES:

(a) Monthly tax payable= [(taxable income x tax rate) - quick calculation deduction].

(b) Personal fixed monthly deduction to individual Chinese taxpayer is CNY 3,500.

(c) Those taxpayers who are not domiciled in China but derive wages and salaries from sources in China are entitled to a total statutory deduction of CNY 4,800 per month.

(d) From 1 July 2017, expenses for purchasing qualifying commercial health insurance products by individuals are deductible before tax to the extent of CNY 2,400 per year (CNY 200 per month) when taxable income is calculated in the current year (month). Expenses for the said commercial health insurance products purchased by employers for their employees shall be included in individual salaries of the employees as if the specific insurance is purchased by the employees and deductible within the above limit.

The said limit of deduction, CNY 2,400 per year (CNY 200 per month), is a deduction in addition to the deduction standards prescribed by individual income tax laws.

BUSINESS INCOME

Net income derived from production and business operations by individuals (i.e. annual gross income less business costs, expenses and losses) shall be taxable at the following rates:

Annual taxable income(CNY)	Tax Rate (%)	QCD
0 – 15,000	5	0
15,001 – 30,000	10	750
30,001 – 60,000	20	3,150
60,001 –100,000	30	9,750
100,001 or above	35	14,750

OTHER TAXABLE INCOME FOR IIT PURPOSES

(a) Net income derived from labour services will be taxed as follows:

Taxable income (CNY)	Tax Rate (%)	QCD
Less than 20,000	20	0
20,000 to 50,000	30	2,000
50,001 or above	40	7,000

(b) Net income derived from author's remuneration is applied to a flat rate of 20% with a 30% deduction on the taxable income.

(c) Gross income derived from interest, dividends and bonuses, or contingency income and other income is taxed at a flat rate of 20%.

I. TREATY WITHHOLDING TAX RATES

The Mainland Chinese Government has signed tax treaties with more than 100 countries. The following table summarises the withholding tax rates applicable to dividends, interest and royalties as provided by the double taxation agreements concluded by Mainland China government with some major countries and regions.

	Dividends[1] (%)	Interest[2] (%)	Royalties (general) (%)	Royalties[3] (%)
Non-treaty countries:	10	10	10	10
Treaty countries:				
Albania	10	0/10	10	10
Algeria	5/10	0/7	10	10
Armenia	5/10	0/10	10	10
Australia	15	10	10	10
Austria	7/10	0/10	10	10
Azerbaijan	10	0/10	10	10
Bahrain	10	0/10	10	10
Bangladesh	10	0/10	10	10
Barbados	5	0/10	10	10
Belarus	10	0/10	10	10
Belgium	5/10	0/10	7	7

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Botswana[4]	5	0/7.5	5	5
Brazil	15	0/15	15/25	15
Brunei	5	0/10	10	10
Bulgaria	10	0/10	7/10	7
Cambodia[5]	10	0/10	10	10
Canada	10/15	0/10	10	10
Chile	10	4/10	2/10	2
Croatia	5/10	0/10	7	7
Cuba	5/10	0/7.5	5	5
Cyprus	10	10	10	10
Czech Republic	5/10	0/7.5	10	10
Denmark	5/10	0/10	10	7
Ecuador	5	0/10	10	10
Egypt	8	0/10	8	8
Estonia	5/10	0/10	10	10
Ethiopia	5	0/7	5	5
Finland	5/10	0/10	10	10
France	5/10	0/10	10	6
Georgia	0/5/10	0/10	5	5
Germany	5/10/15	0/10	10	6
Greece	5/10	0/10	10	10
Hong Kong[6]	5/10	0/7	5/7	7
Hungary	10	0/10	10	10
Iceland	5/10	0/10	10	10
India	10	0/10	10	10
Indonesia	10	0/10	10	10
Iran	10	0/10	10	10
Ireland	5/10	0/10	10	6
Israel	10	7/10	10	7
Italy	10	0/10	10	7
Jamaica	5	0/7.5	10	10
Japan	10	0/10	10	10
Kazakhstan	10	0/10	10	10
Kenya[7]	5	10	10	10
Korea	5/10	0/10	10	10
Kuwait	0/5	0/5	10	10
Kyrgyzstan	10	0/10	10	10
Laos	5	0/5/10	5/10	5/10
Latvia	5/10	0/10	7	7

Lithuania	5/10	0/10	10	10
Luxembourg	5/10	0/10	10	6
Macau[6]	5/10	0/7/10	5/7	7
Macedonia	5	0/10	10	10
Malaysia	10	0/10	10/15	10
Malta	5/10	0/10	10	7
Mauritius	5	0/10	10	10
Mexico	5	0/10	10	10
Moldova	5/10	0/10	10	10
Mongolia	5	0/10	10	10
Morocco	10	0/10	10	10
Nepal	10	0/10	15	15
Netherlands	5/10	0/10	10	6
New Zealand	15	0/10	10	10
Nigeria	7.5	7.5	7.5	7.5
Norway	15	0/10	10	10
Oman	5	0/10	10	10
Pakistan	10	0/10	12.5	12.5
Papua New Guinea	10/15	0/10	10	10
Philippines	10/15	0/10	10/15	10
Poland	10	0/10	10	7
Portugal	10	0/10	10	10
Qatar	10	0/10	10	10
Romania	0/3	3	3	3
Russia	5/10	5	6	6
Saudi Arabia	5	0/10	10	10
Serbia	5	0/10	10	10
Seychelles	5	0/10	10	10
Singapore	5/10	0/7/10	10	6
Slovakia	10	0/10	10	10
Slovenia	5	10	10	10
South Africa	5	0/10	10	7
Spain	10	10	10	6
Sri Lanka	10	0/10	10	10
Sudan	5	0/10	0/10	10
Sweden	5/10	0/10	10	7
Switzerland	5/10	0/10	9	9
Syria	5/10	0/10	10	10
Taiwan[8]	5/10	0/7	7	7

Tajikistan	5/10	0/8	8	8
Thailand	15/20	0/10	15	15
Trinidad and Tobago	5/10	0/10	10	10
Tunisia	8	0/10	10	5
Turkey	10	0/10	10	10
Turkmenistan	5/10	0/10	10	10
Uganda[9]	7.5	0/10	10	10
Ukraine	5/10	0/10	10	10
United Arab Emirates	0/7	0/7	10	10
United Kingdom	5/10/15	0/10	10	6
United States of America	10	0/10	10	7
Uzbekistan	10	0/10	10	10
Venezuela	5/10	0/5/10	10	10
Vietnam	10	0/10	10	10
Zambia	5	0/10	10	5
Zimbabwe[10]	2.5/7.5	0/7.5	0/7.5	0/7.5

NOTES:

1. Dividends received by non-resident shareholders holding at least 25% of the shares in FIEs were eligible for a reduced withholding tax rate in China based on the percentage of equity holding. This exemption was repealed under the New Law. The withholding tax rate for dividends under the New Law is 10%, effective from 1 January 2008. However, distribution of pre-2008 profits can still enjoy withholding tax exemption even if the dividend is declared and distributed after 1 January 2008.
2. Exemption of interest from withholding tax generally applies in the following situations:
   a. Interest on loans made by international financial organisations at a preferential rate to the Chinese government or resident enterprises; or
   b. Interest on loans made by foreign governments to Chinese government. A lower withholding tax rate may apply to interest paid by an enterprise in China to a foreign enterprise without establishments in China.
3. The rates of withholding tax on royalties for the use of industrial, commercial or scientific equipment is 10% and the taxable income is generally taken to be 60% or 70% of the remittance depending on the location of the enterprises. Accordingly, the effective withholding tax rate is 6% or 7% as shown above.
4. A double taxation agreement between Botswana and the People's Republic of China was signed on 11 April 2012 but is not yet in force until both jurisdictions have completed their legislative procedures.
5. A double taxation agreement between Cambodia and the People's Republic of China was signed on 13 October 2016 but is not yet in force until both jurisdictions have completed their legislative procedures.
6. A new amendment to double taxation agreement between Hong Kong or Macau and Mainland China to specify for the tax levying on the royalty income arising from airplane and ship leasing shall be less than 5%.
7. A double taxation agreement between Kenya and the People's Republic of China was signed on 21 September but is not yet in force until both jurisdictions have completed their legislative procedures.
8. A double taxation agreement between Taiwan and Mainland China was signed on 25 August 2015 but is not yet in force until both jurisdictions have completed their legislative procedures.
9. A double taxation agreement between Uganda and the People's Republic of China was signed on 11 January 2012 but is not yet in force until both jurisdictions have completed their legislative procedures.
10. A double taxation agreement between Zimbabwe and the People's Republic of China was signed on 1 December 2015 but is not yet in force until both jurisdictions have completed their legislative procedures.

On 27 August 2013, China signed the Convention on Mutual Administrative Assistance in Tax Matters (Convention). The Convention can be described as a multilateral agreement designed to promote international cooperation regarding tax laws. The Convention includes provisions aimed at preserving the rights of taxpayers in relation to the exchange of information between countries.

On 16 December 2015, China signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information.

On 7 June 2017, China signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting.

COLOMBIA

MEMBER FIRM

City	Name	Contact Information
Bogotá	Vivian Amézquita	+57 1 208 7500 avivian@amezquita.com.co
Bogotá	Jimmy Galarza	+57 1 208 7500 gjimmy@amezquita.com.co

BASIC FACTS

Full name:	Republic of Colombia
Capital:	Bogotá
Main languages:	Spanish, indigenous
Population:	49.38 million (2018 estimate)
Monetary units:	Colombian Peso (COP)
Internet domain:	.co
Int. dialling code:	+57

KEY TAX POINTS

- Companies resident in Colombia and foreign entities are subject to corporate income tax at a single rate of 33% on their worldwide income (a reduced 20% rate applies in the 'free-trade zone' areas).
- A temporary income tax surcharge will also apply to taxpayers whose taxable base for income tax purposes is at least COP 800 million, at a rate of 4% for 2018.
- Capital gains are taxed as ordinary income (there are some exemptions however, such as gains from lotteries and similar sources that may be subject to special taxation).
- Value Added Tax (VAT) is levied at a standard rate of 19% effective 1 January 2017 on taxable supplies of goods and services by a taxable person within Colombia and on the importation of goods into Colombia by any person. VAT at a rate of 5% applies to staples products and 0% is applied to exempt services and goods.
- There is no concept of group relief for Colombian tax purposes.
- Special tax incentives are provided to investors in certain specified industries such as agricultural plantations, creation of hotels (new and remodelled), and national production of software.
- There are a number of 'free-trade zones' and 'special import-export systems' which provide duty-free entry of capital goods and materials to be used in the production goods for exportation.

A. TAXES PAYABLE

The following are the most important taxes that apply in Colombia.

COMPANY INCOME TAX

Companies resident in Colombia and foreign entities are subject to corporate income tax at a single rate of 33% on their worldwide income. Resident corporations are those organised under Colombian law and those foreign companies that have a branch in Colombia. Permanent establishments are also submitted to income tax. A reduced 20% rate applies in the 'free-trade zone' areas. A presumptive income tax system applies when 3.5% of the net equity of the previous year is higher than the net taxable income.

A temporary income tax surcharge will also apply to taxpayers whose taxable base for income tax purposes is at least COP 800 million, at a rate of 4% for 2018.

CAPITAL GAINS TAX

Capital gains are taxed as ordinary income except for a few types of capital gains that may be subject to special taxation (e.g. gains from lotteries and similar sources) or exempt from income taxation. The tax rate for capital gains is 10%.

VALUE ADDED TAX (VAT)

VAT is applicable on taxable supplies of goods and services by a taxable person within Colombia and on the importation of goods into Colombia by any person. The general rate of VAT is 19% effective 1 January 2017. Currently in Colombian there are only three VAT rates as follows: 19% standard rate, 5% for staples products and 0% for exempt services and goods.

INCOME SURCHARGE TAX AND CREE

A temporary income tax surcharge will apply to taxpayers whose taxable base for income tax purposes is at least COP 800 million, at a rate of 4% for 2018 (see higher under corporate tax).

PROPERTY TAX

Real estate property is subject to municipal taxation. The tax is usually levied at rates within a band of 1 to 16 per thousand, with reference to the cadastral value of each property. Undeveloped plots of land may be subject to increased tax rates.

VEHICLE TAX

Vehicle possession is subject to municipal taxation. The tax base is the commercial value.

FINANCIAL TRANSACTIONS CONTRIBUTION

A 0.4 % tax rate is imposed on all financial transactions, including money withdrawals from ATM, promissory notes, wire transfers, internet banking, bank drafts and bank checks, money on term deposit, overdrafts, installment loans, securities underwriting commitments and other forms of off-balance sheet exposures, safekeeping of documents and other items in safe deposit boxes, currency exchange or unit trusts. As of 1 January 2013, income taxpayers are allowed to deduct 50% of the bank debit tax from taxable income.

NATIONAL CONSUMPTION TAX

This tax is applied on restaurants and bars consumption at a rate of 8%. It is also applied to mobile telephone services at a 4% rate.

INDUSTRY AND COMMERCE TAX

This is a municipal tax applied to developing commercial, industrial and service activities in a municipality. The tax rate goes from 0.2% and 1.38% and is adjusted according to the activity of the company and is fully deductible for income tax purposes.

B. DETERMINATION OF TAXABLE INCOME

DEPRECIATION

Tax deductions are available for reasonable depreciation rates which reflect the normal wear and tear or obsolescence of the property concerned. The straight-line and the declining-balance methods may be used, along with any other method of recognised technical value.

TAX ON DIVIDENDS

Law 1819 of 2016 introduced a dividend tax on profits derived as from 1 January 2017, as follows for non-resident companies:

- 5% final withholding on non-taxable dividends; and
- 35% final withholding on taxable dividends.

Dividends received by resident individuals are subject to the following rates:

Type of dividend	Dividend amount	Rate (%)
Non-taxable dividends	Up to 600 value units (TVUs)	0
	600 TVUs - 1,000 TVUs	5
	over 1,000 TVUs	10
Taxable dividends distributed by a resident company	any amount	35
Dividends distributed by a non-resident company	any amount	35

At the level of non-resident individuals, the rates are as follows:

- 5% final withholding on non-taxable dividends; and
- 35% final withholding on taxable dividends.

Non-taxable dividends are dividends derived from profits that have been subject to income tax at the level of the resident company distributing the dividends

INTEREST DEDUCTIONS

Taxpayers are allowed to deduct interest derived from debts only up to an amount that does not exceed a 3:1 debt-to-equity ratio, taking into account the taxpayer's net equity as of 31 December of the previous year. Any interest payment derived from debts exceeding the said ratio is not deductible. This limitation applies to debts entered into with residents and non-residents, and with related or unrelated parties.

DEDUCTION OF TAXES

The only taxes that are deductible are industry and commerce tax, property tax and 50% of financial transactions tax.

LOSSES

Losses sustained by a company in a tax year can be carried forward and deducted during the following twelve tax years. Loss carry-back is not allowed.

FOREIGN SOURCE INCOME

Foreign source income for non-residents is not subject to income tax.

EXPENSES ABROAD

Expenses abroad that are necessary and related to the activity of the company and that generate fiscal income that is not submitted to withholdings are deductible with a limitation of 15% of the taxable base

INCENTIVES

Special tax incentives are offered to investors in certain specific industries, such as agricultural plantations, the creation of hotels (new and refurbished) and domestic software production. There are also a number of "free trade zones" and "special import and export systems" which permit duty-free entry of capital goods and materials to be used in the production of things to export. The tax rate is 20% for free zones as from 2017.

Tax incentives were introduced for new companies established in zones affected by the armed conflict (Zonas Afectadas por el Conflicto Armado, ZOMAC) further to which they are subject to progressive income tax rates. For small enterprises, the following rates apply: 0% from 2017 to 2021, 8.25% from 2022 to 2024 and 16.5% from 2025 to 2027. For medium-sized and large enterprises, the following rates apply: 17% in 2017, 16.5% from 2018 to 2021 and 24.75% from 2022 to 2027. In the case of companies that in the tax year obtain gross income up to 33,610 TVUs, they may opt to pay up to 50% of their taxes by making direct investments in high-impact projects according to the list issued by the government.

C. FOREIGN TAX RELIEF

Colombia relieves international double taxation unilaterally by granting an ordinary foreign tax credit, i.e. taxpayers may credit the amount of foreign tax paid on foreign-source income up to the amount of domestic Colombian tax that would be due on the income, subject to certain conditions.

D. CORPORATE GROUPS

There is no concept of group relief for Colombian tax purposes.

E. RELATED PARTY TRANSACTIONS

As a general rule, transactions between related parties must be carried out on arm's length basis, i.e. the prices should be the same as those that would be arrived at in comparable transactions with independent parties. The tax authorities may adjust the prices at which the taxpayer acquires or sells goods, as well as the consideration of other transactions, and modify the taxable base or the relevant loss of a taxpayer for income tax purposes. None of the double taxation treaties between Colombia and other countries reduce the withholding tax rates below the domestic rates.

Additionally, income taxpayers who carry out operations with related parties with offices or residence abroad, with gross assets of more than USD 1,105,200 and with gross revenue in excess of USD 674,172 are required to file an annual informative report of all of the operations carried out with their related parties and to prepare for those transaction that exceed the sum of USD 497,340 and file previous request of the tax authority probative documentation in order to prove the correct application of the current transfer pricing regulations. This probative documentation must be kept for a period of five years beginning on 1 January of the year following its preparation.

Colombia will also intend to introduce CFC (Controlled Foreign Companies) rules as from 2017.

F. WITHHOLDING TAX

A 15% income tax withholding applies to foreign payments of interest, commission, fees, royalties, technical services and advisory services and a 15% income tax withholding applies to administration or management fee payments made to headquarters, whether Colombian source income or foreign income.

G. EXCHANGE CONTROL

Certain foreign currency transactions must be channelled through authorized exchange intermediaries:

- Import of property;
- Export of property;
- External indebtedness;
- Foreign investment in Colombia;
- Colombian investment in foreign countries;
- Financial investments and fixed assets based in foreign countries;
- Endorsements and guarantees;
- Derivative transactions.

H. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	0/40[1]	0	15/33[10]	15/33[9]
Individuals	0/40[1]	--	0/15/33	15/33
Treaty countries				
Bolivia	--[2]	--[2]	--[2]	--[2]
Canada	15	5/15[3]	10	10

Chile	7	0/7[4]	5/15[5]	10
Czech Republic	15	5/15[4]	0/10	10
Ecuador	--[2]	--[2]	--[2]	--[2]
India	5/15	5/15	10	10
Mexico	0/33[7]	0/33[7]	5/10[5]	10
Peru	--	--	--	--
Portugal	10/33	10/33	10	10
South Korea	10	5/10[8]	0/10[6]	10
Spain	5	0/5[8]	10	10
Switzerland	15	0/15[8]	10	10

1. As from 1 January 2017, dividends are subject to a 5% income tax. Furthermore, dividends paid out of profits not taxed in the hands of the Colombian company are subject to 35% income tax, giving rise to an effective tax rate of 38.25% (the 5% income tax is applied after assessment of the 35% tax: 100-35=65*5%=3.25% + 35%). If the dividends are paid from profits that were taxed at the corporate level, they will only be subject to the 5% rate.
2. Domestic rate applies, no reduction under the tax treaty. Source state has exclusive right to tax.
3. The lower rate applies in case of a shareholding of at least 10% in the distributing company's capital.
4. The lower rate applies in case of a shareholding of at least 25% in the distributing company's capital
5. The lower rate applies to interest derived by banks or insurance companies.
6. The lower rate applies to interests derived by the government, central bank or any financial institution performing functions of a governmental nature.
7. Exclusive taxation by the resident country.
8. The lower rate applies in case of a shareholding of at least 20% in the distributing company's capital.
9. On payments made for software licences the withholding tax rate is 26.4% (33% of 80% of the total amount to be paid).
10. Interest paid to a non-resident is subject to a 15% final withholding tax. Payments, subject to Colombian income tax, to entities incorporated, resident, located or operating in non-cooperative jurisdictions or low or zero-tax jurisdictions or benefiting from the preferential tax regimes are subject to withholding tax at the standard corporate income tax rate (33% as from 2018).

COSTA RICA

MEMBER FIRM

City	Name	Contact Information
San José	Fernando Murillo Marchini	+506 2253 0304 fermur@pkfcostarica.com
San José	Laura Ulate Pascua	+506 2253 0304 lulate@pkfcostarica.com

BASIC FACTS

Full name:	Republic of Costa Rica
Capital:	San José
Main languages:	Spanish, Mekatelyu, Bribri, Patois

Population:	4.95 million (2018 estimate)
Monetary unit:	Costa Rican Colón (CRC)
Internet domain:	.cr
Int. dialling code:	+506

C

KEY TAX POINTS

- Corporate income tax is levied at a 30% rate. Reduced rates for small enterprises with gross income up to CRC 53,113,000: 10% and from CRC 53,113,000 to CRC 106,835,000: 20%.
- Capital gains are considered to be ordinary income if part of habitual profitable activity.
- There is no loss carry-forward nor loss carry-back in Costa Rica at the level of commercial enterprises.
- There is no unilateral double taxation relief in Costa Rica.
- Dividends and interest paid to non-resident companies are generally subject to a 15% withholding tax rate (reduced rates of 5% and 0% respectively subject to certain conditions).
- Royalties and technical service fees paid to non-resident companies are subject to a 25% withholding tax rate.
- There is no group treatment, thin capitalization legislation or controlled foreign company (CFC) rules in Costa Rica.

A. TAXES PAYABLE

COMPANY TAX

The corporate tax system is based on the territoriality principle. Tax is only due on business income generated in Costa Rica, i.e. income from services rendered, capital invested and goods located in the country. Any legal entity or individual engaging in an activity or business for profits in Costa Rica is considered to be a corporate taxpayer, regardless of his nationality, domicile, place of incorporation or meetings of the board of directors or place of execution of contracts. Based on the gross income of the period, the taxpayer must select the percentage of tax to be applied to the total net income from the table below.

	Year 2017	Rate (applies to total net income)
Gross revenue up to	CRC 53,113,000	10%
Gross revenue up to	CRC 106,835,000	20%
Gross revenue in excess of	CRC 106,835,000	30%

The fiscal year starts on 1st October and ends on 30th September of each year. However, subsidiaries of foreign companies can change the fiscal year to the calendar year with the Dirección General de Tributación Directa (tax authorities) after their first year of operations.

A company has to make three advance payments during the tax year on account of the final corporate income tax for the year's results. Payments are due in March, June and September and must amount to 75% of the corporate income tax liability of the previous tax year or 75% of the average corporate income tax liability of the previous three income years, whichever is higher. Any tax balance must be paid before 15 December following the end of the tax year.

The annual corporate income tax return must be filed within two months and 15 days after the end of the tax year, i.e. by 15 December for normal years of assessment.

CAPITAL GAINS TAX

There is no capital gains tax in Costa Rica except for:

- If it is not considered a regular activity of the company, e.g. a sale of land is only deemed taxable if it is the habitual activity of the company. If so, then the gain must be declared as income and tax will be paid according to the rates set out in the table under 'Company Tax'.
- When the company sells a depreciable asset: if a building has been subject to depreciation every year and

is subsequently sold, then the difference between the historical value and the sale price is considered a taxable gain.

BRANCH PROFITS TAX

In Costa Rica branches of foreign companies are subject to corporate income tax according to the rates set out in the table under 'Company Tax'.

SALES TAX

In Costa Rica there exists a sales tax, which is an imperfect value added tax (VAT). Sales tax is levied upon the sale of merchandise and the rendering of specified services at a rate of 13%. This percentage is charged to the final consumer of the goods or services. This sales tax has to be paid monthly.

FRINGE BENEFITS TAX

All the salaries, commissions, bonus and fringe benefits received by the employee are subject to tax according to the following rates:

2018	Rate
Up to CRC 799,000	0%
CRC 799,000 - 1,199,000	10%
Over CRC 1,199,000	15%

LOCAL TAXES

Costa Rica's income taxes affect the whole national territory equally.

OTHER TAXES

- Municipal Office Taxes: taxes are paid according to set rates and total assets of the company but the local municipality imposes the payment depending on several factors.
- Corporation Tax: all commercial companies have to pay this tax in January. This tax was declared unconstitutional because the Legislative Assembly did not comply with law procedures when it was approved. The government currently has a bill pending trying to repeal this tax.
- Social Security Tax: payments made monthly by employees and employees on the payroll of companies for the purpose of guaranteeing the functioning of the worker social security system and retirement benefits at the national level.
- Consumption tax: imposed on the import or domestic manufacture of goods. The rates are variable and selective, affecting only certain types of goods.

B. DETERMINATION OF TAXABLE INCOME

CAPITAL ALLOWANCES

There are no capital allowances in Costa Rica.

DEPRECIATION

Deprecation methods allowed are the straight-line method and the sum-of-the-year's digits method although the tax authorities may authorize the use of other methods.

Annual rates of depreciation based on the straight-line method are the following:

- Buildings in general: 2%;
- Wooden buildings: 4%-6%;
- Construction machinery and equipment: 15%;
- Motor vehicles: 10%;
- Machinery and equipment: 10%;
- All types of boats: 10%;
- Farming machinery: 10%.

STOCK/INVENTORY

Stock/inventory is not taxable in Costa Rica.

CAPITAL GAINS AND LOSSES

Capital gains are not taxable in Costa Rica subject to certain exceptions (see above under 'Capital Gains Tax').

DIVIDENDS

Dividends are not taxable at the level of corporations in Costa Rica, i.e. dividends received by a resident company from another resident company are exempt from corporate income tax. However, this income is subject to a 15% final withholding tax when paid to individuals or foreign entities.

INTEREST DEDUCTIONS

There are no thin capitalization regulations in Costa Rica. However, regarding deduction of interest payments, the law stipulates that the amount of interest exceeding habitual interest market rates is disallowed and whenever the amount to be deducted is higher than 50% of net income the taxpayer must submit a specific form to the tax authorities accompanied with substantiating proof.

LOSSES

Losses can only be carried forward by industrial and agricultural companies. Losses incurred by commercial enterprises cannot be carried forward. Loss carry-back is not allowed.

FOREIGN SOURCED INCOME

The corporate tax system is based on the territoriality principle. Tax is only due on business income generated in Costa Rica, i.e. income from services rendered, capital invested and goods located in the country..

INCENTIVES

Companies operating in a Free Zone enjoy a number of exemptions which are valued according to the conditions of each company that wants to be established in these zones.

C. FOREIGN TAX RELIEF

There is no double taxation relief for foreign taxes as the Costa Rica tax system is based on the territoriality principle. Foreign taxes paid are not deductible for income tax purposes.

D. CORPORATE GROUPS

Costa Rican law does not allow group consolidation.

E. RELATED PARTY TRANSACTIONS

Since 2013 there are first-time transfer pricing rules applicable to business entities or individuals conducting transactions with related parties. These rules follow the OECD Transfer Pricing Guidelines and are based on the at arm's length principle. They provide for advance pricing agreements (APAs), documentation requirements, an annual information return and a transfer pricing methodology.

On 2 February 2018, Costa Rica gazetted Resolution No. DGT-R-001-2018, setting out the rules for filing a Country-by-Country ('CbC')report.

The parent company of a multinational group resident in Costa Rica with consolidated group revenue of the equivalent of EUR 750 million in the Costa Rican currency – presently CRC 529.3 million (USD 924.7 million) – must comply with the obligation to file a CbC report, in line with the rules set out in the Resolution, which is intended to align Costa Rica's transfer pricing documentation regime with the recommendations put forward by the OECD in its Action 13 report on tackling base erosion and profit shifting.

The Resolution provides that groups covered by the regime must identify the entity that will file a CbC report by the last working day of the month of March each year, beginning in March 2018, through an official letter that must be sent digitally and signed by the local representative of the entity, addressed to the Director General of Taxation. The same deadline and rules apply to groups whose ultimate parent entity is in Costa Rica that have elected to file a CbC report in a different territory.

The Resolution provides that regardless of the month in which a reporting entity's fiscal period ends, the first CbC report must be furnished by 31 December 2018, at the latest, relating to the 2017 fiscal year. The same schedule applies to future years: the CbC report is required by 31 December 31 of each year following the relevant fiscal period.

F. WITHHOLDING TAX

Dividends paid to individuals or foreign entities are subject to a 15% final withholding tax. A lower rate of 5%

applies if the stock of the company distributing dividends is traded on the Stock Exchange and if such stock was acquired on that market.

Interest from a Costa Rican-source, commission fees and other financial expenses paid or credited to non-residents are subject to a 15% final withholding tax on the gross amount. Interest paid by commercial banks, provided they are supervised by General Supervisor of Financial Institutions, to foreign commercial banks, provided they are supervised in their home country, is subject to a 5.5% final withholding tax on the gross amount. Interest paid by resident companies to foreign commercial banks that are part of a financial conglomerate regulated by the National Supervision Council of the Financial System is subject to a final withholding tax on the gross amount at the following rates:

- 9% if paid before 24 April 2016;
- 13% if paid between 24 April 2016 and 24 April 2017; and
- 15% if paid on or after 25 April 2017.

Royalties from a Costa Rican-source paid or credited to non-residents are subject to a 25% final withholding tax on the gross amount.

Technical and financial advice fees are subject to a 25% final withholding tax on the gross amount.

G. EXCHANGE CONTROL

There is no foreign exchange control. Repatriation payments may be done in any currency. Both residents and non-residents may hold bank accounts in any currency.

H. PERSONAL TAX

All the salaries, commissions, bonus and fringe benefits received by the employee are subject to tax according to the following rates:

2018	Rate
Up to CRC 799,000	0%
CRC 799,000 - 1,199,000	10%
Over CRC 1,199,000	15%

H. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Costa Rica has a Free Commerce Treaty with the USA, Central America and the Dominican Republic and double tax treaties with Germany and Spain.

	Dividends (%)	Interest (%)	Royalties (%)
Non-treaty countries :			
Companies	5[4]/15	0[3]/15	25
Individuals	5/15	8/15	25
Treaty countries:			
Germany[2]	5[1]/15	0/5	10
Spain	5[1]/12	0/5/10	10

Notes:

1. The 5% reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 20% of the capital of the dividend-paying company.
2. Effective date: 1 January 2017.
3. Interest is exempt from withholding tax if paid to: (i) multilateral or bilateral development institutions (ii) development banks or (iii) non-profit entities that are exempt from income tax.
4. The 5% reduced rate applies if the stock of the dividend-distributing company is traded on a recognized Stock Exchange and if such stock was acquired in that market.

J. TAX PACKAGE SUBMITTED TO THE LEGISLATIVE ASSEMBLY

Costa Rica's government is working with the National Congress to reform the sales tax into VAT (at a

proposed rate of 13%). At the same time, it is trying to modify other taxes, looking for additional income, e.g. capital gains would then generally become subject to a new tax rate of 15% when realized (in cash or in kind). Please note, the National Congress in general doesn't agree with the proposals because they are pushing an order to first decrease salary expenses and other fringe benefits to governmental employees.

C

CROATIA

MEMBER FIRM

City	Name	Contact Information
Zagreb	Diana Anticic	+385 16 187 155 diana.anticic@porezni-savjetnik.com

BASIC FACTS

Full name:	Republic of Croatia
Capital:	Zagreb
Main languages:	Croatian
Population:	4.17 million (2018 estimate)
Monetary unit:	Croatian Kuna (HRK)
Internet domain:	.hr
Int. dialling code:	+385

KEY TAX POINTS

- Companies residents in Croatia are subject to corporate tax on profit generated domestically and abroad. Non-resident companies are subject to corporate tax only on profit generated domestically.
- There are no specific rules for branches or groups of companies. Each company is taxed separately.
- Transactions between related companies have to respect transfer pricing principles.
- The standard VAT rate is 25%. There are also reduced rates: 13% and 5% for certain supply of goods and services.
- Many types of payments are subject to withholding tax, such as salaries, dividends, interest and other income.
- Croatian residents – natural persons are subject to income tax on their worldwide income. Non-residents are taxed on income generated in Croatia.
- Real estate tax is paid on real estate transactions (purchase, replacement, gift, etc.). A tax exemption may be applicable subject to certain conditions.

A. TAXES PAYABLE

COMPANY TAX

Resident companies with a registered office or place of management and supervision in Croatia are taxed on their worldwide income. Non-resident companies are taxed only on income derived in Croatia.

The tax year is usually the calendar year. However, the taxpayer can choose to have a fiscal year different from the calendar year, which is subject to approval by the Tax Administration.

The profit tax is paid based on the determined tax base at the rate of:

1. 12% if, during the tax period, revenue has been generated up to HRK 3,000,000; or
2. 18% if, during the tax period, revenue has been generated equal to or higher than HRK 3,000,000.01.

Taxpayers are required to submit a corporate income tax return no later than four months following the end of the tax period.

CAPITAL GAINS TAX

Companies - Capital gains derived by a company from the sale of any capital assets are generally included in its ordinary profits. However, gains from the company's own shares (treasury shares) are not taxed.

BRANCH PROFITS TAX

There is no separate branch profit tax in Croatia. Trading profits and capital gains of a Croatian branch of a foreign company are calculated and taxed on the same basis as those of a Croatian resident company and only for Croatian sourced income. There is no branch remittance tax in Croatia.

SALES TAX / VALUE ADDED TAX (VAT)

VAT is payable on sales of goods and supplies of services, import of goods and intra-community acquisitions of goods.

The general VAT rate is 25%. A reduced rate of 13% (organised stays, newspapers and magazines, edible oils, water delivery, supply of electricity, etc) and 5% (brad and milk, books, certain medicines, etc) are also levied.

SPECIAL TAX AND EXCISE DUTIES

Special taxes are applicable to:

1. motor vehicles;
2. coffee and non-alcoholic beverages;
3. automobility liability insurance premiums and comprehensive car insurance premiums.

Excise duties are applicable to:

1. alcohol and alcoholic beverages;
2. tobacco products;
3. energy;
4. electricity.

LOCAL TAXES

In Croatia, the following local taxes are payable:

1. inheritance and gift tax;
2. motor vehicles tax;
3. vessels tax;
4. slot machines tax;
5. surtax;
6. consumption tax;
7. holiday homes tax;
8. use of public areas tax.

OTHER TAXES

FRINGE BENEFITS TAX

Fringe benefits are subject to salary tax according to the value of the benefit in kind. The fringe benefits are taxed in the hands of the employee and include the private use of a company vehicle, free meals, interest fee loans and any other non-business-related expense for the benefit of the employee. Non-alcoholic drinks during work hours are allowed.

REAL ESTATE TRANSFER TAX

Tax is charged at a rate of 4% of the market value of the real estate for transactions that include sale and any other means of transfer of ownership of real estate. If VAT is paid, the transaction is not subject to real estate transfer tax.

B. DETERMINATION OF TAXABLE INCOME

The taxable income of a company (corporate income tax base) is determined in accordance with the accounting regulations as the difference between revenue and expenses assessed in the profit and loss statement, adjusted for certain items that increase or decrease the tax base.

The tax base can also be determined by the cash principle for realised revenue not exceeding 3 million HRK in the previous tax period. The option is granted to taxpayers who are at the same time VAT taxpayers and are paying VAT based on the realised income.

DEPRECIATION

Depreciation is calculated by using the straight-line method over the estimated useful life of an asset. Standard annual depreciation rates prescribed by the Corporate Income Tax Act can be doubled for tax purposes. The deduction for tax depreciation cannot exceed the expense for accounting depreciation. Depreciation expense for personal cars and other vehicles used for personal transportation, whose purchase cost exceeds 400,000 HRK, is tax deductible only for depreciation calculated on the amount of up to 400,000 HRK.

Standard depreciation rates prescribed by the Corporate Income Tax Act (max. tax deductible):

Assets	Rate
Buildings and ships over 1,000 gross registered tons	10%
Personal cars and primary herd	40%
Intangible assets, equipment, vehicles (excluding personal cars), machinery	50%
Computers, computer hardware and software, mobiles and network equipment	100%
Other non-mentioned assets	20%

STOCK / INVENTORY

Inventories are valued at the lower of acquisition cost or net realizable value. They include acquisition costs, conversion costs and other costs incurred in bringing inventories to their current location and condition. Accepted valuation methods include “first in, first out” (FIFO) or weighted average method.

Allowable limits of inventory shortages are prescribed.

CAPITAL GAINS AND LOSSES

Capital gains and losses are included in taxable income and are subject to regular corporate income tax rates. Specific rules apply to unrealised gains and losses on certain types of assets and may not be taxable or not tax deductible, and may be recognised for tax purposes in the period of the realisation of the asset.

DIVIDENDS

Dividends (profit distribution) are subject to:

- income tax on income from capital for resident natural persons - 12%;
- income tax on income from capital for non-resident natural persons - 12% (when a double tax treaty is not applicable);
- withholding tax for foreign companies - 12% (when a double tax treaty is not applicable).

Profit distribution to domestic companies is not taxable.

INTEREST DEDUCTIONS

Interest on late payment is tax deductible unless due to related companies.

Interest expense on loans between related companies is deductible up to the amount prescribed by the Finance Minister and published by the Croatian National Bank. For 2018 the maximum allowed interest rate is 4.55%. Interest expense calculation must also comply with thin capitalisation rules.

The interest rate determined according to the transfer pricing rules and applicable to all contracts may be applied instead of maximum interest rate allowed of 4.55%.

Thin capitalisation

Interest paid or accrued on a loan is not deductible if (i) the loan is granted by a shareholder or member owning more than 25% of the share capital or voting power of the company and (ii) the loan exceeds the amount of four times the shareholder’s or member’s share in the capital or voting rights. The thin capitalization rules do not apply to loans granted by banks or other financial institutions.

LOSSES

Tax losses can be carried forward for up to five years. Carry-back of tax losses is not allowed.

Tax losses carried forward may be lost after a business combination (merger, acquisition, i.e.) and/or change of ownership of more than 50% if the taxpayer did not perform any business activity in the two years preceding such an event or if the business activity of the taxpayers changed within two years after such an event.

TAX INCENTIVES

Tax incentives are available in accordance with the Corporate Income Tax Act and other special legislation regulating incentives. Incentives can be granted for investment activities, business support activities, and activities with higher added value. The tax base can hence be reduced by 50% to 100%.

Investment incentives depend on the amount invested and number of employees contracted. Employment incentives are granted for creating new jobs and for training required by the new job.

C. FOREIGN TAX RELIEF

Foreign tax paid on income earned by a Croatian resident may be credited against his income or corporate tax liability. The income should be earned directly or through a permanent establishment abroad. The tax relief may be granted up to the amount of the Croatian corporate tax payable.

D. CORPORATE GROUPS

Consolidated returns or other tax reliefs for corporate groups are not allowed. Companies within the group must submit separate tax returns and are taxed separately.

E. RELATED PARTY TRANSACTIONS

Related parties shall mean parties wherein one party participates directly or indirectly in management, supervision, or capital of the other party, or both parties participate directly or indirectly in management, supervision or capital of the company.

Transactions between related parties must be contracted under the terms and conditions that would be agreed between unrelated parties. Companies should prepare and maintain transfer pricing documentation.

Interest paid or accrued between related parties must correspond to interest as would have been agreed between unrelated parties. Excessive interest payment is not deductible.

Transfer pricing rules also apply to transactions between related domestic entities if one of the entities is entitled to tax relief or has a right to carry forward tax losses from previous tax years.

F. WITHHOLDING TAX

Withholding tax at the rate of 15% is applied to payments of fees related to intellectual property rights, services of market research, business consulting, tax consulting, auditing, and interest to foreign legal entities. Withholding tax on dividends and profit sharing is taxed at the rate of 12%.

The Corporate Income Tax Act and certain EU Directives provide for special treatment for dividends, royalties, and interest paid to related companies in other EU states. A full exemption may be applied under certain conditions.

A 20% withholding tax rate is applied to fees for services, other than those taxed at the 15% withholding tax rate, if paid to entities located in countries considered to be tax heavens or financial centres.

If a country has a double tax treaty signed with Croatia, withholding tax rates may be lower than the non-treaty rates. To benefit from lower rates, a special application needs to be completed and submitted.

G. EXCHANGE CONTROL

The Croatian National bank and the Foreign Exchange Act regulate domestic and foreign currency transactions. There are no restrictions on transfers of paid-in share capital, dividends, profit, interest, loyalty, and similar payments.

H. PERSONAL TAX

Income tax is chargeable on Croatian residents natural persons for income generated in Croatia and abroad.

Croatian residents are taxed on the following types of income:

1. income from employment (progressive taxation, rates 24% and 36%),

2. income from self-employment (progressive taxation, rates 24% and 36%),
3. income from property and property rights (tax rate 12%),
4. income from capital (tax rate 12%, exceptionally 36%),
5. income from insurance (tax rate 12%)
6. other income (tax rate 24%).

Income from employment, self-employment and other income are annual income. For these types of income, the annual tax calculation is carried out. When calculating the annual tax liability, advanced paid tax (paid withholding tax for salaries and other income) is included.

Income from property and property rights, capital and insurance is final income. They are subject to withholding tax and are not included in the annual tax liability.

CAPITAL GAINS

- Capital gains from the sale of movable property and securities are currently not subject to tax. The capital gains tax at a rate of 12% plus city surcharge applies to gains derived from financial instruments. However, such gains are not taxable if the financial instruments are held for more than 3 years.
- Capital gains from the sale of immovable property and proprietary rights are taxed by way of final withholding. The taxable amount is the market value of the property less the acquisition price (adjusted for inflation) and costs of alienation. However, such gains are not taxable if (i) the sale takes place after 3 years of ownership, (ii) the taxpayer or his dependants lived on the property before the sale or (iii) the sale is directly connected with a divorce or with an inheritance.

ANNUAL INCOME

The withholding liability for personal tax lies with the employer. The taxable base is calculated by applying prescribed tax deductions and tax allowances to the total amount of the so called “annual income”. Tax rates are progressive and applicable to the taxable base when assessing annual income, comprised of employment income, self-employment income and other income not considered as final other income.

The applicable tax rates are:

Taxable income (HRK)	Rate (%)
Up to 210,000	24
Over 210,000	36

Employers are obliged to withhold tax from salaries at the following progressive rates:

Taxable income (HRK per month)	Rate (%)
Up to 17,500	24
Over 17,500	36

Municipalities are authorized to introduce a surcharge on the income tax at rates between 10% and 30%, depending on the number of inhabitants. The actual highest rate of the surcharge is currently 18% (e.g. in Zagreb).

SOCIAL CONTRIBUTIONS

Employers calculate and pay contributions for their employees. Pension insurance contributions are calculated at a rate of 20% on gross salary. Pension insurance contributions are withheld from the salary. Contributions for health insurance (15%), employment (1.7%) and work injury (0.5%) are calculated on the gross salary but are at the employer's expense.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Croatia has signed double tax treaties on avoidance of double taxation with 62 countries listed below. If double tax treaty applies, double taxations avoidance is ensured in accordance with the provisions of relevant treaty, mostly by granted tax relief on a credit basis.

	Dividends with capital share (%)	Dividends in all other cases (%)	Interest (%)	Royalties (%)
Non-treaty countries				
Corporations	12	12	0/15/20	0/15/20
Individuals	12	12	12	24
Treaty countries:				
Albania	10	10	10	10
Armenia	0[2]	10	10	5
Austria	0[3]	15	5	0
Azerbaijan	5[10]	10	10	10
Belarus	5[1]	15	10	10
Belgium	5[3]	15	10	0
Bosnia and Herzegovina	5[1]	10	10	10
Bulgaria	5	5	5	0
Canada	5	15	10	10
Chile	5[7]	15	5/15	5/10
China	5	5	10	10
Czech Republic	5	5	0	10
Denmark	5[2]	10	5	10
Estonia	5[3]	15	10	10
Finland	5[2]	15	0	10
France	0[3]	15	0	0
Georgia	5	5	5	5
Germany	5[3]	15	0	0
Greece	5[2]	10	10	10
Hungary	5[1]	10	0	0
Iceland	5	10	10	10
India	5[3]	15	10	10
Indonesia	10	10	10	10
Iran	5[2]	10	5	5
Ireland	5[5]	10	0	10
Israel	5[2]/10[9]	15	5/10	5
Italy	15	15	10	5
Jordan	5[1]	10	10	10
Korea (South)	5[1]	10	5	0
Kosovo	5[2]	10	5	5
Kuwait	0	0	0	10

Latvia	5[2]	10	10	10
Lithuania	5[1]	15	10	10
Luxembourg	5[3]	15	10	5
Macedonia	5[1]	15	10	10
Malaysia	5[3]	10	10	10
Malta	5[4]	5	0	0
Mauritius	0	0	0	0
Moldova	5[1]	10	5	10
Montenegro	5[1]	10	10	10
Morocco	8[1]	10	10	10
Netherlands	0[3]	15	0	0
Norway	15	15	0	10
Oman	0	0	5	10
Poland	5[2]	15	10	10
Portugal	5[3]	10	10	10
Qatar	0	0	0	0
Romania	5	5	10	10
Russia	5[6]	10	10	10
San Marino	5[1]	10	10	5
Serbia	5[1]	10	10	10
Slovak Republic	5[1]	10	10	10
Slovenia	5	5	5	5
South Africa	5[1]	10	0	5
Spain	0[8]	15	0	0
Sweden	5[2]	15	0	0
Switzerland	5[2]	15	5	0
Syria	5[3]	10	10	12
Turkey	10	10	10	10
Turkmenistan	10	10	10	10
Ukraine	5[1]	10	10	10
United Kingdom	5[11]/15[12]	10	5	5

Notes:

1. If the beneficial owner is a company which holds directly at least 25% of the capital of the company paying the dividends.
2. If the beneficial owner is a company (excluding partnership) which holds directly at least 25% of the capital of the company paying the dividends.
3. If the beneficial owner is a company which holds directly at least 10% of the capital of the company paying the dividends.
4. When the dividends are paid by a company which is a resident of Croatia to a resident of Malta who is the beneficial owner.

5. If the beneficial owner is a company (excluding partnership) which holds directly at least 10% of the capital of the company paying the dividends.
6. If the beneficial owner is a company (excluding partnership) which holds directly at least 25% of the capital of the company paying the dividends and this share should be at least 100,000 USD.
7. If the beneficial owner is a company which holds directly at least 20% of the capital of the company paying the dividends.
8. If the dividends are paid to a company the capital of which is wholly or partly divided into shares, as long as it holds directly at least 25% of the capital of the company paying the dividends.
9. If the beneficial owner is a company which holds directly at least 10 per cent of the capital of the company paying the dividends where that latter company is a resident of Israel and the dividends are paid out of profits which are subject to tax in Israel at a rate which is lower than the normal rate of Israeli company tax.
10. If the beneficial owner is a company (excluding partnership) which holds directly at least 25% of the capital of the company paying the dividends and has invested to the capital of that company at least 150,000 EUR.
11. If the beneficial owner is a company which is a resident of the other Contracting State and controls, directly or indirectly, at least 25% of the capital of the company paying the dividends (other than where the dividends are paid by an investment vehicle as mentioned in subparagraph (b)).
12. When dividends are paid out of income (including gains) derived directly or indirectly from immovable property within the meaning of Article 6. by an investment vehicle which distributes most of this income annually and whose income from such immovable property is exempted from tax.

CYPRUS

MEMBER FIRM

City	Name	Contact Information
Limassol	Nicholas Stavrinides	+357 25 868000 nicholas.s@pkf.com.cy
Nicosia	Nicolas Nicolaou	+357 22 462727 nicolas.nicolaou@pkf-nic.com

BASIC FACTS

Full name:	Republic of Cyprus
Capital:	Nicosia (Lefkosia to Greek Cypriots, Lefkosa to Turkish Cypriots)
Main languages:	Greek, Turkish
Population:	1.186 million (2018 estimate)
Monetary unit:	Euro (EUR)
Internet domain:	.cy
Int. dialling code:	+357

KEY TAX POINTS

- Companies resident in Cyprus are subject to corporation tax on all their income: non-resident companies only on profits derived from Cyprus. Branches managed and controlled from Cyprus are taxed as resident companies.
- Capital gains tax applies to residents and non-residents disposing of immovable property situated in Cyprus, and shares in companies owning such assets.

- VAT is charged on taxable supplies and imports. A reduced rate, zero rate and exemption regime applies to the supply of certain goods and services.
- In the absence of a tax treaty, the tax paid on overseas income in a non-treaty country is normally allowed as a tax credit by concession and proof of payment. The tax credit may not exceed the Cyprus corporation tax on the overseas income.
- Cyprus tax resident individuals are subject to income tax on worldwide income, non-residents are subject to income tax on Cyprus-sourced income only.
- Cyprus tax resident and domicile individuals are subject to defence contributions on dividend, interest and rental income. Cyprus tax residents who are not Cyprus domiciles are exempted from defence contribution.
- An individual is considered of a Cyprus domicile if he/she has a domicile of origin in Cyprus based on the provisions of the Will and Succession legislation. Examples of domicile may include domicile of the parents at the time of birth or permanently living and intending to live in a country.
- An individual is not considered of a Cyprus domicile if he/she has acquired a domicile of choice outside of Cyprus provided that he/she has not been a Cyprus tax resident in the last 20 years prior to the relevant tax year (irrespective whether he/she is of a Cyprus origin) or although of a Cyprus origin, has not been a Cyprus tax resident for the last 20 years.
- Notwithstanding the above, an individual who although not of a Cyprus origin has been a Cyprus tax resident for 17 out of the last 20 years, prior to the relevant tax year, is considered as a Cyprus domicile.

A. TAXES PAYABLE

COMPANY TAX

A Cyprus resident company is subject to corporation tax on its worldwide income. Non-resident companies are subject to corporation tax only on profits derived in the Republic. Resident companies are those companies whose management and control is exercised from Cyprus.

The corporation tax rate is 12.50%. Taxes are paid by two instalments in advance based on a provisional assessment, which should be at least 75% of the final tax charge. A fiscal year is the calendar year.

CAPITAL GAINS TAX

Gains in respect of the sale of immovable property situated in Cyprus (including shares of a company whose assets (or shares in another company having immovable property) include such immovable property) are subject to Capital Gains Tax. Both residents and non-residents are subject to capital gains tax if they own immovable property in Cyprus. The applicable rate on the taxable income is 20%.

No tax is levied in respect of immovable property situated abroad. No tax is levied on capital gains in respect of profits on disposal of shares of companies (other the ones which own immovable property).

BRANCH PROFITS TAX

Branches of foreign companies managed and controlled from Cyprus are taxed as if they were Cyprus resident companies. Foreign branch profits of Cyprus companies are relieved from Cyprus tax.

VALUE ADDED TAX (VAT)

VAT is generally imposed on taxable supplies of goods and services and undeveloped land for business purposes at the standard rate of 19%.

Certain supplies of goods and services are charged at the reduced rates of 5% - 9%; others are zero-rated, notably ship management services. Some supplies of goods and services are exempt from VAT: specifically, financial services, health and welfare, insurance, and education.

The annual VAT registration threshold is EUR 15,600.

Cyprus has adopted the provisions of the EU Directive 2008/8/EC effective from 1 January 2010. Exports of goods or provision of services to non-EU or to EU VAT registered persons are subject to 0%.

FRINGE BENEFITS TAX

Certain benefits such as use of cars for private purposes, rent, school fees etc are considered as benefits in kind and taxed accordingly.

LOCAL TAXES

Local taxes include transfer fees on sale and purchase of property, stamp duty (only in respect of assets situated in Cyprus or agreements executed in Cyprus), and immovable property tax.

OTHER TAXES

Contributions to the social insurance fund are paid on the salaries of resident employees. The total amount paid by an employer can vary from 11.5-13.5% of the gross salary. The employee pays a further 7.8%. The maximum salary on which contributions are paid is currently EUR 4.533 per month.

B. DETERMINATION OF TAXABLE INCOME

Resident companies pay taxes on their net taxable profits. These are determined by pooling their worldwide income and deducting allowable expenses, charges and capital allowances. Non-resident companies pay taxes on their Cyprus-sourced income only.

CAPITAL ALLOWANCES

Annual wear and tear allowances are allowed on various assets including plant and machinery; fixtures and fittings; commercial vehicles; hotels; commercial buildings; industrial buildings; computer hardware and software; and loose tools. Allowances range from 3% to 33% per annum. No capital allowances are given for saloon cars not used in the business.

DEPRECIATION

Depreciation included in the financial statements of entities is disallowed for tax purposes, as capital allowances are given instead. For accounting purposes, depreciation rates applied are those which write-off the assets over their useful life.

STOCK / INVENTORY

Opening and closing stocks are normally stated at the lower of cost and net realizable value on a FIFO basis.

CAPITAL GAINS AND LOSSES

Capital gains are computed separately and do not form part of the annual taxable income for corporation tax purposes. Indexation allowance is available for the determination of the taxable gains and losses. Capital losses can be offset against capital gains for the same fiscal year.

DIVIDENDS

Dividends receivable are exempt from corporation tax. Resident companies withhold contributions to the defence fund of the Republic on dividends paid to Cyprus tax domicile and resident individuals at the rate of 17%.

INTEREST DEDUCTIONS

Interest expense is deductible if the borrowing is wholly and exclusively for the purposes of producing income. Interest paid to a connected party is a deductible expense. Notional interest deductions are given on issue of share capital to encourage avoidance of thin capitalisation. Interest deductibility restrictions exist to the extent that a company has non-business assets.

INTEREST INCOME

Where interest in considered as profit close to the ordinary activities of the company, then such type of income is considered as trading profit and not interest. Hence it is not subject to defence contribution and taxed at the corporate tax rate of 12.5%. Examples include financing and insurance companies, interest from trade receivables etc.

Interest income is subject to a 30% defence contribution tax. If interest is received from abroad, such income is assessed as above. If the recipient is a Cyprus non domicile individual defence contribution is exempted.

INCOME FROM INTANGIBLE ASSETS

Please note the following with respect to income from Intangible assets:

- The cost of acquisition or development of the Intellectual Property is amortized equally for a period of 5 years, giving a 20% taxable allowance each year.

- 80% of the profit deriving from either royalty income (including compensation for improper use), or sale of qualifying intellectual property is deducted as a tax expense, leaving only 20% of the net profit being taxed.
- The above profit is calculated after deduction of any relevant expense in deriving such income.

LOSSES

Trading losses may be carried forward for a period of 5 years. Losses from overseas activities can be set off against chargeable income for the year and can be carried forward subject to the 5 year period.

If, within any period of three years, there is both a change in the beneficial ownership of a company and a major change in the nature of trade and, at any time before the change of ownership the activities in the trade become small or negligible, then no trading losses incurred prior to the change in ownership are allowed.

FOREIGN SOURCE INCOME

Cyprus has controlled foreign company legislation (CFC) legislation as to the extent of dividends from an overseas company. Such dividends are taxed if the companies paying the dividend have activities the nature of which amounts to more than 50% investment income and their country of residence imposes corporation tax which is less than 6.25% per annum. Both criteria must apply in order for the tax to be charged.

TAX INCENTIVES

Some of the main incentives are as follows:

(a) Low corporation tax of rates at 12.50%;

(b) Non-resident entities are only taxed on their Cyprus-sourced income;

(c) No withholding tax on payments of dividend and interest to non-residents and Cyprus domiciled individuals;

(d) Profits and dividends from abroad are tax-free free subject to CFC rules stated above;

(e) Restructuring legislation in line with the EU Merger Directive extending to companies in non-EU countries;

(f) 80% deduction from income from qualifying intellectual properties (royalties etc.);

(g) A Cyprus holding company can pay virtually no tax on its profits; and

(h) Tax incentives for employees coming to Cyprus from overseas.

C. FOREIGN TAX RELIEF

Foreign tax paid on income of a Cyprus resident company is credited against the corporation tax, subject to Double Tax treaty conditions. In the absence of a tax treaty, the tax paid in a non-treaty country is normally allowed as a deductible expense. Tax paid is credited only if a similar concession is given to Cyprus companies in that particular country. The foreign tax relief cannot exceed the Cyprus corporation tax on these profits.

D. CORPORATE GROUPS

Group loss relief is available to a group of Cyprus resident companies in relation to current year losses. Two companies will be considered as part of a group if one company holds 75% of the voting share capital or distributable profits of the other, or both companies are 75% subsidiaries of a third company. The group must be in existence within the whole fiscal year unless a company was incorporated in the year.

E. RELATED PARTY TRANSACTIONS

Transactions between related parties do not need to be adjusted for tax purposes as long as they are on ‘an arm's length’ basis. When there are transactions which are deemed as not at arm’s length, then tax adjustments apply on a notional basis.

F. WITHHOLDING TAX

Resident companies must withhold taxes on certain royalty payments depending on the rates provided in any tax treaty. Cyprus has entered into double tax treaties with over 50 countries. Non-resident companies have no obligation to withhold taxes on any payments they make.

Dividends paid (directly or indirectly) to non-resident shareholders and interest paid to non-residents are not subject to withholding tax.

G. EXCHANGE CONTROL

There are no exchange controls in Cyprus.

H. PERSONAL TAX

A person who is resident for 183 days or more in aggregate during the tax year is deemed to be tax resident. All individuals who are residents of the Republic are taxed on their worldwide income. Non-resident individuals are taxed on income emanating from Cyprus only. Income tax is payable on assessable income less allowable deductions. Assessable income includes income from employment, rent, interest and profits from trade and business or professions. Allowable expenses include mortgage interest, certain subscriptions, social insurance contributions and pension contributions.

The current tax rates are as follows:

Taxable income (EUR)	Normal tax rate (%)
0 – 19,500	0
19,501 – 28,000	20
28,001 – 36,300	25
36,301 – 60,000	30
Over 60,000	35

Pensions receivable from abroad by a resident in respect of services rendered outside Cyprus are still taxed at 5%, after deduction of the first EUR 3,417 if the individual elects to do so. Individuals taking up employment in the Republic, who were non-resident prior to employment are entitled to an allowance of 20% of remuneration up to a maximum of EUR 8,543 for a period of three years. Individuals with annual remuneration in excess of EUR 100,000 are entitled to an increased allowance of up to 50% for a period of five years. Salaried services rendered abroad for a total period of more than 90 days to a non-resident employer or at a PE abroad of a resident employer are exempt from income tax.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends%		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	0	0	0	0/5/10
Individuals	0	n/a	0	5/10
Treaty countries:				
Armenia	5	0[1]	5	5
Austria	10	10	0	0
Azerbaijan	0	0	0	0
Bahrain	0	0	0	0
Barbados	0	0	0	0
Belarus	15	5/10[2]	5	5
Belgium	15	10[3]	0/10	0
Bulgaria	10	5[4]	7	10
Canada	15	15	15	0/10

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China	10	10	10	10
Czech Republic	5	0[5]	0	10
Denmark	15	0[5]	0	0
Egypt	15	15	15	10
Estonia	0	0	0	0
Ethiopia	5	5	5	5
Finland	15	5[6]	0	0
France	15	10[7]	0/10	0/5
Georgia	0	0	0	0
Germany	15	5[8]	0	0
Greece	25	25	10	0/5
Guernsey	0	0	0	0
Hungary	0	0	0/10	0
Iceland	10	5[8]	0	5
India	10	10	10	10
Iran	10	5[4]	5	6
Ireland	0	0	0	0/5
Italy	0	0	10	0
Jersey	0	0	0	0
Kuwait	0	0	0	5
Kyrgyzstan	0	0	0	0
Latvia	10	0[9]	0/10	0/5
Lebanon	5	5	5	0
Lithuania	5	0[10]	0	5
Malta	15	15	10	10
Mauritius	0	0	0	0
Moldova	10	5[4]	5	5
Montenegro	10	10	10	10
Norway	15	0[10]	0	0
Poland	5	0[11]	5	5
Portugal	10	10	10	10
Qatar	0	0	0	5
Romania	10	10	10	0/5
Russia	10	5[12]	0	0
San Marino	0	0	0	0
Serbia	10	10	10	10
Seychelles	0	0	0	5
Singapore	0	0	7/10	10
Slovak Republic	10	10	10	0/5

Slovenia	5	5	5	5
South Africa	10	5[13]	0	0
Spain	5	0[14]	0	0
Sweden	15	5[4]	10	0
Switzerland	15	0[15]	0	0
Syria	15	0[16]	10	10/15
Tajikistan	0	0	0	0
Thailand	10	10	10/15	5/10/15
Turkmenistan	0	0	0	0
Ukraine	15	5[17]	2	5/10
United Arab Emirates	0	0	0	0
United Kingdom	0	0	10	0/5
United States	0	0	0/10	0
Uzbekistan	0	0	0	0

Notes:

1. The 0% rate applies if the beneficial owner has invested in the capital of the company not less than the equivalent of EUR 150,000 at the time of the investment.
2. The 10% rate applies if the beneficial owner holds directly at least 25% of the share capital of the company. The 5% rate applies if the beneficial owner of the dividends has invested in the share capital of the company paying the dividends not less than EUR 200,000.
3. The 10% rate applies if the beneficial owner is a company which holds directly or indirectly at least 25% of the capital of the company paying the dividends.
4. The 5% rate applies if the beneficial owner is a company which owns directly at least 25% of the capital of the company paying the dividends.
5. The 0% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends where such holding is being possessed for an uninterrupted period of no less than one year.
6. The 5% rate applies if the beneficial owner is a company (other than a partnership) which controls directly at least 10% of the voting power in the company paying the dividends.
7. The 10% rate applies if the beneficial owner is a company (other than a partnership) which controls directly at least 10% of the voting power in the company paying the dividends.
8. The 5% rate applies if the beneficial owner is a company which holds directly at least 10% of the capital of the company paying the dividends.
9. The 0% rate applies if the beneficial owner is a company (other than a partnership).
10. The 0% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends.
11. The 0% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends for an uninterrupted period of 24 months.
12. The 5% rate applies if the beneficial owner has directly invested in the capital of the company paying the dividends the equivalent of at least EUR 100,000.
13. The 5% rate applies if the beneficial owner is a company which holds at least 10% of the capital of the company paying the dividends.
14. The 0% rate applies if the capital of the dividend-receiving company is wholly or partly divided into shares and provided that it holds directly at least 10% of the capital of the dividend-paying company.
15. The 0% rate applies if the capital of the dividend-receiving company (other than a partnership) is wholly or partly divided into shares and provided that it holds directly at least 10% of the capital of the dividend-paying company during an uninterrupted period of at least one year.

16. The 0% rate applies if the capital of the dividend-receiving company is wholly or partly divided into shares and provided that it holds directly at least 25% of the capital of the dividend-paying company.
17. The 5% rate applies if the beneficial owner holds at least 20% of the capital of the company paying the dividends or has invested in the acquisition of the shares or other rights of the company equivalent of at least EUR 100,000.

CZECH REPUBLIC

MEMBER FIRM

City	Name	Contact Information
Prague	Jiri Valenta	+420 267 997 700 valenta@apogeo.cz

BASIC FACTS

Full name:	Czech Republic
Capital:	Prague
Main language:	Czech
Population:	10.62 million (2018 estimate)
Monetary unit:	Czech Koruna (CZK)
Internet domain:	.cz
Int. dialling code:	+420

KEY TAX POINTS

- Czech resident companies are subject to tax on their worldwide income. Non-resident companies are subject to tax on Czech-sourced income.
- Capital gains are not taxed separately but included within ordinary income.
- VAT is applied to the provision of goods, transfer of real estate, provision of services and imports. The basic rate is 21% although there is a lower rate of 15% and from 1 January 2015 a second lower rate of 10%.
- Transfer pricing rules apply to non-arm's length profit-sharing arrangements agreed between related parties.
- A real estate tax is levied on land and buildings.
- Ordinary credits for foreign income tax on overseas income are available for Czech resident taxpayers where a relevant double tax treaty exists. If there is no tax treaty, the overseas tax is included in the tax expenses for the following period.
- Czech resident individuals are subject to income tax on worldwide income, whereas non-resident Individuals are only required to pay tax on Czech-sourced income. For 2017, the personal income tax rate is 15%, An additional 7 % “solidarity surcharge” applies to the part of the gross employment income (including taxable benefits) and tax base from business income which exceeds 48 times the annual average salary (for 2018 CZK 1,438,992)
- In addition to income tax, employees also pay social security and medical insurance contributions at the rate of 11% withheld by their employers from their gross wages. Employer´s part of social security and medical insurance represents an additional cost of 34 %.
- Withholding tax applies to dividends, licence fees, interest and related income and royalties.

A. TAXES PAYABLE

COMPANY TAX

Company tax is payable by Czech resident companies on income derived from worldwide sources. Non-resident companies are required to pay the tax on income sourced in the Czech Republic. Resident companies are those which have their registered office or place of management located in the Czech Republic. The corporate income tax rate is 19% for 2017 and this is applied to all taxable profits of a business, including capital gains from the sale of shares (if not exempt under the participation exemption regime). A 5% and 0% tax rate applies to income from defined investments and pension funds respectively. A special tax rate of 15% applies to dividend income received by Czech tax resident entities from non-resident entities (unless a participation exemption applies).

A company may choose either a calendar year or an accounting year as its tax year. Tax returns are due within three months of the end of the tax period (or within six months for audited entities or entities represented by a chartered tax advisor). Tax is required to be paid within three months of the end of the tax period (or within six months for audited entities or represented by a chartered tax advisor). Estimated company tax payments (advance tax payments) are paid semi-annually or quarterly.

Online registration of sales

Taxpayers in the Czech Republic (individual entrepreneurs and legal entities who carry out business activities) are obliged to electronically evidence sales derived from business activities, e.g. when they are made in cash, by credit card, cheque, voucher or in any similar way. Entrepreneurs will get involved in the electronic registration of sales in four phases:

- 1 December 2016: accommodation and food services;
- 1 March 2017: retail trade and wholesale;
- 1 March 2018: third phase of electronic registration of sales should be launched: other professions, such as freelance, transport, agriculture;
- 1 June 2018: fourth phase of EET should be launched: selected crafts and manufacturing activities. The launch has been postponed though.

A taxpayer who is obliged to register his sales is supposed to report each single transaction in real-time to the Financial Authority and to also issue a receipt to the customer. Effective 1 March 2018 receipts are voluntarily marked with a Fiscal Identification Code (FIC) generated by the Financial Authority. With this code (FIC) all sales are registered. A violation of the registration of sales can be fined up to CZK 500,000.

From 1 March 2018, the obligation to register sales will not be applied to payments by card.

CAPITAL GAINS TAX

Capital gains such as dividends, interest from owed securities, deposit accounts and deeds are subject to a 15% withholding tax. Where capital gains are paid to residents of non-treaty countries the rate of withholding tax is 35%. Dividend income is exempt from withholding tax if paid to a resident of an EU member state in accordance with the EU Parent-Subsidiary Directive No. 90/435/ EU.

The parent company must have a minimum 10% holding in the subsidiary's registered capital for an uninterrupted period of at least 12 months. The subsidiary must have the form of the entities indicated in the Parent-Subsidiary directive, be a tax resident in an EU Member State and be subject to corporate income tax in this State. An exemption also applies under the same conditions to dividends distributed by subsidiaries with their seat in Switzerland, Norway, Iceland or Liechtenstein. Moreover, a similar exemption applies to the income arising from a transfer of shareholdings by a parent company in its subsidiaries within the EU.

The scope of exemption is extended to dividends distributed by qualified subsidiaries with their seat outside the EU where a relevant double tax treaty is applicable and that are subject to a tax rate at a minimum of 12% both in the year of payment of distribution of the dividend and in the previous year. The exemption also applies to income from the transfer of shareholdings by parent companies in subsidiaries outside the EU under the same conditions.

Interest and royalties are tax exempt when paid from a Czech company to a parent company in another state in the EU or EEA (which is a shareholder of the Czech company and has held the shares for a period of at least 24 months). It is necessary to apply for this tax exemption with the Czech tax authorities. The following documents must generally be: tax domicile certificate of the parent company, extract of the commercial register of the parent company, extract of commercial register of the Czech company, the title of the licence fees, and confirmation from the tax authority of the parent company that it has its tax domicile in the EU or EEA state.

For companies, capital gains are included within ordinary income in the year they arise and are taxed as part of their respective taxable profits for the period. Capital gains are not taxed separately in the Czech Republic except for those from a foreign source.

BRANCH PROFITS TAX

There is no separate branch profits tax in the Czech Republic. The income of a Czech branch of a foreign company is subject to taxation at the standard applicable 19% rate for 2017. Attribution of profits to a branch, if it does not result from its separately held bookkeeping, is commonly determined on the basis of the margins that are generally realised by resident companies undertaking similar activities.

VALUE ADDED TAX (VAT)

Value Added Tax (VAT) is imposed on the domestic provision of goods, transfer of real estate, provision of services, including the transfer or use of rights and importation of goods. There are three rates of VAT; basic rate 21% and lower rate 15% and from 2015 10 %. The 21% rate applies generally to supplies of goods and most services with some exceptions while the 15% rate applies to selected services and some goods such as foodstuffs, accommodation, restaurant, and transport services. The 10 % rate applies in particular to pharmaceutical products, printed books, certain children's nutrition and qualified mill products.

With effect from 1 January 2015, changes in the Value Added Tax (VAT) legislation were made which:

1) Implemented a 'mini one-stop shop regulation' for companies providing electronic, telecommunication and broadcasting services to private customers;
2) Provided for additional categories of goods to be subject to the reverse charge mechanism; and,
3) Provided changes to the VAT treatment of a transfer of immovable property.

Goods and services exported from the Czech Republic to non-EU countries are exempt from VAT. The principles of the Sixth VAT Directive (771388/EU) have applied since 1 May 2004 to goods and services exported from the Czech Republic to EU countries. A group of related parties may register as a single VAT taxpayer.

Selected VAT payers will be obliged to submit the VAT Control Statement after 1 January 2016.

It is introduced as an effective tool to detect and prevent tax evasion and fraud. Its aim and purpose is to enable the tax authority to obtain information on selected transactions carried out by taxable persons registered for VAT and along with other available information to identify suspicious groups of taxable persons (chains, carousels), which are illegally withdrawing funds from the public budget. VAT Control Statement is based on records for the purposes of VAT, which taxable persons registered for VAT are already obliged to keep. Transactions which are declared in the VAT Control Statement:

1. Domestic taxable supplies (CZ) or receipt of advance payment;
2. Domestic acquisition of goods/services or providing of advance payment;
3. Received transactions from which the acquirer is obliged to declare VAT;
4. Special scheme for investment gold:
    - Received Intermediary Service for which VAT is applied;
    - Supply of VAT exempt investment gold for which a taxable person registered for VAT is entitled to deduct VAT; or
    - Production of investment gold or transformation of gold into investment gold.

Deadline for submission of the VAT Control Statement (CZ taxable persons registered for VAT):

- Legal persons or group registration have to submit the VAT Control Statement no later than the 25th day after the end of each month,
- Natural persons have to submit the VAT Control Statement on the same day as their VAT return (no later than the 25th day after the taxable period: month or quarter, or special taxable period e.g. in an insolvency procedure etc.).

The VAT Control Statement has to be submitted electronically.

OTHER TAXES

Tax on real estate property is levied on buildings, structures and land situated within the Czech Republic. The taxpayer is the actual owner or in limited cases the user of the property. The rate depends on the size, quality, type and location of the property. This tax is deductible for corporate income tax purposes.

Income from inheritance and gifts is not subject to a specific tax but is included within the income tax regime and subject to tax at a rate of 15% for individuals and 19 % for companies (broad exemptions apply to donations for individuals while income from inheritance is exempt for all taxpayers).

From 2014 a separate law was introduced for real estate transfer tax which was broadly in line with the previous system. Property transfers are liable to real estate transfer tax at the rate of 4% on the official valuation or actual price, whichever is higher. This tax is a deductible cost for income tax purposes. From December 2016 the sole taxpayer is the acquirer.

The employers' payment on behalf of their employees towards the workers' social security and medical insurance is at the rate of 34% of the gross payroll (social security premium payments are capped at CZK 1,438,992 in 2018).

There is no Stamp Duty in the Czech Republic although the operation of a notarial fee may apply for certain documents. There is no net wealth/worth tax in the Czech Republic.

B. DETERMINATION OF TAXABLE INCOME

The company's taxable income is determined by ascertaining assessable income and then subtracting all allowable expenses. In general, to be tax deductible, all expenses must be related to the gaining or producing of assessable income and are not exempt pursuant to the law on income tax.

DEPRECIATION

The tax law prescribes six groups of tangible assets for tax depreciation purposes using depreciation periods ranging from three to 50 years. Either straight-line or accelerated depreciation methods are available. The choice of a method is made by the taxpayer and, once selected, cannot be changed for the remaining life of the asset.

Assets	Depreciation group	Depreciation period (minimum years)
Office machines and computers, tools	1	3
Engines, motor vehicles, machines, audio-visual equipment	2	5
Elevators, escalators, turbines, air conditioning equipment, electric motors, and generators	3	10
Buildings made of wood and plastic, long-distance lines, and pipes	4	20
Buildings (except for those listed in groups 4 and 6), roads, bridges, tunnels	5	30
Administrative buildings, department stores, historical buildings, and hotels	6	50

Tangible assets with economic useful lives of longer than one year and acquisition prices higher than CZK 40,000 are subject to tax depreciation. Buildings are always considered as tangible assets. Intangible assets which are acquired for CZK 60,000 or more, have a useful life of longer than one year and were acquired from a third party or developed internally for the purpose of trading are also subject to tax depreciation. It includes software, valuable rights or the intangible results of research and development.

For tax purposes, intangible assets are depreciated over the life of the license held by the taxpayer (if the licence is for a limited number of years), otherwise it depends on the category of intangible asset, for example, research and development and software are depreciated over 36 months and audio-visual works are depreciated over 18 months.

STOCK / INVENTORY

All trading stock is valued at purchase price, including ancillary costs incurred. Stock produced by the company's own operation is valued at internal costs. If a temporary reduction of stock value is non-tax deductible, corrective provisions are applied. Accepted valuation methods include the use of the arithmetical average cost and first in first out (FIFO) methods but not last in first out (LIFO) or the replacement-cost methods (except for livestock).

DIVIDENDS

If dividends are not tax exempt under the participation exemption regime, they are subject to a final withholding tax of 15% or the rate agreed in an applicable double tax treaty if paid to a non-resident. A tax exemption does not apply to a profit share paid out as result of the liquidation of a company. A withholding tax of 35% applies to dividends paid to resident entities of countries which are not part of the EU or EEA and do not have an enforceable double tax treaty or tax information exchange agreement with the Czech Republic.

INTEREST DEDUCTIONS

Interest incurred for business purposes is broadly tax deductible. However, thin capitalisation rules apply which can restrict its deduction. Notably, financial costs (e.g. interest plus other related costs, such as bank fees) of credits and loans for the relevant tax period shall be considered non-deductible expenses for the proportion of related-party loans which exceed four times the accounting equity (based on Czech GAAP) of the borrower. The non-deductible expense is the amount of the interest connected to the part of the sum of credits and loans (including financing costs) from related parties by which it exceeds a 4:1 debt-to-equity ratio (6:1 for banks and insurance companies) in the period for which the tax return is submitted.

LOSSES

Tax losses may be carried forward for five years following the year when the tax loss has been declared. Losses may not be carried back. Losses arising (after 2004) may be transferred within the framework of common taxation of parent and daughter companies within the EU territory (transfers of enterprises, mergers and demerger of enterprises) subject to strict conditions.

INCENTIVES

Investment incentives including tax relief are governed by the Investment Incentives Act and apply only to Czech entities (including Czech subsidiaries of foreign companies). A variety of incentives are available including financial support for training or retraining of employees or the creation of new jobs, capital expenditure grants and income tax relief. There are also incentives to support technology centres, strategic services and the manufacturing industry of the Czech Republic.

C. FOREIGN TAX RELIEF

Ordinary credits for foreign income tax are available to resident taxpayers under Czech law where a double tax treaty exists which indicates a tax credit as a method of avoidance of double taxation. The clearance or exemption method is available, according to the particular double tax treaty. If there is no tax treaty relief, the legal entity will include the foreign tax paid as a tax expense for the following period provided it was imposed on income which has been included in the Czech entity's taxable income.

D. CORPORATE GROUPS

There is no group taxation in the Czech Republic. Each company is taxed as a standalone entity regardless of its ownership or control relationships.

E. RELATED PARTY TRANSACTIONS

Non-arm's length pricing arrangements between related parties are addressed by transfer pricing legislation which allows the tax authority to adjust the prices to reflect third party arm's length values.

Where such adjustments are made by the tax authorities, which can be the result of an audit, additional tax liabilities and penalties can arise which can also affect a company's ability to claim investment incentives. As of the tax period 2014 qualified companies are obliged to file a special form describing arrangements between related parties together with the corporate income tax return. The Czech Republic tax authorities follow OECD pricing guidelines and an Advance Pricing Agreement (APA) between a company and its related parties can be agreed upon.

There is no CFC legislation in the Czech Republic.

F. WITHHOLDING TAX

Certain types of income of companies are subject to withholding tax at source. In the case of resident taxpayers, dividends from Czech sources are subject to a final withholding tax at 15% whereas interest and royalties are not subject to withholding tax and are included in the general tax base. In the case of non-residents, dividends, interest and royalties are all subject to 15% withholding tax if an exemption does not apply – see more precisely above under the chapter 'Capital Gains Tax'. Residents of countries outside the EU or EEA which do not have an enforceable double tax treaty or tax information exchange agreement with the Czech Republic are subject to 35% withholding tax.

G. EXCHANGE CONTROL

The Foreign Exchange Act allows the Czech currency to be used freely to pay for business and other costs, for direct investment and reinvestment and for purchase of real estate property abroad. Capital transfers have been deregulated but the reporting duty has been retained. Sales of foreign currency and gold are permitted where one of the parties is an entity holding a licence or foreign currency permit.

H. PERSONAL TAX

Income tax is payable by Czech resident individuals on income derived from worldwide sources. Non-resident individuals are only required to pay tax on Czech-sourced income. Tax residence is determined by reference to permanent home or whether the individual has spent at least 183 days of the relevant calendar year in the Czech Republic.

Income tax is payable on the total tax base from different types of income. Taxable income of individuals includes employment income, business income, certain capital gains, dividend income, rental income, interest income, annuities and other income including benefits in kind related to such income. Generally, the tax base is calculated as the difference between assessable income and tax deductible allowable expenses. Expenses cannot be claimed for employment income or capital gains (most of which are subject to withholding tax). Employment income cannot be reduced by losses of any other categories of income. The tax base for employment income is increased by the amount of social security and health insurance contributions to be paid by the employer (34%, so called super-gross wage). Income from business or rental operations can be reduced by losses derived from other categories. Income from employment is taxable individually and is reduced by some deductible items and personal allowances.

For 2018, the personal income tax rate is 15%. However, income from employment and business income are also subject to “solidarity surcharge” that represents an additional 7% applied to the amount which in total exceeds 48 times the annual average salary (for 2017 CZK 1,438,992). Employees hired under an employment contract under Czech law pay social security and medical insurance contributions at the rate of 11% withheld by their employers from their gross wages. This represents 6.5% for social security and 4.5% for health insurance. The contribution rates for the employer are 25% for social security and 9% for health insurance. Medical insurance and social security contributions are also paid by self-employed individuals.

The maximum annual social security contributions cap which applies to both employees and entrepreneurs is 48 times the average monthly wage per year (for 2018 this is CZK 1,438,992).

- A deduction of up to CZK 24,000 per year is available subject to certain conditions for private contributions paid on private life insurance. A deduction is also available for up to CZK 24,000 per year (subject to certain conditions) for private contributions paid to a private pension insurance fund.
- A deduction is available for up to CZK 300,000 per year for interest paid on a mortgage for the taxpayer´s permanent home, although several strict conditions apply.
- Income from a sale of shares represents part of an individual’s total income tax base subject to a 15% tax rate. For a taxable period, shares sold below CZK 100,000 are exempt from taxation. Similarly, if an individual has owned property for longer than a certain time (depends on property), gain arising from the sale of that property is exempt from tax.

Tax returns are due on 1st April, or 1st July if prepared by a chartered tax advisor. Advances to income tax from employment income are paid monthly. Payments on account of tax on income from business operations, rental income, etc. are made half-yearly and quarterly, as for corporations, based on the last known tax liability.

Inheritance and Gift Taxes have been abolished. From 2014 any income from an inheritance and from gifts is part of the personal income tax (therefore subject to the flat rate of 15%). Any income from an inheritance is exempt from income tax whereas the exemption of the income from the gift depends on the level of next of kin of the beneficiary of the gift with the donator. Real estate property and property transfer taxes are deductible.

I. TREATY AND NON·TREATY WITHHOLDING TAX RATES

	Dividends[1] (%)	Interest[2] (%)	Royalties[3] (%)
Non-treaty countries:	15/35	15/35	15/35
Treaty countries:			
Albania	5/15	0/5	10
Armenia	10	5/10	5/10

Australia	5/15	10	10
Austria	0/10	0	5
Azerbaijan	8	5/10	10
Bahrain	5	0	10
Barbados	5/15	5	5/10
Belarus	10	0/5	5
Belgium	5/15	10	0/5
Bosnia	5	0	0/10
Brazil	15	10/15	15/25
Bulgaria	10	0/10	10
Canada	5/15	0/10	10
Chile	15	4/5/10/15	5/10
China	5/10	0/7.5	10
Croatia	5	0	10
Cyprus	0/5	0	0/10
Democratic People's Republic of Korea	10	0/10	10
Denmark	0/15	0	0/10
Egypt	5/15	0/15	15
Estonia	5/15	0/10	10
Ethiopia	10	0/10	10
Finland	5/15	0	0/1/5/10
France	0/10	0	0/5/10
Georgia	5/10	0/8	0/5/10
Germany	5/15	0	5
Greece	Local rates	0/10	0/10
Hong Kong	5	0	10
Hungary	5/15	0	10
Iceland	5/15	0	10
India	10	0/10	10
Indonesia	10/15	0/12.5	12.5
Ireland	5/15	0	10
Israel	5/15	0/10	5
Italy	15	0	0/5
Japan	10/15	0/10	0/10
Jordan	10	0/10	10
Kazakhstan	10	0/10	10
Korea, Republic of	5/10	0/10	0/10
Kuwait	0/5	0	10
Latvia	5/15	0/10	10
Lebanon	5	0	5/10
Lithuania	5/15	0/10	10
Luxembourg	0/10	0	0/10
Macedonia	5/15	0	/10

Malaysia	0/10	0/12	12
Malta	5	0	5
Mexico	10	0/10	10
Moldova	5/15	5	10
Mongolia	10	0/10	10
Morocco	10	0/10	10
Netherlands	0/10	0	5
New Zealand	15	0/10	10
Nigeria	12.5/15	0/15	15
Norway	0/15	0	0/5/10
Panama	10	0/5/10	10
Philippines	10/15	0/10	10/15
Poland	5	0/5	10
Portugal	10/15	0/10	10
Romania	10	0/7	10
Russia	10	0	10
Saudi Arabia	5	0	10
Serbia and Montenegro	10	0/10	5/10
Singapore	5	0	10
Slovak Republic	5/15	0	0/10
Slovenia	5/15	0/5	10
South Africa	5/15	0	10
Spain	5/15	0	0/5
Sri Lanka	15	0/10	0/10
Sweden	0/10	0	0/5
Switzerland	0/15	0	5/10
Syria	10	0/10	12
Tajikistan	5	0/7	10
Thailand	10	0/10	5/10/15
Tunisia	10/15	0/12	5/15
Turkey	/10	0/10	10
Ukraine	5/15	0/5	10
United Arab Emirates	0/15	0	10
United Kingdom	5/15	0	0/10
United States	5/15	0	0/10
Uzbekistan	5/10	0/5	10
Venezuela	5/10	0/10	12
Vietnam	10	0/10	10

Notes:

1. If the recipient is a company that owns at least a certain amount of the capital, or a certain amount of the voting shares of the company paying the dividend directly, then the lower rate applies. Dividends paid to residents of countries outside the EU and the EEA which do not have an enforceable double tax treaty or tax information exchange agreement with the Czech Republic are subject to 35% withholding tax.
2. When interest is received by the government or a state-owned institution or is paid by the government

then the lower rate applies. Interest paid to residents of countries outside the EU and the EEA which do not have an enforceable double tax treaty or tax information exchange agreement with the Czech Republic are subject to 35% withholding tax.

3. Cultural royalties are generally subject to the lower rate. Royalties paid to residents of countries outside the EU and the EEA which do not have an enforceable double tax treaty or tax information exchange agreement with the Czech Republic are subject to 35% withholding tax.

DEMOCRATIC REPUBLIC OF CONGO

CORRESPONDENT FIRM

City	Name	Contact Information
Douala / Buea	Christopher Awungjia	+237 676 548 777 +237 696 859 024 cawungjia@acncoaccountants.com

BASIC FACTS

Full name:	Democratic Republic Of Congo
Capital:	Kinshasa
Main languages:	French
Population:	83.63 million (2018 estimate)
Monetary unit:	Congolese Franc (CDF)
Internet domain:	.cd
Int. dialling code:	+243

KEY TAX POINTS

- The Democratic Republic Of Congo (the 'DRC') operates a declarative tax system in which the taxpayer declares and pays monthly tax collections to the taxation authorities. False declarations are punishable by penalties and interest on late payment.
- In the DRC, there are two types of income taxes:
  - Income tax on individuals;
  - Income tax on entities.
- There is a tax on turnover, borne by the final consumer known as Value Added Tax (VAT).

A. TAXES PAYABLE

CORPORATE INCOME TAX

Congolese companies are taxed on the territoriality principle. As a result, companies carrying on a trade or business outside the Democratic Republic of Congo (DRC) are not taxed in the DRC on the related profits. Congolese companies are those registered in the DRC, regardless of the nationality of the shareholders or where the company is managed and controlled.

Foreign companies (for example, branches) engaged in activities in the DRC are subject to Congolese corporate tax on Congolese-source profits only. A company is considered to have a permanent establishment in the DRC if it satisfies either of the following conditions:

- It possesses a fixed or permanent place (for example, head office, branch office, factory, plant, workshop, or buying and selling counter);
- In the absence of such place, it carries out a professional activity under its corporate name for at least six months in the DRC.

Rate of corporate tax

The regular corporate income tax rate is 35%. The minimum tax payable is 1% of the annual turnover for larger corporations.

For small corporations with annual revenues of less than CDF 10 million, the corporate income tax is set at CDF 50, 000.

For average-sized corporations with annual revenues between CDF 10 million and CDF 200 million, the corporate income tax rate is 1% of the annual revenue for sales of goods and 2% for the provision of services. The corporate income tax rate is 30% for companies holding mining or quarry titles.

CAPITAL GAINS

Increases resulting from capital gains and depreciation that are realized and either realized or expressed in the accounts or inventories are included in profits and are subject to tax at a rate of 35%.

Increases resulting from unrealized capital gains that are expressed in the accounts or inventories and that are not treated as profits are not yet taxable. This rule applies only if the taxpayer holds a regular accounting and if it fulfils its declarative obligations.

Increases resulting from realized capital gains on buildings, tools, materials and movable assets (regardless of whether they result from rent payments), as well as on participations and portfolios, are taxable to the extent that the sales price exceeds the acquisition price or cost. A deduction is made from the amount of the depreciation that has already been claimed for tax purposes.

ADMINISTRATION

The fiscal year extends from 1 January to 31 December. Tax returns must be filed by 30 April.

Corporate tax must be paid in two instalments before 1 August and 1 December. Each instalment must equal 40% of the preceding year's tax (increased by any tax reassessment received by the tax office during the current year). The balance of tax due must be paid by the following 30 April. A penalty of 4% per month is assessed for late payment of tax.

Tax is fixed automatically if a tax return is not filed.

DIVIDENDS

In general, dividends paid are subject to a 20% withholding tax. The rate of dividend withholding tax for mining companies is 10%. A notional dividend withholding tax applies to branches. The rates of this tax are 8% for public limited liability companies and 10% for other limited liability companies.

INTEREST DEDUCTIONS

There are no thin capitalization rules in DRC. However, under the 2014 Finance Law, outbound interest payments to a foreign resident shareholder or any other related party are deductible only if the loan is repayable within a maximum period of 5 years and the interest rate does not exceed the annual average rate applied by banks established in the country of the lending entity.

LOSSES

Tax losses incurred in a tax year may be carried forward indefinitely. However, the deduction of the available tax losses is capped at 60% of the annual taxable income.

Loss carry-back is not allowed.

OTHER TAXES

Type of tax	Rate (%)
Value Added Tax (VAT)	16
Payroll taxes:	
Annual income not exceeding CDF 22,956,000 (progressive rates)	0 - 40
Annual income exceeding CDF 22,956,000 (flat rate)	30
Exceptional income tax for expatriates (IERE)	

Mining companies	10
Other companies	25
Social Security National Institute (INNS), contributions, payable monthly	
Employers	5
Employees	3.5
National Institute for Professional Preparation (INPP), payable monthly by employers	1 - 3
National Agency for Labour (ONEM), payable monthly by employers	0.2

B. DETERMINATION OF TRADING INCOME

GENERAL

Taxable income is based on financial statements prepared in accordance with principles set by the Organization for the Harmonization of Business Law in Africa (Organisation pour l'Harmonisation en Afrique du Droit des Affaires, or OHADA) Accounting Act, except for banks and insurance companies. The net amount of income is taxed. This amount equals gross income minus business expenses incurred during the tax year to acquire and retain the income. Business expenses are generally deductible unless specifically excluded by law. The following expenses are not deductible:

- Head office, remuneration or management fees for services paid to non-residents that are not justified;
- Head office overhead or remuneration for certain services (studies and technical assistance) paid to non-residents;
- Expenditure of a personal nature, such as maintenance of household, appraisal fees, holidays and other expenses not necessary for the profession;
- Corporate income tax, as well as real tax (tax on movable assets, tax on vehicles or tax on mining concessions), to the extent that the real tax does not constitute an operating expense;
- All judicial or administrative fines, and fees and charges relating to breaches by income beneficiaries;
- Certain specific charges, gifts, subsidies and penalties;
- Directors' fees allocated under the Corporations Act to members of the General Council;
- Expenditures on leased property, including depreciation of the property;
- Provisions for losses, expenses or depreciation of assets, excluding provisions for the recovery of mineral deposits and provisions for the recovery of bank capital;
- Commissions and brokerage fees if it cannot be proven that the tax on turnover has been paid for these items;
- Most liberalities (payments that do not produce a compensatory benefit, such as excessive remuneration paid to a director).

TAX DEPRECIATION

Land and intangible assets, such as goodwill, are not depreciable for tax purposes. Other fixed assets may be depreciated using the straight-line method at rates specified by tax law. The following are some of the specified annual rates.

Asset	Rate (%)
Buildings	2 to 5
Office equipment	10
Motor vehicles	20 to 25
Plant and machinery	10
Shipping and aviation equipment	10 to 33

Companies can also opt for a regressive method for tax depreciation of specific assets with an annual rate of two to three times the straight-line rate.

INVENTORIES

Inventories are normally valued at their historical cost or acquisition cost.

PROVISIONS

In determining accounting profit, companies must implement certain provisions, such as a provision for risk of loss or for certain expenses. These provisions are not deductible for tax purposes. However, provisions for recovery of bank capital and provisions for the recovery of the mineral deposit are deductible for tax purposes.

C. FOREIGN TAX RELIEF

In general, foreign tax credits are not allowed. Income subject to foreign tax that is not exempt from Congolese tax under the territoriality principle is taxable.

D. CORPORATE GROUPS

The DRC does not have a fiscal integration system equivalent to a consolidated filing position.

E. RELATED PARTY TRANSACTIONS

The DRC has several measures applicable to related-party transactions that are not conducted on an arm's length basis. The 2014 Finance Law introduced tighter provisions for deductions with respect to cross-border transactions carried out with related parties. These provisions include the disallowance of loan interest with respect to rates exceeding those offered on the international finance market (for example, the London Interbank Offered Rate [LIBOR]) and the repayment of principal beyond five years. Management fees paid to a related party may be deducted from the corporate income tax base if the following conditions are satisfied:

- The services rendered can be clearly identified (i.e., they are genuine services that are effectively rendered and directly related to operating activities);
- The services cannot be rendered by a local company (that is, overhead expenses recharged to the local entity are excluded);
- The amount paid for the services is not exaggerated in view of the nature of the services. These arm's-length requirements are consistent with those set forth in the Mining Code. The 2015 Finance Law introduced transfer pricing documentation requirements. As a result, companies must put at the disposal of the tax administration during a tax audit, general and specific information on an affiliated group of companies (Master File and Local File), including the following:
- General description of the deployed activity, including changes that occurred during the year;
- A general description of the legal or operational structures of the affiliated group of companies, including identification of the related companies engaged in transactions involving the company established in the DRC (local company);
- A general description of the function performed and risk assumed by the affiliated companies as soon as they affect the local company;
- A list of the main intangible assets owned, including patents, trademarks, trade names and know-how, relating to the local company;
- A general description of the group's transfer pricing policy;
- A description of transactions made with other affiliated companies, including the nature and amount of cash flows, such as royalties;
- A listing of the cost-sharing agreement, copies of preliminary agreements related to transfer pricing that are concluded under the conditions of the regulation, and the prescription relating to the determination of transfer pricing, affecting the results of the local company;
- Presentation of the method or methods for determining transfer pricing, in compliance with the arm's-length principle, including an analysis of the functions performed, assets used and risks assumed, and an explanation concerning the selection and application of the methods used;
- An analysis of comparative elements considered as relevant by the company if the selected method requires it In addition, the corporate income tax law disallows branches from deducting overhead charges incurred by the parent company and charged back to the branch.

F. WITHHOLDING TAX

Description	Rate (%)
Dividends	20 (a)
Interest	20 (b)
Royalties from patents, know-how etc.	20 (c)
Fees for technical services, digital services and professional activities	14 (d)

a) The rate of dividend withholding tax for mining companies is 10%. A notional dividend withholding tax applies to branches (branch remittance tax). The rates of this tax are 8% for public limited liability companies and 10% for other limited liability companies.

b) Interest on loans abroad to mining companies is not subject to withholding tax.

c) The net amount of royalties is subject to tax. For this purpose, net royalties equal gross royalties minus professional expenses, or 30% of gross royalties (resulting in an effective tax rate of 14%).

d) This withholding tax applies to payments for services provided to Congolese companies by foreign companies and individuals without a permanent establishment in the DRC. The tax base is the gross amount of the applicable invoice.

G. EXCHANGE CONTROL

The currency in the DRC is the Congolese franc (CDF). The exchange rate is variable. In the DRC, the Central Bank of Congo regulates foreign exchange controls. It also supervises the regulation on the transfer of currency. Cash transfers from or into the DRC are not subject to restrictions if they do not exceed the equivalent of USD 10,000. An exchange control fee of 0.2% is levied on payments to or from abroad.

H. PERSONAL TAX

The standard progressive rates applicable to wages are as follows:

Taxable income	Rate (%)
Up to 524,160	0
524,161 – 1,428,000	15
1,428,001 – 2,700,000	20
2,700,001 – 4,620,000	22.5
4,620,001 – 7,260,000	25
7,260,001 – 10,260,000	30
10,260,001 – 13,908,000	32.5
13,908,001 – 16,824,000	35
16,824,001 – 22,956,000	37.5
Over 22,956,000	40

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	10/20	10/20	0/20	20
Individuals	10/20	--	0/0	20

Treaty countries:				
Belgium	15	10[1]	10	10
South Africa	15	5[2]	10	10

Notes:

1. The 15% rate applies if dividends are paid by a company whose profits are exempt from Congolese tax under the Investment Code or under a particular law organizing investments in the sectors listed in Article 3 of the said Code, provided that the beneficial owner is a company which holds directly at least 25% of the capital of the company paying the dividends. The 10% rate applies in all other cases.
2. The 5% reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends.

DENMARK

MEMBER FIRM

City	Name	Contact Information
Copenhagen	Kasper Vindelev	+45 43 96 06 56 k.vindelev@pkf.dk

BASIC FACTS

Full name:	Kingdom of Denmark
Capital:	Copenhagen
Main languages:	Danish
Population:	5.78 million (2018 estimate)
Monetary unit:	1 Danish Krone (DKK) = 100 Ore
Internet domain:	.dk
Int. dialling code:	+45

KEY TAX POINTS

- Danish resident companies are subject to corporate income tax on Danish profits (including gains) and to some extent on foreign-sourced income. Non-resident companies pay tax on income sourced in Denmark.
- Branches of foreign companies are subject to tax on income derived from activities in Denmark.
- Danish companies within a group, along with Danish permanent establishments and real estate owned by foreign subsidiaries are subject to compulsory Danish joint taxation.
- Value added tax is applied at a standard rate, but subject to zero-rating and exemption. Danish legislation generally follows EU Directives.
- A property tax is levied locally.
- A controlled foreign company (CFC) system operates to attribute profits of a foreign subsidiary to a Danish parent where the activities of the subsidiary are mainly financial.
- Unilateral and tax treaty relief are available for foreign tax levied on profits subject to Danish corporate income tax.
- Dividends, interest and royalty payments are subject to withholding tax, unless exempted under a relevant double tax treaty.
- Individuals resident in Denmark are taxable on worldwide income, non-residents on Danish-sourced income.

- A special basis of assessment is available to some expatriates employed temporarily in Denmark for a maximum of 84 months.

A. TAXES PAYABLE

COMPANY TAX

Resident corporations are subject to Danish corporate income tax on their profits in Denmark and, to some extent, on income sourced abroad. Non-resident companies are required to pay tax on income sourced in Denmark. Resident corporations include all Danish companies registered with the Danish Commerce and Companies Agency, as well as certain non-registered companies that are treated as residents. Companies incorporated under the laws of another country may be considered to be resident in Denmark if their central management and control is exercised in Denmark.

Corporate income tax is charged at 22%. Tax is paid on account on a current year basis in two instalments on 20 March and 20 November during the tax year, with a final instalment due on 20 November following the end of the tax year.

CAPITAL GAINS TAX

Capital gains/losses on disposals of assets are, in general, included in taxable income and subject to tax at the normal corporate tax rate. Capital gains on disposals of shares are exempt unless the shareholding is less than 10% in a listed company. Capital losses on disposals of other shares are deductible, if they can be offset against gains on other shares in a listed company. Capital gains on disposals of assets and liabilities of a Danish permanent establishment are taxable in Denmark. This applies also to Danish real estate.

BRANCH PROFITS TAX

Branches of foreign companies are taxed on income derived from their activities in Denmark. Tax is calculated at the corporate tax rate of 22%.

VALUE ADDED TAX (VAT)

Danish value added tax (VAT) is levied at a standard rate of 25% of the sale price of most goods and services and the legislation generally follows EU Directives. No graduated rates exist. Certain services are exempt, including most banking and medical services. Instead, a payroll tax of between 3.54% and 14.5% is charged on the actual payroll or, in certain cases, on the result before interest and capital gains. Exports are zero rated.

FRINGE BENEFITS TAX (FBT)

The tax value of most benefits in kind is, in principle, the fair market value. Employees are taxed on benefits in kind received. The cost of benefits in kind is deductible for tax purposes by the company.

LOCAL TAXES

PROPERTY TAX

Owners of real estate are subject to a local property tax based on the value of the land. The tax is levied at various local rates ranging from 1.6% to 3.4%.

OTHER TAXES

Transfer tax is levied on registration only. A change in ownership of real estate is charged at the rate of 0.6% + DKK 1,660 and on mortgages at 1.5% + DKK 1,660. Different rates apply to registrations of ships and aircraft.

Stamp Duty only applies to certain insurance policies.

SOCIAL SECURITY TAXES

Social security is funded almost entirely through income taxes. The only exceptions are the ATP and Health Contribution. ATP is a supplementary State pension scheme. The employer pays DKK 2,271 (2018) annually and employees pay DKK 1,136 (2018) annually.

Health Contribution is collected from employees and self-employed persons. The contribution is levied on gross salary and business income respectively at the rate of 8%. The employer withholds the contribution for the employee and the amount of the contribution is deductible when computing the employee's personal income.

B. DETERMINATION OF TAXABLE INCOME

Net or taxable income is arrived at by adjusting the accounting profits for non-taxable income and non-deductible items.

DEPRECIATION

Assets which cost less than DKK 13,500 (2018) or have an estimated useful life of less than three years can be written off immediately. Ships of less than 20 tons, machinery, furniture and other equipment are generally depreciated collectively using the declining-balance method. The balance may be written off at a maximum rate of 25%.

Buildings for manufacturing etc. are depreciated under the straight-line method according to the useful life. The normal rate is 4% per annum. If the useful life is less than 25 years, the rate will be increased accordingly. Depreciation of office buildings and dwelling houses is not allowable for tax purposes.

The cost of goodwill, know-how, etc., may be depreciated over seven years using the straight-line method.

STOCK / INVENTORY

Inventory may be valued at cost or market value.

CAPITAL GAINS AND LOSSES

See discussion above.

DIVIDENDS

Dividends received from a subsidiary are basically exempt from tax if the parent company owns 10% or more of the share capital during a 12-month period in which the dividend is received. It is a requirement that the dividend-paying company is resident within the EU or in a tax treaty country and that it is not a 'flow-through' entity. Specific rules apply to dividends received from a subsidiary in a non-EU and non-treaty country. Withheld tax will be considered as a tax payment on account.

INTEREST

Interest income, except interest on overpaid corporate tax, is included in taxable income. Companies must compute this income on an accruals basis. In general, interest paid is deductible whether due to foreign or resident creditors and regardless of the purpose of the debt. However, limitations may apply due to Danish thin capitalisation rules and limitations apply if net financial expenses exceed DKK 21.3 million (2018). Interest on overdue tax is not deductible.

LOSSES

Losses may normally be carried forward indefinitely. It is possible to deduct DKK 8,205,000 (2018). If the profit exceeds DKK 8,205,000 (2018), it is possible to deduct 60% of the remaining profit. However, losses may not be offset against interest and other capital income, net of interest paid, if more than 50% of the shares in the company have changed ownership since the loss was incurred. If a company enters into a settlement with creditors, losses carried forward are reduced by the nominal amount of debt cancelled.

In cases where the company receives a capital contribution in connection with a reconstruction from a principal creditor and the company subsequently repays its debts to the creditor, tax losses from income years up to and including the year of the capital contribution will be reduced by an amount equal to the capital reduction. Furthermore, tax losses cannot be offset against future taxable income if the company has no activity at the time the transfer was agreed. Losses cannot be carried back.

CONTROLLED FINANCIAL COMPANY (CFC) INCOME

Profits made by Danish financial companies or foreign subsidiaries will be taxed in Denmark if the Danish parent company (directly/indirectly) controls the company (votes/decisive influence) and if the business of the company is mainly of a financial nature (i.e. more than half of its gross income is derived from certain financial activities).

Credit is given for foreign taxes paid on foreign income. Losses resulting from activities in foreign countries cannot generally be deducted from the Danish-sourced income unless voluntary global joint taxation has been chosen.

C. FOREIGN TAX RELIEF

Danish tax law provides for unilateral relief for foreign taxes paid on some types of income (dividends, royalties, etc). Such relief may not exceed the Danish tax liability that relates to the foreign income concerned. If a tax treaty is in force, relief may be restricted to the tax that the foreign state is entitled to levy under the treaty. If income is earned in a country with which Denmark has no tax treaty, any foreign tax is relieved by the credit method under domestic tax rules. No Danish tax credit is given for foreign permanent establishment profit or real estate profit unless voluntary global joint taxation is elected for. Thus, Denmark has adopted the territoriality principle for Danish companies.

D. CORPORATE GROUPS

Danish companies within a group, along with Danish permanent establishments and real estate of foreign subsidiaries are subject to compulsory Danish joint taxation. Such companies must have the same financial year. The group taxation allows the pooling of profits and losses. Losses of one company can be offset against profits of another company.

Such a group may elect to enter into a voluntary global joint taxation arrangement with foreign group companies and foreign permanent establishments and real estate. If voluntary global joint taxation is opted for, all foreign group companies, permanent establishments and real estate 'above' and 'below' Denmark must be included in the joint taxation (cf. 'global'). In this case, capital gains derived by non-residents from disposals of Danish shares or bonds may be subject to tax in Denmark.

The foreign entities' income, assessed according to Danish rules, is then included in the Danish taxable income of the group, but normally no additional Danish tax is imposed because a tax credit for foreign corporate tax paid is allowed. The inclusion may allow foreign tax losses to be offset against Danish taxable profits. Special rules apply with respect to exemption/credit for foreign taxes and claw back provisions respectively.

E. RELATED PARTY TRANSACTIONS

Related party transactions must be in accordance with the arm's length principle.

F. WITHHOLDING TAX

Danish outbound dividends are generally subject to a 27% withholding tax. Outbound interest payments are generally subject to a 30% Danish withholding tax. However, several modifications apply, and under most tax treaties this withholding tax is reduced or refunded. Outbound royalty payments under industrial, commercial or scientific agreements are subject to a 30% withholding tax. Under most tax treaties, this withholding tax is reduced or refunded.

G. EXCHANGE CONTROL

In general, Denmark does not impose exchange controls on business activities.

H. PERSONAL TAX

Individuals are deemed to be residents of Denmark for tax purposes if they occupy accommodation in Denmark as their permanent place of abode or remain in the country for a period of six months or more. Tax residency is normally terminated upon emigration. Some assets will be deemed to be taxed as sold at market value on the date of departure. Any profit will be taxed in Denmark.

Residents are subject to Danish taxation on their worldwide income. Non-resident individuals are subject to tax on Danish-sourced income, including dividends, royalties, profits from Danish permanent establishments, profits from real estate and salaries earned from work performed in Denmark.

Profits made by more than 50% held (shares/votes) financial companies established in low tax countries are taxable in Denmark at 22% (CFC). The CFC taxation generally only applies if the company's financial income is more than 50% of its total income but may not apply if the company is established in an EU or a tax treaty country. Dividends and gains and losses on the disposals of shares are taxed jointly. The tax rate on this income is 27% on amounts up to DKK 52,900 and 42% on the surplus (2018).

Personal income includes all remuneration received from the taxpayer's employer, whether in cash or kind, such as free lodging, free use of a car, free use of the telephone etc. Pension payments, unemployment benefits etc. are also included in personal income. After deduction of Labour Market Contributions of 8% (for 2018) on gross salary and business income, tax due on the total taxable income and its components is determined as follows:

- A basic charge of 25.6% (average) on taxable income is due to the municipality and church, in which the taxpayer lives;
- Health Contributions of 1% on taxable income (2018);
- The basic State tax rate is 11.15% on taxable personal and positive interest income (2018); and,
- An additional higher rate of 15% is levied on income exceeding DKK 498,900 (2018).

Some expatriates who are employed in Denmark for a maximum period of 84 months can, under certain conditions, choose to be taxed on their gross salary by a final tax instead of ordinary income tax. The tax rate is 27% plus Labour Market Contributions of 8%.

Maximum tax rates (including local and national taxes)	
2017	**(%)**
Personal income	52.02
Net capital expenses[1]	26.60
Deductions[2]	26.60

NOTES:

1 Tax value of interest expenses and capital losses if deductible.

2 Tax value of other tax deductions such as car allowance etc.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)	Interest[1] (%)	Royalties (%)
Treaty countries:			
Argentina	15/10[2]	12	3/5/10/15
Armenia	15/0	0	0
Australia	15	10	10
Austria	0/15[3]	0	0
Bangladesh	10/15[3]	10	10
Belarus	15	0	0
Belgium	0/15[2]	10	0
Brazil	25	15	15/25
Bulgaria	15/5[2]	0	0
Canada	15/5[2]	10	0/10
Chile	15/5[2]	15	5/15
China	10	10	10
Croatia	10/5[2]	5	10
Cyprus	15/0[15]	0	0
Czech Republic	0/15	0	10
Egypt	20/15[12]	15	20
Estonia	15/5[2]	10	5/10
Faroe Islands	0/15[4]	0	0
Finland	0/15[4]	0	0
France5	N/A	N/A	N/A
Georgia	0/5/10[3, 6]	0	0
Germany	5/15[3]	0	0
Greece	18	8	5
Greenland	0/15[2]	0	10
Hungary	0/15	0	0
Iceland	0/15[4]	0	0
India	25/15[2]	10/15	20
Indonesia	20/10[2]	10	15

Ireland	0/15[2]	0	0
Israel	15/5[8]	25	10
Italy	0/15[2]	10	5
Jamaica	15/10[2]	12.5	10
Japan	15/10[2]	10	10
Kenya	30/20[2]	20	20
Korea (Rep.)	15	15	10/15
Kyrgyzstan	15	0	0
Latvia	15/5[2]	10	5/10
Lithuania	15/5[2]	10/0	5/10
Luxembourg[9]	15/5[2]	0	0
Macedonia	15/5[2]	0	10
Malaysia	0	25	10
Malta	0/15[2]	0	0
Mexico	15/0[2]	5/15	10
Morocco	10/25[2]	10	10
Netherlands	0/15[3]	0	0
New Zealand	15	10	10
Norway	0/15[3]	0	0
Pakistan	15	15	12
Philippines	15/10[2]	10	15
Poland	15/0/5[2,10]	5	5
Portugal	0/10[7]	10	10
Romania	15/10[2]	10	10
Russia	10	0	0
Serbia	15/5[2]	10	10
Singapore	10/0/5[2,10]	10	10
Slovak Republic	15	0	5
Slovenia	15/5[2,10]	5	5
South Africa	15/5[2]	0	0
Spain[5]	N/A	N/A	N/A
Sri Lanka	15	10	10
Sweden	0/15[3]	0	0
Switzerland	0/15[3]	0	0
Taiwan	10	10	10
Tanzania	15	12.5	20
Thailand	10	10/15	5/15
Trinidad and Tobago	20/10[14]	15	15
Tunisia	15	12	15
Turkey	20/15[2]	15	10

Uganda	10/15[2]	10	10
Ukraine	15/5[2]	0/10	10
United Kingdom	15/0[7]	0	0
United States	0/15/5[3,11]	0	0
Venezuela	15/52	0/5	5/10
Vietnam	15/5/10[12, 13]	10	5/15
Zambia	15	0/10	15

Notes:

1 Denmark imposes withholding taxes on outbound interest payments at a rate of 30%. However, Danish withholding tax does not generally apply to interest payments to a foreign group company in an EU Member State or protected by a tax treaty.

2 The lower rate applies to 25% ownership.

3 The lover rate applies to 10% ownership.

4 The zero rate applies to 10% ownership.

5 The treaty was terminated on 1 January 2009.

6 The zero rate applies to 50% ownership.

7 The zero rate applies if the EU Parent/subsidiary Directive applies.

8 The lower rate applies to 50% of the votes.

9 The treaty does not apply to 1929 Luxembourg holding companies.

10 The 5% rate applies if paid to an approved entity.

11 The zero rate applies to 80% of the votes.

12 The 5% rate applies to 70% ownership or an investment of at least USD 12 million.

13 The 10% rate applies between 25% and 70% ownership.

14 The 10% rate applies if 25% of the votes are held.

15 0% rate applies where recipient of the dividend holds at least 10% of the capital of the company paying the dividend, or is the Central bank, a Government agency or a pension fund in Cyprus.

DOMINICAN REPUBLIC

MEMBER FIRM

City	Name	Contact Information
Santo Domingo	Hector Guzman Desangles	+1809 540 6668 hguzman@guzmantapiapkf.com.do

BASIC FACTS

Full name:	Dominican Republic
Capital:	Santo Domingo
Main languages:	Spanish
Population:	10.86 million (2018 estimate)
Monetary unit:	Dominican Pesos (DOP)
Internet domain:	.do
Int. dialling code:	+1809

KEY TAX POINTS

- The corporate tax system is based on the territoriality principle. Corporate income tax is only due on business income generated by enterprises operating in the Dominican Republic. Certain types of investment income derived by Dominican residents from sources outside the Dominican Republic are also subject to Dominican taxation.
- Non-resident companies operating through a permanent establishment in the Dominican Republic are taxed on income attributable to the permanent establishment as well as on Dominican-sourced income. Non-residents without a permanent establishment in the Dominican Republic are taxed on Dominican-sourced income only.
- Companies are subject to the higher of corporate income tax (at 27%) or alternative minimum tax (1% of the total asset value).
- The standard rate of VAT is 18%.

A. TAXES PAYABLE

COMPANY TAX – GENERAL REGIME

The corporate tax system is based on the territoriality principle, whereby tax is only levied on business income derived from Dominican sources. Companies are subject to the higher of corporate income tax (27%) or alternative minimum tax. Dividends paid to residents or non-residents out of Dominican-source income are subject to withholding tax at the rate of 10% on the gross amount. This is a final tax on dividends.

Corporate income tax is levied on residents and non-residents deriving Dominican-source income. Resident entities are subject to corporate income tax on certain items of investment income derived from foreign sources. Non-residents without a permanent establishment in the Dominican Republic are only taxed on Dominican-sourced income.

Corporate income tax on resident companies and branches of foreign companies is levied at a rate of 27% or alternative minimum tax is applied, whichever is higher. The latter is assessed at a rate of 1% on the assets registered in the taxpayer's accounting books.

Companies will make monthly advance tax payments, which are 1/12 of the equivalent of the tax amount paid in the prior year and at year-end they should correspond to the abovementioned 27% or 1% calculated taxes. When current year taxes are calculated, the monthly payment is compensated in the following period. If the monthly payment was insufficient then the corporation needs to make up for the payment. Tax is payable as follows:

- Payments on account are estimated on the basis of the previous tax year's corporate tax liability, less any tax withheld at source, and are subject to the following limits:
- Twelve instalments of (Total 100%) – taxpayers with turnover or 1 percent of their total assets (whichever is higher when computed).

CAPITAL GAINS TAX

Capital gains derived from the sale of assets, immovable property or shares included in gross income and are subject to the 27% standard corporate income tax rate. The capital gain is calculated by deducting the acquisition cost – adjusted for inflation – from the sales price and adding the accumulated earnings/losses

BRANCH PROFITS TAX

Only the income attributable to the Dominican branch (permanent establishment) is subject to corporation tax. Branch profits are taxed at the same rate as corporate profits at 27%. Branch remittance tax is levied at a rate of 10%.

VALUE ADDED TAX

VAT (ITBIS) is levied on taxable supplies of goods and services as well as on imports of taxable goods and services into the Dominican Republic. Exports are zero-rated. The standard rate is 18%.

Professional services, rental of movable goods and professional security services are subject to a withholding of the invoiced ITBIS at the rate of 30%.

LOCAL TAXES

No local tax applies.

OTHER TAXES

Municipal tax: owners of real estate property are subject to a 1% tax rate. For rural properties, no tax applies.

FRINGE BENEFITS TAX

There is no fringe benefits tax in the Dominican Republic.

B. DETERMINATION OF TAXABLE INCOME (ISR)

GENERAL REGIME

Net income or taxable income is arrived at by adjusting the accounting profits for non-taxable income and non-deductible expenses. As a general principle, costs are only deductible when necessarily incurred for the purpose of producing income.

SIMPLIFIED SCHEME

Companies who a) during the previous year had a total turnover under DOP 6 million and b) have not elected to be assessed under the General Regime referred to above, are subject to the simplified taxation scheme. Under this scheme, taxable income is computed as 27% of the turnover from sale of goods and merchandise.

DEPRECIATION

All the items of fixed assets, except land, can be depreciated or amortized for tax purposes. The depreciation rates are set by specific legislation and include 5% for office buildings, 25% for cars and furniture and 15% for other assets.

STOCK / INVENTORY

Inventory must normally be valued at the effective cost of acquisition or production (historic cost). Other methods which may be adopted include:

- The standard cost method, which must be calculated in accordance with the appropriate technical and accounting principles;
- The sale price method, based on the market value less a normal profit margin.

CAPITAL GAINS AND LOSSES

Gains realised by resident entities from the disposal of shares are exempt from tax.

DIVIDENDS

Dividends are normally subject to withholding tax at 10% (when it is paid in cash).

INTEREST DEDUCTIONS

Interest is deductible on an accrual basis. The Fiscal Administration is entitled to disregard expenses related to interest where related parties are involved.

Thin capitalisation

Deductible interest may not exceed the result from multiplying the total amount of interest accrued in the tax period by three times the annual average net equity divided by the annual average balance of all of the taxpayer's interest-bearing debt. Non-deductible interest may be carried forward for 3 years as from the year in which the interest was accrued. The limitation in the interest deduction is not applicable to interest paid to resident individuals and entities and also not to regulated financial entities.

LOSSES

Operating losses incurred by ordinary corporate taxpayers may be carried forward for 5 years to set off against taxable profits, but only 20 percent of the amount each year. No carry-back is allowed.

FOREIGN SOURCE INCOME

Regarding active income, taxation of resident companies takes into account only their Dominican-sourced income. However, Dominican-resident companies, branches, and permanent establishments are subject to taxation on income from Dominican sources and on income from foreign sources arising from investments and financial gains, i.e. certain items of passive income.

TAX INCENTIVES

Incentives under Dominican tax legislation include the free-trade zones, investment in tourism, and companies established in the border between Dominican Republic and Haiti.

C. FOREIGN TAX RELIEF

Resident companies can obtain a credit for any foreign tax paid abroad on income that is also subject to Dominican corporate income tax. The foreign tax credit is limited to the amount of Dominican tax to which the foreign-source income would be subject in the Dominican Republic.

D. CORPORATE GROUPS

None. There are no special measures for controlled foreign companies.

E. RELATED PARTY TRANSACTIONS

Transfer pricing rules are based on the OECD guidelines. The following methodologies are accepted: (i) comparable uncontrolled price method (ii) resale price method (iii) cost plus method (iv) profit split method and (v) transactional net margin method. APAs (advance pricing agreements) are available for all taxpayers and sectors.

On 1 September 2017, the tax authorities published a new (the sixth) version of the transfer pricing information return. All taxpayers within the scope of the transfer pricing regulations must file the return on an annual basis within the first 180 days after the end of the fiscal year. The new version of the return requires taxpayers to:

- Summarize transactions by type;
- Report the profit level indicator of the tested party of each transaction;
- Use the same format as the previous version to allow the information to be validated;
- Complete the information regarding related parties and transactions on the tax administration's virtual platform.

This new version of the return applies for fiscal year 2017 and onwards and as of 1 September 2017 all taxpayers must adopt this new version

F. WITHHOLDING TAX

Income paid to non-residents is subject to withholding tax at the following rates:

- Dividends: 10% (final tax);
- Interest: 10%, subject to exceptions;
- Royalties: 27% (final tax);
- Management/technical service fees: 27% (final tax).

G. EXCHANGE CONTROL

Capital movements are freely transferable.

H. PERSONAL TAX

Income tax is payable by individuals on income obtained from employment, from a business, from an independent profession, from investment income, from immovable property, capital gains, pensions, and betting and gambling profits. Resident and non-resident individuals are subject to income tax on Dominican-sourced income only. When determining the taxable income, besides some specific deductions concerning each category of income, other deductions may be allowed, such as expenses on health and education.

Tax returns are due on 15 March of the subsequent tax year for taxpayers with income derived solely from employment or pension. The following rate table applies in tax year 2018 to the aggregate net result of employment income, business income, investment income (except interest on bonds and deposits), income from land, capital gains and income from pensions.

Taxable Income (DOP)	Rate on Excess (%)
Under 416,220	0
416,220 – 624,329	15% over DOP 416,220

624,329.01 – 867,123	20% over DOP 624,329
In excess of 867,123	25% over DOP 867,123

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)	Interest (%)	Royalties (%)
Non-treaty countries	10	10	27
Treaty countries:			
Canada	18	18	18
Spain	0[1]/10	0/10[2]	10

Notes:

1. The 0% rate applies in case of a 75% holding in the paying company.
2. The lower rate applies to interest paid by public bodies.

ECUADOR

MEMBER FIRM

City	Name	Contact Information
Guayaquil	Edgar Naranjo	+593 4 2367833 enaranjo@pkfecuador.com pkf@pkfecuador.com

BASIC FACTS

Full name:	Republic of Ecuador
Capital:	Quito
Main languages:	Spanish, indigenous languages
Population:	16.82 million (2018 estimate)
Monetary unit:	US Dollar (USD)
Internet domain:	.ec
Int. dialing code:	+593

KEY TAX POINTS

- Corporate tax is payable by Ecuadorian resident companies on non-exempt income derived from all sources. Non-resident companies are required to pay tax on income sourced in Ecuador.
- The corporate tax rate for year 2018 is 25%. Capitalized profits are subject to a 15% tax rate.
- Value Added Tax (VAT) is applied at a standard rate of 12% to all transactions including imports. There is a 0% rate on food items, agricultural inputs, medical goods, books and government purchases, and some professional services.
- No provisions exist for filing consolidated returns or relieving losses within a group.
- Dividends paid to non-residents are subject to 25% withholding tax (for year 2018) with a tax credit for company tax paid (ordinarily at 25%) being allowed against this withholding tax. Royalties, service and rental fees attract the same 25% withholding tax (for year 2018). Interest payments are exempt from withholding tax.
- Income tax is payable by Ecuadorian resident individuals on non-exempt income derived from all sources. Non-resident individuals are required only to pay tax on Ecuadorian-sourced income.

A. TAXES PAYABLE

CORPORATE TAX

Corporate tax is payable by Ecuadorian resident companies on non-exempt income derived from all sources. Non-resident companies are required to pay tax on income sourced in Ecuador. Resident companies are those that are incorporated in Ecuador or carry on business in Ecuador and have either central management and control in Ecuador or voting power controlled by shareholders who are Ecuadorian residents.

The corporate tax rate for year 2018 is 25% and 28% in case the shareholders reside in tax havens or low-tax jurisdictions, if together or individually they own at least 50% of the company's capital. Capitalized profits are subject to a 15% tax rate. The tax year runs from 1 January to 31 December. Tax is payable from 2–28 April, depending on the 9th digit of tax identification number. Individuals and other companies not required to keep accounting records are subject to make an advance tax payment equal to 50% of the previous year's income tax, less withholdings for that period. Individuals and entities required to keep accounting records are required to make an advance tax payment equal to the sum of the following items:

- 0.2% of total equity.
- 0.2% of total deductible costs and expenses.
- 0.4% of total assets.
- 0.4% of total taxable income.

The advance tax payment is done in two instalments, according to the following chart:

9th RUC digit	Expiry date (1st portion)	Expiry date (2nd portion)
1	July 10th	September 10th
2	July 12th	September 12th
3	July 14th	September 14th
4	July 16th	September 16th
5	July 18th	September 18th
6	July 20th	September 20th
7	July 22nd	September 22nd
8	July 24th	September 24th
9	July 26th	September 26th
10	July 28th	September 28th

These advance tax payments constitute a tax credit for income tax purposes. Exonerations and reductions for advance tax payments apply when there is evidence of (1) losses, (2) a decrease in the current year operating activities in relation with prior years, or (3) withholdings exceed the income tax liability for the current year. All payments or registration of purchase of merchandise and service are subject to withholding tax at the following rates:

- 1% - electricity, private/public transport of passengers and private freight;
- 1% - purchase of all type of goods (except oil products);
- 1% - all construction activities;
- 1% - on 10% of the premium billed;
- 1% - on quotes and option purchasing in leasing;
- 1% - those carried out by media services and advertising agency;
- 1% - interest and commissions derived from credit operations between institutions of the financial system. The financial institution that paid or charged financial returns will act as a withholding agent;
- 2% - those realized by individuals for services in which workforce is involved in intellectual work;
- 2% - payments by credit card issuers to their merchants;
- 2% - income generated from loans and investments;
- 2% - those interests that any public entity recognized on behalf of tax payers;

- 2% - Any other payments;
- 8% - Fees, commissions and other payments to professionals or other persons who are present in Ecuador for more than six months for services that are predominantly intellectual or for sport or artistic services, always when such service is not related to the professional title of the person who provides the service; royalties paid to resident individuals or Ecuadorian branches of non-residents; payments for letting of immovable property;
- 10% - Fees, commissions and other payments to professionals or other persons who are present in Ecuador for more than six months for services that are predominantly intellectual, always when those services are related to their professional title. Payments and credits not included in withholding rates. Amounts paid to non-resident individuals for services rendered from time to time in Ecuador and that constitute taxable income, and other payments different to earnings or dividends that are sent, paid or credited abroad. (Fees for professional activities);
- 25% for year 2018- Payments to non-resident foreign individuals for subject-to-tax services occasionally performed in Ecuador and other payments other than dividends or profit distributions.

The amounts paid become credits available for income tax purposes at the end of the period. Interests paid to financial institutions are not subject to withholding tax. Employment income is subject to a specific withholding regime.

CAPITAL GAINS TAX

Capital gains are taxed as ordinary income.

BRANCH PROFITS TAX

There is no specific income tax for branches. Income generated by branches is taxed according to general income tax rules. A very important exception is the treatment of foreign oil companies involved in state contracts. There is no branch remittance tax in Ecuador.

VALUE ADDED TAX (VAT)

There is a 12% value added tax applied to all transactions including imports. There is a 0% rate on food items, agricultural inputs, medical goods, books and government purchases, and some professional services. This tax is payable one month following the transaction from the 6th to the 28th depending on the taxpayers' tax identification number.

FOREIGN MONEY TRANSFER TAX (ISD)

This tax is charged on the foreign currency value of all monetary transactions and operations carried out abroad with or without the intervention of the institutions of the financial system or on the value of payments made from accounts abroad for any reason. The rate of ISD tax is 5%.The ISD should be paid by all individuals, foreign banks and private companies, local and foreign.

Financial Institutions (IFIs) act as withholding agents when transferring foreign currency abroad by their clients. Withholding agents and collecting officers must collect from their customers, at the time they request the transfer abroad of foreign currency subject to this tax, a Form of "Information Statement of Foreign Money Transfer Tax" through financial institutions or couriers.

FRINGE BENEFITS TAX

No fringe benefits are deductible as expenses in income tax liquidation. The only exception is that the company is allowed to pay and expense its employee income tax and social security contribution if the company has contracted to do so.

LOCAL TAXES

There are many and diverse taxes which are applied at local or regional level including: urban property, rain water drainage, fire insurance, individual and corporate net worth, state university funds, fire department, transfer of property, etc. Nominally, there are no stamp duties.

OTHER TAXES

Other taxes imposed by the Ecuadorian Government include excise duties and oil and gas resources revenue taxes. Likewise, the Superintendence of Companies, Securities and Insurance, the Superintendence of Banks and the Superintendence of Popular and Solidarity Economy charge annual fees to the companies they supervise.

B. DETERMINATION OF TAXABLE INCOME

DEPRECIATION

Business assets are subject to depreciation. Costs are recovered in accordance with the goods involved based on their useful life and accounting techniques. In general, it is booked over five to 20 years.

STOCK / INVENTORY

Inventories are valued at cost in accordance with general accounting principles and standards established in regulations to the law.

CAPITAL GAINS AND LOSSES

Net capital gains and losses are generally included in the determination of assessable income.

DIVIDEND INCOME

Dividends received by resident companies from other resident companies are tax free. Dividends received from non-resident companies are tax free.

INTEREST DEDUCTIONS

Interest is deductible. The deduction of both interest and the cost of foreign financing are allowed only if the loan has been registered within the Central Bank of Ecuador (BCE) and the interest rate is lower than established by the BCE. If not, to be deductible, a withholding of 25% is required (for year 2018) on the excess.

LOSSES

Companies that have sustained operating losses in a tax year may carry forward such losses to subsequent tax years and offset them over five years at the rate of 20% per annum, provided that no more than 25% of the profits obtained in each year are allotted for such purposes. Loss carry back is not allowed.

FOREIGN SOURCE INCOME

Domestic corporations are subject to tax on their worldwide income with tax credits allowed for income taxes paid abroad.

INCENTIVES

Specific write-offs are provided for the mining and primary oil production industries. Expenditure on research and development also qualifies for special treatment. New investments in basic industries (copper and aluminum treatment, steel foundry, oil refining, petrochemical industry, cellulose industry, construction and repair of naval vessels) are exempt from income tax for five years and an additional deduction of 100% applies for the depreciation expense. New investments agreements will include tax stabilization incentives.

Other incentives for public-private partnerships include the following:

1. 10-year exemption of income tax payment; this exemption also applies to dividends and income paid to partners or beneficiaries of the partnership;
2. Payments (capital and interests) for external financing to foreign financial institutions or specialized non-financial institutions approved by regulatory bodies in Ecuador are exempt from tax on payments abroad; these financing operations should be related to housing, microcredit or productive investments and registered with the Central Bank of Ecuador;
3. Money transfers are exempt from the tax on payments abroad;
4. Import of goods and acquisition of services made by public-private partnerships in the execution of a public project, as well as capital, interest and commissions paid to the financiers of a public project, dividends and income paid to beneficiaries, and the acquisition of shares, rights or participations of the entity created for the execution of a public project, are all exempt from the tax on payments abroad;
5. Income tax exemption for organizations from the popular financial sector with assets of more than USD 5 million which entered into merger transactions;
6. Three year income tax exemption for new micro enterprises, given that they promote employment and add value to their productive processes;

7. Threshold increase to carry accounting records for individuals and undivided estates (now at USD 300,000); and
8. Income tax rate increase to 25%.

C. FOREIGN TAX RELIEF

A general income tax exemption has been introduced since 30 December 2007 related to income derived from abroad that has been subject to income tax in another state and, accordingly, the ordinary tax credit method has been terminated.

D. CORPORATE GROUPS

No provisions exist for filing consolidated returns or relieving losses within a group.

E. RELATED PARTY TRANSACTIONS

Prior to administrative service fees being deductible when paid to foreign affiliates, the appropriate government authority must grant approval. Such payments are exempt from withholding tax. Other payments to foreign affiliates will only be deductible where income tax at 25% has been withheld.

F. WITHHOLDING TAX

Dividends paid to a non-resident are generally not subject to withholding tax. As from tax year 2018, the effective withholding tax rate on dividends paid to shareholders resident in a tax haven is 10%, which is the difference between the standard income tax rate of 25% and the maximum rate applied to individuals of 35%.

Interest paid on foreign loans, including interest paid to non-resident suppliers financing export, is subject to a 25% final withholding tax. Interest paid to foreign governments, private international financial institutions and non-financial specialized companies is exempt from tax, even if the institutions are located in tax havens, provided that the transaction is registered with controlling agencies in Ecuador and the interest rate does not exceed the one from the central bank.

Royalties paid to non-residents are subject to a 25% final withholding tax. The rate increases to 35% when royalties are paid to a recipient in a tax haven or a low-tax jurisdiction

G. EXCHANGE CONTROL

Limited control is exercised. Direct foreign loans generally must be registered.

H. PERSONAL TAX

Income tax is payable by Ecuadorian resident individuals on non-exempt income derived from all sources. Non-resident individuals are required only to pay tax on Ecuadorian-sourced income. Residence is determined by reference to common law or to domicile or where the individual has spent more than one-half of the relevant income year in Ecuador, unless he or she has a usual place of abode outside Ecuador and does not intend to take up residence in Ecuador.

Income tax is payable on assessable income less allowable deductions. Assessable income includes business income, employment income, certain capital gains, rent and interest. Allowable deductions include interest and certain other expenses paid in gaining the assessable income and gifts to specified bodies. Most individual taxpayers have tax installments deducted from each salary and wage payment made by their employers. Self-employed individuals and those with non-salary and wage income ordinarily pay a provisional tax which is an interim payment during the year in anticipation of the assessment of tax after the end of the income year. Personal income tax rates for the year 2018 are the following:

Year 2018 - In USD			
Minimum allowance	**Maximum allowance**	**Minimum tax payable (accumulation of prior tax bands)**	**Personal income tax rate**
Up to	11,270	0	0%
11,270	14,360	0	5%
14,360	17,950	155	10%
17,950	21,550	514	12%

21,550	43,100	946	15%
43,100	64,630	4,178	20%
64,630	86,180	8,484	25%
86,180	114,890	13,872	30%
114,890	Over	22,485	35%

Income generated from inheritance, legacies, donations, other income and any benefit obtained through an act or contractual agreement received for no consideration, of goods and rights is to pay tax rates based on the following bands:

Year 2018 - In USD			
Minimum allowance	**Maximum allowance**	**Minimum tax payable (accumulation of prior tax bands)**	**Tax rate**
Up to	71,810	0	0%
71,810	143,620	0	5%
143,620	287,240	3,591	10%
287,240	430,890	17,953	15%
430,890	574,530	39,500	20%
574,530	718,150	68,228	25%
718,150	861,760	104,133	30%
861,760	Over	147,216	35%

Individual Income tax (IIT)

Progressive from 5% to 35%.

Real Estate Tax

From 0.025% to 0.3% for rural property and from 0.025% to 0.5% for urban property; surtaxes and surcharges apply.

Inheritance/ Gift Tax

Up to 35% tax.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Decision 578 of the Cartagena Agreement has been adopted by Ecuador. This broadly means that relief from double taxation is provided for natural and juridical persons located in any of the Andean Pact countries (Bolivia, Colombia, Ecuador, Peru and Venezuela).

	Dividends		**Interest (%)**	**Royalties (%)**
	Individuals, companies (%)	**Qualifying companies (%)**		
Domestic rates				
Companies	0/10	0/10	0/25	25/35
Treaty countries:				
Belarus[7]	10	5[6]	10	10
Belgium	15	5/15[2]	0/10	10
Bolivia	–[1]	–[1]	–[1]	–[1]

Brazil	15	15	0/15	15/25
Canada	15	5[3]	0/15	10/12/15
Chile	15	5[3]	5/15	10/15
China	5	5	0/10	10
Colombia	–[1]	–[1]	–[1]	–[1]
France	15	15	0/10/15	15
Germany	15	15	0/10/15	15
Italy	15	15	0/10	5
Korea	10	5[4]	0/12	5/12
Mexico	5	5	0/10/15	10
Peru	–[1]	–[1]	–[1]	–[1]
Romania	15	15	10	10
Singapore	5	0[5]	0/10	10
Spain	15	15	0/5/10	5/10
Switzerland	15	15	0/10	10
Uruguay	15	10[8]	15	10/15
Venezuela	–[1]	–[1]	–[1]	–[1]

Notes:

1. There is no reduction under the tax treaty, the domestic rates apply. The source state has the exclusive right to tax.
2. The treaty rate is 15% which is reduced to 5% under the application of a most favoured nation clause (China-Ecuador treaty).
3. The 5% reduced rate applies if the beneficial owner is a company that controls directly or indirectly at least 25% of the voting power in the dividend-paying company.
4. The 5% reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the dividend-paying company.
5. The 0% rate applies where the beneficial owner of the dividend is the government of any of the contracting states, their central banks or any institution wholly owned by any of the states.
6. The 5% reduced rate applies if the beneficial owner is a company (other than partnerships) which holds directly at least 25% of the capital of the dividend-paying company.
7. Entry into force: 16 August 2017. Effective date: 1 January 2018.
8. The 10% reduced rate applies if the beneficial owner is a company which holds directly at least 25% of the voting shares of the dividend-paying company.

EGYPT

MEMBER FIRM

City	Name	Contact Information
Cairo	Hany Rashed	+20 2 2354 7340 rashed@pkf.com.eg

BASIC FACTS

Full name:	Arab Republic of Egypt
Capital:	Cairo
Main languages:	Arabic

Population:	98.98 million (2018 estimate)
Monetary unit:	Egyptian pound (EGP)
Internet domain:	.eg
Int. dialling code:	+20

KEY TAX POINTS

- gyptian resident companies are taxable on their worldwide income, except for profits derived from permanent establishments abroad. Non-residents are only taxed on Egyptian-sourced income.
- Dividends paid to residents and non-residents are not subject to withholding tax. Companies and individuals are not taxed on dividends received from resident companies but are taxed on dividends and other payments from non-residents.
- A credit system is available for relief of double taxation on foreign source income. The credit is subject to a maximum of the Egyptian tax paid on the overseas income concerned.
- There are provisions which limit the tax deductibility of interest based on the rate of interest charged and the debt to equity ratio of the company concerned.
- Transfer pricing rules are based on at arm's length principles. An advance pricing arrangement is available.
- Domestic tax law provides for a 20% withholding tax applicable to the payment of interest and royalties to non-residents. Double tax treaties with various countries reduce the rate of withholding tax to be applied.
- General sales tax is payable on the supply of goods and services and imports. The standard rate of tax is 10% although rates vary from 0% to 30%.
- Resident individuals are subject to income tax on their worldwide income whereas non-residents are taxed on Egyptian-sourced income.

A. TAXES PAYABLE

CORPORATE INCOME AND GAINS TAX

Egyptian corporations are subject to corporate profits tax on their profits derived from Egypt, as well as on profits derived from abroad, unless the foreign activities are performed through a permanent establishment located abroad. Foreign companies resident in Egypt are subject to tax only on their profits derived from Egypt. Oil prospecting and production companies are subject to tax on their profits at a rate of 40.55%. The Suez Canal Company, Egyptian General Petroleum Company (EGPC) and Central Bank of Egypt are subject to tax on their profits at a rate of 40%.

ADMINISTRATION

Companies must file their annual tax returns, together with all supporting schedules and the original financial statements, before 1st May each year or four months from the financial year-end. The tax return should be signed by the taxpayer. Taxpayers can file a request to extend the due date of filing of the tax return provided they pay an estimated amount of tax. The request must be filed at least 15 days before the due date and the estimated tax due must also be paid before the due date. The extended period can be up to 60 days. An amended tax return can be filed within 30 days from the due date. Any tax due must be paid when the tax return is filed. A late penalty is applied at the rate of 2% plus the credit and discount rate issued by the Central Bank of Egypt as of January each year.

The law has set up appeals committees at two levels - the Internal Committee and the Appeal Committee. The Appeal Committee's decision is final and binding on the taxpayer and on the tax department unless a case is appealed by either of them to the court within 30 days of receiving the decision, which is usually in the form of an assessment.

DIVIDENDS

Dividends distributed by an Egyptian company are not subject to withholding tax because they are paid out of corporate profits that are taxed under the normal rules. Dividends received by residents from foreign sources are not taxed in Egypt. Interest on bonds listed on the Egyptian stock exchange is exempt from tax if certain conditions are satisfied. Certain exemptions may be provided in some cases.

CORPORATE TAX RATES

Nature of Tax	Rate
Corporate income tax	22.5%
Capital gains tax	22.5%
Branch tax	22.5%
Withholding tax:	
Dividends	5%-10%*
Interest	20%**
Royalties from patents, know-how, etc.	20%**
Certain services provided from non-resident entities	20%**
Branch remittance tax	0%
Net operating losses (years)	
- Carry back	3 years
- Losses incurred in long-term projects can be carried back within the same project without limitation	
- Carry forward	5 years

NOTES:

* Dividends are subject to tax at a rate of 5% provided that:

1. The acquisition percentage is 25% or more; and,
2. The acquisition period is 2 years

   If not the dividends will subject to tax 10%

** Final tax imposed on gross payments. The rate may be reduced under a double tax treaty.

OTHER TAXES

The table below summarises other significant taxes.

Nature of Tax	Rate
General VAT	14% as from 1 July 2017
Customs Duties:	
• General, ad valorem	Various
• On value of machinery needed for investments by companies	5%
Stamp duties on bills, promissory notes and letters of guarantee as well as most types of documents, contracts, checks and receipts (shares and bonds listed on the Egyptian Stock Exchange are exempt)	Various

The amounts paid become credits available for income tax purposes at the end of the period.

SOCIAL INSURANCE

On a monthly base salary, up to EGP 1370 paid by:

- Employer = 26%
- Employee = 14%

On amounts in excess of EGP 1370 of the base salary, with a maximum excess amount of EGP 2,800 a month, paid by:

- Employer = 24%
- Employee = 11%

B. DETERMINATION OF TAXABLE INCOME

Corporate income tax is based on taxable profits computed in accordance with generally accepted accounting and commercial principles, modified for tax purposes by certain statutory provisions primarily concerning depreciation, provisions, inventory valuation, inter-company transactions and expenses. Start-up and formation expenses may be capitalised and amortised in the first year.

The deductibility of a branch's share of head office overhead expenses is limited to approximately 7% of general expenses. Head office expenses other than overhead and general administration expenses are subject to negotiation with the tax authorities. They are fully deductible if they are directly incurred by the branch and are necessary for the performance of the branch's activity in Egypt. Such expenses must be supported by original documents and approved by the head office auditors.

DEBIT INTEREST

Debit interest of loans/overdraft used in the company's activity is a deductible item after offsetting the interest income. Interest expense paid to individuals who are not subject to tax or exempted from tax is not deductible. Interest expense is limited to the interest rate which will not exceed twice the discount rate determined by the central bank of Egypt.

DEBT-TO-EQUITY RULES

The tax law has determined the maximum debt to equity ratio to be 4:1. In the event the debt exceeds such ratio, the excess interest is not considered by the Tax Authority to be a deductible expense.

INVENTORIES

Inventories are normally valued for tax purposes at the lower cost or market value. Cost is defined as purchase price plus direct and indirect production costs. Inventory reserves are not permissible deductions for tax purposes. For accounting purposes, companies may elect to use any acceptable method of inventory valuation such as first-in, first-out (FIFO) or average cost. The method should be applied consistently and the reasons for such change should be stated if the method is changed.

PROVISIONS

Provisions are not considered as deductible costs except for the following:

- 80% of loan provisions made by banks (required by the Central Bank of Egypt);
- Insurance companies' provisions determined by Law No. 10 of 1981.

BAD DEBTS

Bad debts are a deductible cost if the company provides a report from an external auditor certifying the following:

- The company is maintaining regular accounting records;
- The debt is related to the company's activity;
- The debt appears in the company's records; and,
- The company has taken the necessary actions to collect the debt.

DEPRECIATION AND AMORTISATION ALLOWANCES

Depreciation is deductible for tax purposes and may be calculated using either the straight-line or declining-balance method. Depreciation rates are as follows:

Type of Asset	Rate	Method of Depreciation
Buildings	5%	Straight-line
Intangible assets	10%	Straight-line
Computers	50%	Declining-balance
Heavy machinery and equipment	25%	Declining-balance
Small machinery and equipment	25%	Declining-balance
Vehicles	25%	Declining-balance

Furniture	25%	Declining-balance
Other tangible assets	25%	Declining-balance

Accelerated depreciation is allowable only once at a rate of 30% on new machines and equipment in the year they are placed into service. Normal depreciation is calculated after considering the accelerated 30% depreciation on the net value of new assets, provided that proper books of account are maintained. Tax losses may be carried forward for five years. Losses incurred in long-term projects can be also carried back within the same project.

REAL ESTATE TAX

Egypt introduced a new tax law No. 196 of 2008 to be applied with effect from 1 January 2009. Tax rate: 10% of the annual rental value after excluding the following assumed maintenance expenses:

- 30% of the rental value for properties used for living accommodation;
- 32% of the rental for properties used for other purposes.

C. FOREIGN TAX RELIEF

Foreign tax paid by a resident entity outside Egypt can be deducted provided there is supporting documentation. Losses generated outside Egypt cannot be offset against the taxable amount in Egypt. Double tax treaties concluded between Egypt and other countries regulate the credit for taxes paid abroad on income subject to corporate income tax in Egypt.

D. CORPORATE GROUPS

Associated or related companies in a group are taxed separately for corporate income tax purposes. Egyptian law does not contain a concept of group assessment under which group losses may be offset against profits within a group of companies.

E. RELATED PARTY TRANSACTIONS

Egyptian tax law contains provisions for transfer pricing. The transfer pricing provisions are based on the at arm's length principle. Under these provisions, the tax authorities may adjust the income of an enterprise if its taxable income in Egypt is reduced as a result of contractual provisions that differ from those that would be agreed to by unrelated parties.

However, it is now possible to enter into arrangements with the tax department to agree on a transfer pricing policy in advance (Advance Pricing Arrangement). This provides assurance that transfer prices will not be challenged after the tax return is submitted, with the consequent exposure to penalties and interest on late paid taxes.

F. WITHHOLDING TAX

No withholding tax is levied on dividends distributed by resident companies, regardless of the residence status of the recipient. Interest derived by non-resident legal persons is subject to a final withholding tax at the rate of 20% on the gross amount, unless a lower treaty rate applies. Royalties derived by non-resident legal persons are subject to a final withholding tax at the rate of 20% on the gross amount, unless a lower treaty rate applies.

G. EXCHANGE CONTROL

Egypt has a free market exchange system. Exchange rates are determined by supply and demand without interference from the central bank or the Ministry of the Economy.

H. PERSONAL TAX

Income tax is imposed on the worldwide income of Egyptian residents. Non-residents are subject to tax on income earned or realised in Egypt. An individual is deemed to be a resident of Egypt if:

- The individual is present in Egypt for more than 183 days in a fiscal year;
- The individual's principal place of residence is Egypt. Article 2 of the Executive Regulations states that an individual is considered to have a permanent residence in Egypt if:

a) The taxpayer stays in Egypt for the majority of the year, either in his own property, in a rented property or in any other place;

b) The taxpayer has a local commercial presence, professional office, industrial site or any other place

where he carries on his activities in Egypt;

c) The individual is an employee who performs his duties abroad and receives a salary from an Egyptian public or private source.

Income tax is assessed each year on the aggregate of the net amounts from each category of income realised during the preceding year. There are four recognised categories of income, namely:

1) Employment income;
2) Business income (which includes income from commercial and industrial activities);
3) Non-commercial income;
4) Income from real estate assets.

Graduated rates apply with effect from 1 July 2005 to the aggregate of the four categories of income, as follows:

Income (EGP)	Rate
Up to 7,200	0%
7,201 to 30,000	10%
30,001 to 45,000	15%
45,001 to 200,000	20%
Over 200,000	22.5%

Individuals are not subject to tax on capital gains except in the case of the disposal of real estate or building sites within the boundaries of Egyptian cities. Such gains are not subject to income tax but are taxed at the rate of 2.5% on the value of the property.

I. TREATY WITHHOLDING TAX RATES

Dividends paid to non-residents are not subject to withholding tax under Egyptian domestic law. Consequently, the following table sets forth maximum withholding rates provided in Egypt's tax treaties for interest and royalties only.

	Interest (%)	Royalties (%)
Non-treaty countries	20	20
Treaty countries:		
Albania	10	10
Algeria	5	10
Austria	15	0
Bahrain	–[1]	–[1]
Belarus	10	15
Belgium	15	15/20
Bulgaria	12.5	12.5
Canada	15	15
China	10	8
Cyprus	15	10
Czech Republic	0	10
Denmark	15	20
Finland[2]		
- From Finland	0	20
- From Egypt	20	20
France	20	15/20[3]

Germany	15	15/20[3]
Georgia	10	10
Greece	15	15
Hungary	15	15
India	20	–1
Indonesia	15	15
Iraq:		
- From Iraq	10	15
- From Egypt	20	15
Ireland	10	10
Italy	20	15
Japan	20	15
Jordan	15	20
Korea (South)	10/15	15
Kuwait	10	10
Lebanon	10	5
Libya	20	20
Malaysia	15	15
Malta	10	12
Mauritius	10	12
Montenegro	15	15
Morocco	20	10
Netherlands	12	12
Norway:		
- From Norway	0	0
- From Egypt	20	15
Pakistan	15	15
Palestine	15	15
Poland	12	12
Romania	15	15
Russia	15	15
Saudi Arabia6	10	10
Serbia	15	15
Singapore	15	15
South Africa	12	15
Spain	10	12
Sudan	20	10/3[4]
Sweden	15	14
Switzerland	15	12.5
Syria	15	20

Tunisia	10	15
Turkey	10	10
Ukraine	12	12
United Arab Emirates	10	10
United Kingdom	15	15
United States	15	15
Yemen	10	10
Yugoslavia[5]	15	15

NOTES:

1. According to domestic law in each country.
2. A final draft of a new tax treaty with Finland was initiated on 17 September 1997, but the new treaty has not yet been ratified.
3. The higher rate applies to trademarks.
4. Films, otherwise 10%.
5. The treaty with Yugoslavia applies to the republics that formerly comprised Yugoslavia.
6. Entry into force: 1 July 2017; Effective date: 1 January 2018.

EL SALVADOR

MEMBER FIRM

City	Name	Contact Information
San Salvador	Horacio A. Castellanos Chacón	+503 2273 2555 ha.castellanos@pkfelsalvador.com

BASIC FACTS

Full name:	Republic of El Salvador
Capital:	San Salvador
Main languages:	Spanish
Population:	6.19 million (2018 estimate)
Monetary unit:	USD
Internet domain:	.sv
Int. dialling code:	+503

A. TAXES PAYABLE

COMPANY INCOME TAX

El Salvador's income tax law affects annual revenue from business activities conducted in El Salvador when any of the causes of such revenue occur within the national territory. Income Tax - A tax rate of 25% is applied to the net profit of companies whose taxable income does not exceed USD150,000.00. For all others it is 30%.

A corporation is required to prepay its estimated tax liability on a monthly basis of 1.75% of gross revenue. This is deducted as a credit in the annual income tax return. Corporate tax returns are due by the end of the fourth month following the end of the fiscal year. An extension of six months may be granted if requested for the payment only. The tax year of companies corresponds to the calendar year.

CAPITAL GAINS TAX

The tax involved is a 10% income tax on the net profit of the transaction. Net profit is calculated by deducting the cost of the property plus any related expenses from the sales price. Income from the sale of securities is taxable as follows: the buyer will withhold 10% of the profit and remit it to the Tax Department.

BRANCH PROFITS TAX

Branches of foreign companies are subject to the same tax rates as Salvadoran companies. There is no branch remittance tax in El Salvador.

SALES TAX/VALUE ADDED TAX (VAT)

Services and goods are subject to 13% VAT. The following items are exempt from VAT: public health, home rentals, education, state titles, public water, public transportation, pension funds and public lottery.

AD VALOREM/ SPECIFIC TAXES

Two taxes are paid for alcoholic beverages:

- Ad Valorem taxes at a 5% tax rate;
- A specific tax on the alcoholic grade per litre ranging from 0.04 to 0.16 cents.

For cigarettes a specific tax of USD 0.0225 is levied per cigarette.

TAX ON FINANCIAL TRANSFERS

1 TAX ON CHECKS

Check payments over USD 1,000 are subject to 0.25% on the operation base. This tax is non-refundable and the bank will charge it to the company bank account.

2 TAX ON LIQUIDITY CONTROL

A tax of 0.25% will be paid on cash payments and deposits, if the accumulated sum is more than USD 5,000 per month. This tax is a credit against any future payment of VAT, Income Tax, or Ad valorem Tax. The bank will charge it to the company bank account.

LOCAL TAXES

El Salvador's income tax law affects the whole national territory equally.

OTHER TAXES

Other taxes that are applicable in their various manifestations include:

MUNICIPAL OFFICE TAXES

Taxes are paid according to a table and total assets. There are different tables for every city in El Salvador. In San Salvador, the table varies depending on whether the company is industrial, commercial or other.

NATIONAL REGISTRATION TAX

All industrial or commercial businesses are required to have an annual license to operate. This tax is paid according to the total assets and according to the following rates:

- From USD 2,000.00 to USD 57,150.00 a tax of USD 91.43 is levied;
- From USD 57,151.00 to USD 114,286.00 a tax of USD137.14 is levied;
- From USD114,287.00 to USD 228,572.00 a tax of USD 228.57 is levied.

If the asset is worth more than USD 228,572.00 then USD 11.43 will be added to every USD 100,000 in assets or fraction thereof, up to a limit of USD 11,428.57.

SOCIAL SECURITY TAX

These are payments that are made monthly by employers and employees on the payroll of companies for the purpose of guaranteeing the functioning of the employee's social security system benefits at the national

level. The table is as follows:

- Company 7.50% of salary;
- Employee 3.00% of salary.

Maximum salary of USD 1,000 per employee. Social Security has a special education tax called INSAFORP which is 1% of the total amount that the company pays (this applies to companies with more than 10 employees).

PENSION TAX

These are payments that are made monthly by employers and employees on the payroll of companies for the purpose of guaranteeing the functioning of the employee's pension system and retirement benefits at the national level. The table is as follows:

- Company 7.75% of salary;
- Employee 7.25% of salary.

Maximum salary of USD 6,500.00 per employee.

B. DETERMINATION OF TAXABLE INCOME

The net taxable income of a corporation or partnership is determined by subtracting all allowable deductions from gross taxable income. Generally, expenditures and/or losses are deductible provided they are incurred in gaining or producing taxable income, or preserving the source of income. Special rules apply in respect of certain expenditures.

DEPRECIATION

Depreciation is normally calculated by the straight-line method over the estimated useful life of the asset.

STOCKS / INVENTORY

The Income Tax regulations only allow the use average-cost method according to the normal course of operations. No other method is allowed.

DIVIDENDS

Dividends are subject to 5% income tax. If the stockholder is located in a country with low or zero taxation (tax havens), the dividends will be subject to 25% income tax. Dividends for profits earned before 2011 are exempt. A decrease in stockholder´s equity is subject to 5% income tax, if the equity originated from capitalization of profits.

INTEREST INCOME

Banks will withhold 10% income tax on interest income. Loans given by local companies to its stockholders, related parties, headquarters, or residents/companies located in tax havens are subject to a 5% withholding tax.

INTEREST EXPENSE

If a loan is made to a Salvadoran company by a foreign bank that was registered by the Central Bank of El Salvador before 2009, the interest expense is exempt from withholding tax. If the foreign bank is registered by the Central Bank from 2010 onwards, a 10% withholding tax will apply. If the loan is made by a foreign company or a bank that is not registered by the Central Bank, withholding tax will be applied at a rate of 20%.

LOSSES

Losses incurred in any given year can be taken as a valid deduction only for the current year. There is no carry forward or carry back of losses.

SOURCE OF THE INCOME

Foreign-sourced income is not subject to income tax. Only income earned on the territory of El Salvador is subject to El Salvador income tax. Interest income and gains on market values are the exception. Foreign-sourced income is not subject to VAT. Income received by persons or companies domiciled outside El Salvador will be considered as being from an El Salvadoran source if it arises from services or actions that benefit persons or companies located in El Salvador, including fees, interests and royalties.

INCENTIVES

The following incentives are available to certain qualifying industries and corporations:

- Companies operating in Free Zones or under the Law of International Services are tax-exempt on profit derived from sales to foreign countries, for a period of 15 years after the companies have been approved by the Ministry of Economy.
- 15 year tax holiday; from 15 to 25 years, 12% income tax; from 25 years onwards, 18% income tax.
- The 5% payment on dividends will become effective after 12 years.
- Dividends paid to stockholders of companies located in Free Zones will be subject to 5% after 12 years.

C. RELATED PARTY TRANSACTIONS

Transfer Pricing (TP) policies are applicable in El Salvador. If the Company does not have a TP Study, the government is entitled to determine differences between related party transactions and a transaction done by independent parties. If a difference is detected, this would not be deductible for income tax purposes and a 25% or 30% tax would be levied on the difference.

D. WITHHOLDING TAX

Services (not in payroll) and fees paid to local individuals are subject to a 10% withholding tax. Services and fees paid to foreign corporations or non-resident individuals for work done in El Salvador are subject to a 20% withholding tax rate. Interest, commissions, royalties or technical assistance fees paid to foreign recipients are subject to a 20% withholding tax. International transportation services are subject to 5% withholding tax. Purchases of intangible assets are subject to 20% withholding tax.

Any payment done to non-resident individuals or non-resident companies located in tax havens is subject to a 25% withholding tax. A list of tax havens may be consulted on the Ministry of Finance web page: www.mh.gob.sv

E. PERSONAL TAX

a) The monthly withholding tax rates set out below are applicable to any individual included in payroll for permanent service:

Taxable Monthly Income (in USD)

From:	To:	Withholding tax
0.01	472.00	No withholding tax/exempt
472.01	895.24	USD 17.67 plus 10% in excess of USD 472
895.25	2038.10	USD 60 plus 20% in excess of USD 895.24
2,038.11	In excess of	USD 288.57 plus 30% in excess of 2,038.10

b) The annual income tax rates set out below are applicable to any individual included in payroll for permanent service (in USD):

From:	To:	Withholding tax
0.00	4,064.00	Exempt
4,064.01	9,142.86	USD 212.12 plus 10% in excess of USD 4,064.00
9,142.87	22,857.14	USD 720.00 plus 20% in excess of USD 9,142.86
22,857.15	In excess of	USD 3,462.86 plus 30% in excess of USD 22,857.14

F. TREATY AND NON-TREATY WITHHOLDING TAX RATES

El Salvador has a Free Commerce Treaty with the USA, Chile, Mexico and the Dominican Republic. There is a Bilateral Agreement with Spain.

	Dividends (%)		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Non-treaty countries				
Companies	0/5/25[1]	0/3/25[1]	0/10/20/25[1]	5/20/25[1]
Individuals	0/5/25[1]	--	20/25[1]	5/20/25[1]
Treaty countries				
Spain	12	02	0/10	10

1. The 25% rate applies to payments made to residents of countries considered to be tax havens or territories with a preferential tax regime.
2. With respect to a minimum 50% participation in capital.

ESTONIA

MEMBER FIRM

City	Name	Contact Information
Tallinn	Rein Ruusalu	+372 66 30 829 rein.ruusalu@pkf.ee

BASIC FACTS

Full name:	Republic of Estonia
Capital:	Tallinn
Main languages:	Estonian, English, Russian
Population:	1.31 million (2018 estimate)
Monetary unit:	Euro (EUR)
Internet domain:	.ee
Int. dialling code:	+372

KEY TAX POINTS

- Estonian resident companies do not pay tax on their profits until they are distributed to shareholders. The taxable period is the calendar month.
- There is no separate capital gains tax. Gains derived by resident companies or branches of foreign companies are exempt until a distribution is made.
- Value added tax applies to most goods and services.
- Local taxes are imposed by only a few municipalities.
- Foreign tax is mostly relieved by exemption by virtue of the provisions of the double tax treaties with most overseas jurisdictions.
- Withholding taxes apply only to certain royalties and in special cases (fees to artists and sportsmen from Estonian source).
- Income tax applies to individuals at a single, flat rate.

A. TAXES PAYABLE

COMPANY TAX

Estonian resident companies are liable for corporate income tax on their worldwide income. Corporate income tax is not levied when the company makes profits but when those profits are distributed to the company's shareholders. The rate is 20% on the gross profits distributed or 20/80 (i.e. 25%) on the net amount of the dividend distributed to the shareholders. Although the tax applies like a withholding tax on the recipient of the dividend it is, strictly speaking, a tax on the company. The taxable period is the calendar month.

As from 2018, dividends distributed at an amount lower than or equal to the amount of the average of distributed dividends (i.e. excluding distributions of tax-exempt dividends, liquidation proceeds, capital reductions and permanent establishments income) in the previous 3 years, on which income tax has been paid by the resident taxpayer, are taxed at the rate of 14% of the distribution tax (the tax rate on the net amount being 14/86 instead of the regular 20/80). According to the transitional rules, one third of taxed profits of 2018 and one third of taxed profits of 2018 and 2019 may be distributed at the lower rate in 2019 and 2020, respectively.

If dividends are paid to resident or non-resident individuals and the distributing company has paid the distribution tax at the lower 14% rate, the individual recipient is subject to an additional withholding tax of 7%. A lower withholding rate may apply under an applicable tax treaty. Withholding tax will not apply if the recipient of the dividends is a company.

CAPITAL GAINS TAX

There is no separate capital gains tax in Estonia. Gains derived by resident companies or branches of foreign companies are exempt until a distribution is made.

BRANCH PROFITS TAX

There is no specific branch profits tax in Estonia. Branches of foreign companies are taxed under the same principles as resident companies, i.e. taxed on the distribution of profits at a rate of 20%.

VALUE ADDED TAX (VAT)

The supply of most goods and services is subject to VAT. Some goods and services are exempt from VAT. The standard VAT rate is 20%. A lower rate of 9% applies to certain items such as books, medicinal products etc. Exports from Estonia are zero rated.

FRINGE BENEFITS TAX

Fringe benefits are taxed as income. With effect from 1 January 2008, 20% income tax is levied on the gross value of the benefit plus 33% social security contribution.

LOCAL TAXES

The local government has the right to impose local taxes but presently only a few municipalities do so.

B. DETERMINATION OF TAXABLE INCOME

As the income of Estonian-resident companies is exempt from tax, there is no requirement for determining trading income for tax purposes. Tax is levied on the payment of dividends and distributions of profit in other forms such as fringe benefits, gifts and other non-business related payments.

C. FOREIGN TAX RELIEF

Under Estonia's double tax treaties, foreign tax is mostly relieved by exemption.

D. CORPORATE GROUPS

Corporations are taxed separately in Estonia. There is no concept of consolidated tax returns.

E. RELATED PARTY TRANSACTIONS

Related party transactions may be adjusted for tax purposes if the transactions are not at arm’s length.

F. WITHHOLDING TAX

Withholding taxes apply only to certain royalties (see table below) and in special cases (fees to artists and sportsmen from Estonian source).

G. EXCHANGE CONTROL

There are no exchange controls in Estonia.

H. PERSONAL TAX

The income tax depends on the person's annual income. The annual income is tax-free up to an amount of EUR 6,000. From a gross annual income of EUR 14,400, the tax-free income will start to decrease until it reaches zero at a gross annual income of EUR 25,200. The income tax rate of 20% applies to income over the annual tax-free threshold of EUR 6,000.

Employers are obliged to withhold income tax from employees' salaries. In addition, the following social security rates apply:

- Social security tax of 33% of gross salary;
- Unemployment insurance:
  - Employer 0.8% of gross salary;
  - Employee 1.6% of gross salary.

Dividends received from resident companies and interest received from EU credit institutions are tax free.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

There is no withholding tax on dividends nor interests in Estonia.

	Royalties[1] (%)	Royalties[2] (%)
Non-treaty countries	10	10
Treaty countries:		
Albania	5	5
Armenia	10	10
Azerbaijan	10	10
Austria	5	10
Bahrain	0	0
Belarus	10	10
Belgium	10	0
Bulgaria	5	5
Canada	10	0
China	10	10
Croatia	10	10
Czech Republic	10	10
Cyprus	0	0
Denmark	10	0
Finland	10	0
France	10	0
Georgia	0	0
Germany	5	10
Greece	5	10

Hungary	10	0
Iceland	10	0
India	10	10
Ireland	10	0
Isle of Man	0	0
Israel	0	0
Italy	10	0
Jersey	0	0
Kazakhstan	15	15
Korea	5	10
Latvia	5	10
Lithuania	10	10
Luxembourg	10	0
Macedonia	5	5
Malta	10	10
Moldova	10	10
Netherlands	10	0
Norway	10	0
Poland	10	10
Portugal	10	10
Romania	10	10
Serbia	5	10
Singapore	7.5	7.5
Slovak Republic	10	10
Slovenia	10	10
Spain	10	0
Sweden	10	0
Switzerland	10	0
Thailand	8	10
Turkey	5	10
Turkmenistan	10	10
Ukraine	10	10
United Arab Emirates	0	0
United Kingdom	10	0
United Mexican States	10	10
United States	5	10
Uzbekistan	10	10
Vietnam	10	7.5

Notes:

1 Rate applicable to royalties for equipment rental.

2 Other royalties.

FINLAND

MEMBER FIRM

City	Name	Contact Information
Helsinki	Stefaan De Ceulaer	+44 203 691 2511 stefaan.deceulaer@pkf.com

BASIC FACTS

Full name:	Republic of Finland
Capital:	Helsinki
Main languages:	Finnish, Swedish
Population:	5.52 million (2018 estimate)
Monetary unit:	Euro (EUR)
Internet domain:	.fi
Int. dialling code:	+358

KEY TAX POINTS

- Finnish resident companies are liable to corporate income tax on worldwide income. Non-resident companies are taxed on their Finnish-sourced income only.
- Capital gains are normally taxed as ordinary income. In specific circumstances, capital gains arising on the disposal of shares in a subsidiary are exempt.
- In principle, all sales of goods and services are subject to value added tax, subject to reduced rates and exemptions.
- A local real estate tax is levied on properties owned by companies.
- The transfer of immovable property attracts a transfer tax.
- A controlled foreign company (CFC) system applies.
- Under double tax treaties, foreign tax is most frequently relieved by way of credit, sometimes the exemption method is also applied. Where there is no relevant tax treaty, Finnish domestic tax law grants a credit for foreign tax paid once that foreign tax is final.
- Dividends and royalties paid to non-resident companies are subject to withholding taxes. Tax treaties may provide benefits and exemptions to this.
- Finnish resident individuals are subject to tax in respect of their worldwide income. Non-residents are taxed on their income derived from Finland.
- Individuals are taxed separately on earned income and investment income.

A. TAXES PAYABLE

COMPANY TAX

Finnish resident companies are liable to corporate income tax on their worldwide income. Non-resident companies are taxed on their Finnish-sourced income only. Corporate residence is not defined in the tax legislation but residency is usually associated with registration. The corporate income tax rate is 20% of the taxable income. The tax year consists of the financial period (or periods) that ends during the calendar year. The final tax assessment for the tax year is determined based on the tax return. Corporate bodies must file

the tax return within four months of the end of their accounting period. Tax returns are processed within ten months of the end of the accounting period.

CAPITAL GAINS TAX

Capital gains are normally taxed as ordinary business income. Where shares or land have been held for business purposes, the disposal is subject to normal income tax. In specific circumstances, capital gains from the disposal of shares of a subsidiary are tax exempt. The shares need to be owned for at least one year prior to disposal and the seller has to have owned at least 10% of the company whose shares are being disposed of. There is more detailed legislation for applying this exemption.

BRANCH PROFITS TAX

There is no specific branch profits tax in Finland. The taxable income for branches of foreign companies in Finland is calculated on the same basis as for Finnish resident companies at a rate of 20%. There is no branch remittance tax in Finland.

VALUE ADDED TAX (VAT)

VAT is paid on the sale of goods and services, on the importation of goods, on intra-community acquisitions and on the removal of the goods from a fiscal warehousing arrangement when the removal takes place in Finland. In principle, all sales of goods and services are subject to VAT. However, there are some supplies of goods and services which are exempt under the conditions defined in the VAT Act. The general VAT rate is 24%. Other applicable rates are as follows:

- 14% for individuals' food and animal feed and restaurant services;
- 10% for medicines, books, cultural events, passenger transportation, hotel accommodation and other services;
- Exports outside the European Union are zero rated.

FRINGE BENEFITS TAX (FBT)

The benefits in kind are added to the gross salary according to the annual decision of the Finnish Tax Administration on the valuation of taxable in-kind benefits to be applied. However, the employer has a legal responsibility to withhold income taxes and social security contributions from salaries and benefits paid to their employees.

LOCAL TAXES

Basically, there are no local taxes imposed on companies. However, municipal real estate tax is levied on properties owned by companies. It is normally 0.37% to 0.80% (residential buildings) and 0.8% to 1.55% (other buildings) of the taxation value of the immovable property, depending on the municipality where the property is situated, and is deductible, up to certain limits, for income tax purposes.

OTHER TAXES

Employers must make social security contributions to cover the costs of health insurance at the rate of 0.86% on gross remuneration paid to employees between 16 and 68 years of age. Pension insurance contributions are also payable at 17.75% (on average), unemployment contributions (0.65% on the first EUR 2,044,500 and 2.60% on the excess) and accidental injury insurance contribution of approximately 1% of annual gross wages and salaries.

B. DETERMINATION OF TAXABLE INCOME

Taxable income is determined based on financial accounting income adjusted for non-taxable and non-deductible items. In practice, the determination of taxable income is closely connected to the determination of net income for financial statement purposes. Generally, all expenses incurred in acquiring or maintaining business income are deductible (however, e.g. entertainment expenses are 50% deductible only).

DEPRECIATION

Buildings and other constructions are depreciated for tax purposes using the declining balance method. Depreciation for each building is calculated separately, with the maximum percentage varying from 4% to 20%, depending on the type of the construction. Depreciation of machinery and equipment is calculated using the declining balance method with a maximum rate of 25%. Patents and other intangible rights, such as goodwill, are amortised on a straight-line basis for ten years for tax purposes, unless the taxpayer demonstrates that the asset has a shorter useful life.

Assets with a useful life of less than three years may be written off using the free depreciation method, i.e. deduct up to 100% of the costs of assets in a single tax year where the value for each item is less than EUR 850 and the total value of such assets is no more than EUR 2,500 per tax year. The allowable annual rates of depreciation are doubled for the tax years 2015 – 2016 for the following:

- New industrial buildings and workshops used for production activities (increase from 7% to 14%);
- New machinery and equipment used for production activities, as specified in the act (increase from 25% to 50%).

STOCK / INVENTORY

In principle, the acquisition costs of inventories are deducted when assets are sold, consumed or lost. Inventories on hand at the end of the tax year are valued at an amount not exceeding the lower of acquisition cost or market value. Acquisition cost is usually calculated on a FIFO basis, other methods may also be possible. Certain overhead costs can be included in the acquisition cost of products.

CAPITAL GAINS AND LOSSES

As discussed above, capital gains are usually taxable as ordinary income. Broadly speaking, gains on the disposal of shares in resident companies in which the seller had at least a 10% interest throughout the year ending on the date of disposal are exempt from tax. There are more prerequisites in the relevant act for this exemption.

DIVIDENDS

Inter-company dividends are tax exempt in most cases, although they are partly (75%) taxable if they are distributed by a quoted company to a non-quoted company that holds less than 10% of the capital in the distributing company, or the recipient company is a financial or insurance company holding the shares as investment assets. Tax agreements may entitle non-residents either to benefit from a lower withholding tax rate or to receive an imputation credit. Dividends are exempt from withholding tax when paid to a company resident in a European Union country if the company pays national corporate tax and holds at least 10% of the share capital in the distributing company. Tax exemption does not apply if the recipient is entitled to an imputation credit. The individual treaty in question must always be verified.

INTEREST DEDUCTIONS

Normally, interest on loans obtained for business purposes is deductible in full on an accruals basis. New thin capitalisation rules have been introduced from tax year 2014 onwards which apply to interest paid between related parties. Broadly speaking, a company may deduct up to EUR 500,000 of interest expense per year without restriction. Similarly, if a company can demonstrate that the proportion of its net assets represented by equity is at least as high as the group's consolidated equity to net assets ratio, then the thin capitalisation rules will also not apply, as specified in more detail in the relevant legislation.

Where neither of these exemptions apply, the maximum deductible amount of interest paid to related parties is 25 % of EBITDA determined for tax purposes. Any interest restricted under these rules can be carried forward to use in future years, but similar restrictions on e.g. EBITDA apply each tax year.

LOSSES

Losses may be carried forward and set off in the subsequent ten tax years. If more than 50% of the shares of the company are sold during a loss year or thereafter, losses from previous years cannot usually be deducted. There is a dispensation procedure possible to this main rule.

FOREIGN SOURCED INCOME

If a foreign company falls under the Finnish controlled foreign company (CFC) legislation, then the foreign company's undistributed profits can be allocated to the taxable income of a Finnish shareholder. The preconditions for the application of the CFC legislation are as follows:

- One or more Finnish resident shareholders directly or indirectly own at least 50% of the capital or of the voting rights in the CFC or they are entitled to at least 50% of the yield of the net wealth of the CFC;
- The Finnish resident shareholder owns, directly or indirectly, at least 25% of the CFC;
- The effective tax rate of the CFC in its country of residence is less than three-fifths of the tax of an equivalent company resident in Finland (currently 12%).

INCENTIVES

Accelerated depreciation is available to small and medium-sized companies that make investments in certain development areas. The investment must be in assets that will establish or enlarge production facilities or tourist businesses in those areas. The increased rate of depreciation is available for the year of investment and the following two years. A calculative 100% added deduction is available only until 31 December 2015 in respect of salary costs incurred on research and development activities where those costs are between EUR 15,000 and EUR 400,000.

C. FOREIGN TAX RELIEF

Under tax treaties, foreign tax is most frequently relieved by a tax credit. If a tax treaty does not apply, Finnish domestic law grants a credit for foreign tax paid, as specified in more detail. The credit is granted only if the foreign tax is final. From 2010, a requirement to calculate available credits on a source country-by-country basis was removed and the ability to carry forward unused credits was extended from one year to five years.

D. CORPORATE GROUPS

Corporations are taxed separately in Finland. There is no concept of consolidated tax returns. However, it is possible to make group contributions if the parent company owns at least 90% of the subsidiary during the whole financial year. The payments will be tax deductible at the level of the payer and taxable at the level of the recipient. There are additional requirements in the relevant act.

E. RELATED PARTY TRANSACTIONS

Related party transactions are usually accepted if they are at arm's length. Arm's length pricing applies to transactions of all types including the purchasing of inventory and the provision of services and financial facilities.

Mandatory transfer pricing documentation requirements apply to foreign-owned subsidiaries and branches in Finland and Finnish Groups with more than 250 employees and an annual turnover of above EUR 50 million or a balance sheet of more than EUR 43 million.

F. WITHHOLDING TAX

Withholding tax is not imposed on dividends paid to resident companies. Dividends paid to non-resident companies are generally subject to a withholding tax of 20% which may be reduced or eliminated under tax treaties. Non-resident shareholders are not entitled to an imputation credit unless a tax treaty provides otherwise. Interest paid to resident companies is not subject to withholding tax. Interest paid to non-residents is generally exempt from tax. However, the abovementioned thin capitalisation restrictions may apply.

Withholding tax is not imposed on royalties paid to resident companies. Royalties paid to non-resident companies are generally subject to a withholding tax of 20% which may be reduced or eliminated under a tax treaty. Royalties are, in certain cases, exempted from withholding tax when paid to a company resident in a European Union country. In certain circumstances, tax must be withheld on payments for work carried on by non-residents if they are not registered in Prepayment Register.

G. EXCHANGE CONTROL

In principle, there are no exchange controls in Finland.

H. PERSONAL TAX

Finnish resident individuals are subject to tax in respect of their worldwide income. Non-residents are taxed on their income derived from Finland. The tax year for individuals is the calendar year. Married persons are taxed separately both on earned income and investment income. Interest and insurance deductions may be dependent, in certain circumstances, on the marital status of the taxpayer. In general, married persons will have their own deductions.

Individuals are entitled to deduct from their investment income and earned income all expenses incurred in acquiring and maintaining such income, as regulated in more detail. Individuals usually have a right to deduct interest expenses from investment income. Interest expenses are deductible if the debt is related to the acquisition of taxable income. In 2017, 45% of interest on a loan used to purchase the individual's permanent home is deductible. For 2018, the deduction is 35% and it will decrease to 25% in 2019.

An individual is taxed separately on earned income and on investment income. Earned income is subject to national income tax, municipal income tax and church tax. Earned income includes salaries, wages and benefits in kind. The rate table for the national income tax levied on earned income is as follows as from 1 January 2018.

Taxable income (EUR)	Tax on lower amount (EUR)	Rate on excess (%)
17,200 – 25,700	8.00	6.00
25,700 – 42,400	518.00	17.25
42,400 – 74,200	3,398.75	21.25
Over 74,200	10,156.25	31.25

Investment income includes dividend income, capital gains, certain interest income and income from rental activities. Capital income up to EUR 30,000 is taxed at 30% whereas amounts over EUR 30,000 are taxed at 34%.

Finnish nationals are, in addition, subject to the three-year rule. According to this rule, a Finnish national is considered to remain resident in Finland for three years after the end of the year in which he left the country, unless he shows that he has not maintained essential ties in Finland during the tax years concerned. However, under the terms of tax treaties, the three-year rule may be excluded if the individual is deemed resident in another country. Finland imposes both inheritance and gift tax. The minimum taxable amount for inheritance taxation is EUR 20,000 and for gift tax EUR 4,000. Tax rates for both inheritance and gift tax vary from 7% to 35%, depending on who is the receiver of the inheritance and the value inherited or gifted.

Wages and salaries paid by an employer are subject to an employee withholding tax. The amount withheld is based on the amount of wages or salary as well as on the individual circumstances of the employee.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

The national and tax treaty withholding tax rates in 2016 are as follows (always check the relevant tax treaty application both source and recipient country before decision making):

	Dividends[1] (%)	Dividends[2] (%)	Royalties (%)	Interest[3] (%)
Non-treaty countries:	20	20	20	N/A
Treaty countries:				
Argentina	15	10	15	15
Armenia	15	5	5	5/10
Australia	15	5	10	5
Austria	10	0	0	5
Azerbaijan	10	5	10	5
Barbados	15	5	5	5
Belarus	15	5	5	5
Belgium	15	0	10	5
Bosnia-Herzegovina	15	5	25	10
Brazil	10	10	15	15
Bulgaria	10	0	0	5
Canada	15	5	10	10
China	10	5	10	10
Croatia	15	5	0	10
Czech Republic	15	0	0	10
Denmark	15	0	0	0
Egypt	10	10	15	25
Estonia	15	0/5	10	10
Faroe Islands	15	0	10	0

France	0	0	0	0
Georgia	10	0/5	0	0
Germany	15	0	0	5
Greece	13	13	10	10
Hungary	15	5	0	5
Iceland	15	0	10	0
India	10	10	10	10
Indonesia	15	10	10	15
Ireland	0	0	0	0
Israel	15	5	10	10
Italy	15	0	15	5
Japan	15	10	10	10
Kazakhstan	15	5	10	10
Korea, Republic of	15	10	10	10
Kyrgyzstan	15	5	10	5
Latvia	15	5	10	10
Lithuania	15	5	10	10
Luxembourg	15	5	0	5
Macedonia	15	0	10	0
Malaysia	15	5	15	5
Malta	15	5	0	0
Mexico	0	0	10/15	10
Moldova	15	5	5	3/7
Morocco	10	7	10	10
New Zealand	15	15	10	10
Norway	15	0	0	0
Pakistan	20	12/15	15	10
Poland	15	5	5	5
Romania	5	0	5	5
Russia	12	5	0	0
Serbia	15	5	0	10
Singapore	10	5	5	5
Slovenia	15	5	5	5
South Africa	15	5	0	0
Spain	15	0	10	5
Sri Lanka	15	15	10	10
Sweden	15	0	0	0
Switzerland	10	0	0	0
Tanzania	20	20	15	20
Thailand	28	20	10/25	15

Turkey	15	5	5/10/15	10
Ukraine	15	5	5/10	10
United Kingdom	0	0	0	0
United States	15	5	0	0
United Arab Emirates	0	0	0	0
Uzbekistan	15	5	5	10
Vietnam	15	10/5	10	10
Zambia	15	5	15	15

NOTES:

1 Tax at source on dividend.

2 The recipient is a company whose share in the company making the payment is at least the percentage indicated in the tax treaty. In some cases, the holding refers to share capital and in others to voting power. The relevant tax treaty should be checked to determine the exact requirements.

3 According to the domestic tax law, interest paid to a non-resident is usually exempt from taxation in Finland.

FRANCE

MEMBER FIRM

City	Name	Contact Information
Paris	Olivier Cortez	+33 1 72 28 35 63 o.cortez@hedeos-avocats.fr
Paris	Stéphane Malmonté	+33 1 72 28 35 65 s.malmonte@hedeos-avocats.fr
Paris	Muriel Le Gal	+33 1 78 09 74 40 muriel.le-gal@fisolutions.fr
Lyon	Christian Laurain	+33 4 72 53 25 50 laurain@pkf.fr
Strasbourg	Annie Suss	+33 3 90 40 17 17 suss@gross-hugel.com
Strasbourg	Jean-Jacques Helle	+33 3 90 40 17 17 helle@pkf.fr
Marseille	Guy Castinel	+33 4 91 03 66 11 castinel@pkfaudit.fr

BASIC FACTS

Full name:	French Republic
Capital:	Paris
Main languages:	French
Population:	65.19 million (2018 estimate)

Monetary unit:	1 Euro (EUR) = 100 Cents
Internet domain:	.fr
Int. dialling code:	+33

KEY TAX POINTS

- Companies are subject to French corporate tax on the profits of any business carried on in France. There is a lower rate for SMEs. There is also a minimum tax charge for all companies based on turnover (with a minimum EUR 15 million turnover) which applies even when they do not generate taxable profits.
- Capital gains generated by companies are generally deemed to be ordinary income. Under the participation exemption, 88% of the gains derived from the disposal of qualifying shares are tax exempt. The remaining 12% is taxed in the normal manner.
- The standard tax system is territorial and applies to each company individually. Foreign branch profits are exempt from French corporate tax. French branches of foreign companies will generally only be taxed in France on French-sourced income.
- In general, all supplies of goods and services and importations of goods and most services are subject to Value Added Tax (VAT) at a standard rate of 20% in mainland France.
- Territorial Economic Contribution; which has two elements: a tax on real estate utilized by the business and a tax on the value added generated by the company.
- Other significant government levies include: a land tax (based on the rental value of real estate) and residential tax on the occupation of property.
- Credit for foreign tax on dividends, royalties and interest is allowed under double tax treaties. Where no tax treaty applies relief is granted by way of deduction.
- Transfer pricing requirements apply to related party transactions with overseas parties. Certain transfer pricing documentation must now be provided annually.
- Withholding tax applies to dividends, interest and royalty payments to non-residents, the rate being subject to the status of the recipient and the terms of tax treaties. There are significant exceptions for payments to EU parent companies. Permanent establishments are automatically subject to withholding tax unless specific conditions are met.
- Personal income tax is applied at progressive rates, subject to mitigation by a family quota system.
- There is a progressive exemption from tax on capital gains on French property for EU residents. There is an exemption from capital gains tax on the disposal of the principal residence.
- A wealth tax applies, based on worldwide real-estate assets for French residents and on French real-estate assets for non-residents.
- Inheritance tax is paid by the inheritors of a French resident's estate, the French assets of a non-French resident, and also by the French resident inheritors of the estate of a non-French resident.
- Businesses subject to business taxes, eg VAT and corporate tax must produce a Standard Audit file for tax.

A. TAXES PAYABLE

COMPANY TAX

Companies are subject to French corporate tax on profits of any business carried on in France. A company is said to be carrying on a business in France if it has a permanent establishment, a dependent agent or carries out a 'complete commercial cycle' in France. The fiscal year runs to 31 December, although each company can choose its own accounting year end. The standard corporate income tax rate is currently 33.33%. Small and medium sized enterprises (SMEs), i.e. enterprises owned by individuals or by other SMEs for at least 75% and with a turnover of EUR 7,630,000 or less (EUR 50 million as from 1 January 2019), are subject to a 15% reduced tax rate on the first EUR 38,120 of profits and to the standard rate on any excess. For financial years starting on or after 1 January 2017 profits between EUR 38,120 and EUR 75,000 will be subject to a 28% rate.

The 33.33% standard rate will be progressively reduced to 25% by 2022 as follows:

- 2017: Small and medium enterprises (SMEs) that already benefit from the 15% reduced rate on their profits up to EUR 38,120 (see above) are subject to a 28% rate on their profits between EUR 38,120 and EUR 75,000 and to the standard 33,33% on the excess. Other SMEs are subject to a 28% rate on their profits up to EUR 75,000 and to the current standard 33,33% rate above this threshold;

- 2018: all companies will be subject to a 28% rate on their profits up to EUR 500,000. Profits above this threshold will remain subject to the current standard 33.33% rate;
- 2019: companies with an annual turnover not exceeding EUR 1 billion will be subject to a 28% rate on their total profits. Companies with an annual turnover exceeding EUR 1 billion will be subject to a 28% rate on their profits up to EUR 500,000 and to the current 33.33% standard rate on profits above EUR 500,000;
- 2020: all companies will be subject to a 28% rate on their total profits.
- 2021: all companies will be subject to a 26.5% rate on their total profits.
- 2022: all companies will be subject to a 25% rate on their total profits.

Companies whose turnover exceeds EUR 7,630,000 also have to pay 3.3% social security contributions, but only when the amount of the corporate tax due exceeds EUR 763,000. The 3.3% contribution applies to the amount of the corporate income tax. Thus, the resulting effective rate on that part is 34.43%.

Tax is payable in four instalments, the due dates being respectively 15 March, 15 June, 15 September and 15 December for accounting years ending on 31 December. The balance must be paid by the 15th of the fourth month after the accounting year-end. Instalments amount to 8.33% of the taxable profits of the last complete accounting period.

CAPITAL GAINS TAX

Capital gains are generally deemed to be ordinary income. Under the participation exemption, 88% of the gains derived from the disposal of qualifying shares are exempt from tax. The remaining 12% is taxed in the normal manner. Shares qualifying for the participation exemption are those in which the parent has held at least 5% of the subsidiary's capital for at least two years. In addition, proceeds from the licensing of patents, patentable inventions and their improvements and associated manufacturing processes qualify, subject to certain conditions, for a reduced capital gains tax rate of 15% although they constitute royalty income in the strictest sense. The reduced rate also applies to the disposal of such patents, except between related companies. Such disposals are classified as producing ‘long term’ gains or losses.

A net long-term loss can generally only be carried forward to offset against long term capital gains arising in the following ten years. Net long-term capital losses can no longer be offset against gains arising on the disposal of qualifying shares.

Capital gains on shares held in subsidiaries established in a non-cooperative state or territory will not benefit from the long-term gains regime or the participation exemption and will be taxed at the standard corporate income tax rate. Moreover, it will only be possible to offset capital losses sustained on the disposal of such securities against capital gains of the same type and not against profits taxed at the standard corporate income tax rate.

BRANCH PROFITS TAX

The normal system is territorial and applies to each company individually. Foreign branch profits are exempt from corporate income tax. French branches of foreign companies will generally only be taxed in France on French-sourced income, subject to the same corporate income tax rules as a resident company. The rate of the tax and the surcharges thereon are also the same as for resident companies.

There is no branch remittance tax in France.

VALUE ADDED TAX (VAT)

In general, all economic activities conducted in France are subject to VAT (sales (and importations) of goods, supplies of services and intra-community acquisitions). The 20% VAT rate applies to transactions in metropolitan France (different rates apply in Corsica and the overseas departments and collectivities) other than those that are expressly exempt from or subject to one of the reduced rates (10% since 1 January 2014 (e.g. passenger transport, hotel accommodation, restaurants (except alcohol)), 5.5% reduced VAT rate (e.g. most foods, books) or to the special rate of 2.1% - applicable to reimbursed drugs and to most press items.

The taxpayer is liable for VAT on supplies of goods and services but may offset against this amount any VAT on the purchase (or importation) of goods, equipment and services. VAT returns and payments of VAT must generally be remitted monthly (special rules apply to small businesses).

Companies must produce and retain a ‘VAT audit trail documentation’ to fully justify VAT deductible and chargeable.

FRINGE BENEFITS TAX (FBT)

Goods and services provided to employees are considered as salaries paid in kind, liable to social contributions and income tax.

LOCAL TAXES

Various taxes are levied by the Government for the benefit of the local government agencies. The most important are as follows.

LAND TAXES

a) Real Estate tax

This is based on 50% of the deemed rental value of real estate owned by the taxpayer.

b) Territorial Economic Contribution (hereafter CET)

The CET consists of two separate contributions which apply in combination:

- Corporate Real Estate Contribution (CFE): The CFE is based on the deemed rental value of real estate assets, excluding capital assets (not integrated into the real estate) and furniture, available to the taxpayer for the purposes of its business activity;
- Contribution calculated on the corporate added value (CVAE): The CVAE is based on turnover, increased by certain income and deductible charges.

RESIDENTIAL TAX

This is a tax on the occupation of property based on the deemed rental value of the property reduced by an allowance for the number of dependants of the occupant.

OTHER TAXES

These include the following minor and indirect taxes:

SALARIES TAX

Tax rates vary from 4.25% 13.6% based on the level of remuneration (including benefits in kind) paid to employees. This tax is payable by companies which are not subject to VAT on at least 90% of their turnover.

APPRENTICESHIP TAX

Payable at the rate of 0.68% (except the 3 departments in Alsace-Moselle) on total annual gross wages and salaries.

EMPLOYERS' TRAINING TAX

All employers with at least 10 employees pay a contribution of 1 % of total annual wages and salaries as an investment into vocational training programmes. The rate is reduced to 0.55% where there are fewer than ten employees.

CONSTRUCTION PARTICIPATION TAX

All employers with 20 employees or more must pay a minimum of 0.45% of total gross wages and salaries for the construction of social dwellings.

COMPANY CAR TAX

Companies pay a tax based on the number of cars registered in France which they own or rent for more than one month or are used by their employees for their professional needs. Non-polluting vehicles are exempt from this tax. This tax is not deductible from the tax base for corporate tax.

ORGANIC TAX

This tax (which is effectively a social charge) applies to companies at a rate of 0.16% on annual turnover (as determined from sections of the VAT returns) exceeding EUR 19 million. This tax is deductible from the tax base for corporate tax.

RATES OF STAMP OR TRANSFER DUTIES

The sale of goodwill is subject to transfer duties at a rate of 2% (between EUR 23,000 and EUR 107,000) and 0.6% (between EUR 107,000 and EUR 200,000) and 2.6% over EUR 200,000. The rate of transfer duties on the disposal/transfer of shares, such as shares in an SAS, SA is at 0.1%, but at 3% on shares of an SARL and Sociétés civiles. For certain companies having substantial real-estate assets the rate is 5%.

FINANCIAL TRANSACTION TAX (TAXE SUR LES TRANSACTIONS FINANCIÈRES)

A 0.3% tax applies to the acquisition of shares in listed companies which have their head office in France and whose market capitalization exceeds EUR 1 billion on 1st December prior to the fiscal year in which the transaction takes place.

B. DETERMINATION OF TAXABLE INCOME

Taxable income is determined on the basis of the accounting results. When a tax rule diverges from an accounting principle, adjustments are made to the accounting results to determine the taxable result. Business profits are defined as gross trading profits less manufacturing, administrative and selling expenses. All expenses incurred in the conduct of business are deductible if they are directly related to the corporate purpose of the taxable entity. Special rules apply in respect of the categories listed below.

Income from receivables, royalties and payments for services provided by private individuals and legal entities established or domiciled in a non-cooperative state or territory are only deductible if:

- The debtor provides proof of the transactions;
- The transactions are not abnormal or exaggerated; and,
- Has a bona fide commercial purpose.

The paying company will be required to submit a detailed breakdown of the expenditure along with its tax return.

DEPRECIATION

Fixed assets are generally written off over their normal useful life. The straight-line method is the most commonly used. Companies can choose the declining-balance method to compute depreciation although certain assets are excluded from this. Assets acquired for a cost of less than EUR 500 excluding VAT can be completely written off in the first year.

The cost of cars exceeding EUR 18,300 (EUR 9,900 for the most polluting cars) cannot be depreciated (i.e. only the amount up to EUR 18,300/9,900 is eligible for tax depreciation allowances).

Non or low polluting cars can be depreciated at a maximum of EUR 30,000 for electric cars (less than 20g/km of CO2) and EUR 20,300 for hybrid cars (more than 20g/km and less than 60g/km of CO2), with effect from 1 January 2017.

Other items can be written off at specific rates, depending on their effective life and their date of purchase. A company can elect not to take all the depreciation to which it is entitled if it so wishes but the depreciation claimed on its assets in total must be at least equal to the depreciation that would have been claimed on the same assets on a straight-line basis.

STOCK / INVENTORY

Stock may be valued at each year-end at cost price, market selling value or replacement cost. On the balance sheet, inventories must be shown at cost price. If the market value is lower, a reserve for depreciation of inventories must be disclosed separately as a deduction from cost.

Cost is defined as the actual purchase price or actual production cost (excluding financial charges) or, if lower, the price at which the goods may be sold. FIFO or the average cost method must be applied. LIFO is prohibited.

CAPITAL GAINS AND LOSSES

See ‘Capital Gains Tax’ above.

DIVIDENDS

Only 5% of the value of dividends received by a French parent company from its French or foreign subsidiaries are taxed (including the foreign tax credit) if the EU parent-subsidiary regime applies. To qualify for this treatment, the parent must have held 5% of the subsidiary's capital for at least two years.

Dividends from companies established in non-cooperative countries or territories, will be excluded from the parent-subsidiary regime. An anti-abuse clause applies both to dividends paid by a French entity to certain

EU-resident entities, to deny the WHT exemption, and to dividends received by a French resident entity, to deny the application of the participation exemption regime.

INTEREST DEDUCTIONS

Currently, interest paid to related entities is tax deductible, subject to the following limitations:

- The interest rate does not exceed the average rate of interest on bonds issued by private French companies or if higher, the rate that would be offered by non-related banks on similar terms and conditions;
- Interest paid must not exceed the highest of the following three limits (thin capitalization rule):
  a) The average amount of related party loans must not exceed 1.5 times the net equity of the borrowing entity;
  b) Interest paid on related party loans must not exceed 25% of the borrowing entity's net income before tax, after adding back depreciation deductions and the interest on such related parties' debt;
  c) Interest paid on related party loans does not exceed the interest received by the borrowing entity on loans it has itself made to related parties.

The portion of the interest which exceeds the higher of the above three limits is not deductible from that year's taxable results (except if it does not exceed EUR 150,000) but may be carried forward subject to a 5% discount for each year. For financial years ending after 31 December 2010, the rules applicable to interest paid to related parties are also applicable to non-related parties if the loan is guaranteed by a related party of the borrowing company.

- The deduction of interest on loans taken out to finance share acquisitions may be disallowed if the acquisition involves jointly controlled companies and the acquired company enters into a consolidated tax group with the acquiring company (“Charasse” rule).
- The deduction for interest on loans taken out to finance share acquisitions may also be disallowed if the French borrowing company is unable to demonstrate that decisions on share-related transactions are made in France and that the acquired subsidiary is effectively managed in France (“Carrez” rule).
- Interest paid to a related party and that is not subject to a taxation of at least 25% of the CIT standard rate, is not deductible.
- As from 1 January 2014, the deduction of financial charges incurred by companies liable to CIT is capped at 75% after application of other more specific restrictive rules. This cap does not apply if the net financial charges do not exceed EUR 3 million (in the case of a tax consolidated group, this threshold applies to the group as a whole).

LOSSES

Losses carried forward are now subject to a restriction whereby the maximum amount that can be utilised in any one year is EUR 1,000,000 plus 50% of the profit exceeding this threshold. The portion of the losses that cannot be offset can be carried forward indefinitely by applying the same limitation each year.

Losses can be carried back against undistributed taxable income for the previous financial year up to the lower of EUR 1,000,000 and the profits of that earlier tax year. The portion of losses that cannot be carried back may still be carried forward.

Corporate income tax paid in the preceding years is not immediately repaid to the company when this option is exercised but the company becomes entitled to a tax credit. It can be used to pay its corporate income tax liabilities arising in the following five years. If the credit is not used during these five years, the tax is reimbursed by the Administration.

FOREIGN SOURCE INCOME

Profits earned by subsidiaries not established in an EU country and paying a low rate of tax (below 17%) are presumed to have been earned in France and are subject to corporate tax in France, if more than 50% of the shares are owned by the parent company. A tax credit is given for the corporate tax paid in the country where the subsidiary is established.

From 1 January 2010, withholding tax suffered on dividends, interest and royalties from such subsidiaries is only creditable if the subsidiary is resident in a territory that has signed a double tax treaty with France and that is not on the list of non-cooperative states or territories. To avoid the application of the aforementioned rule, if the subsidiary is established or set up in a non-cooperative state or territory, the French parent must either:

(i) Demonstrate that the profits of the subsidiary are generated from an effective industrial or commercial

activity and do not exceed the ratios for passive income and intra-group services: or,

(ii) Provide to the tax authorities all the documents necessary for it to evaluate the activity performed and the ratios as well as to substantiate that the transactions of the subsidiary have a primary purpose other than to divert profits into that country.

INCENTIVES

- Research tax credit: Businesses that spend money on research may be granted a tax credit, which can be offset against the corporation tax they owe. Since 2013, the Research Tax Credit has been extended to cover certain innovation investments by SMEs. The tax credit rate for R&D expenditure is 30% of outlays up to EUR 100 million per year, and 5% over this limit. The tax credit rate for innovation expenditure is 20% of the eligible outlays up to a maximum of EUR 400,000 per year. In certain cases, the tax credit rate may be more than 100% of the research expenditure.
- Innovative start-ups: New businesses, created no later than 31 December 2019, that invest in R&D and that have innovative start-up (JEI) or university start-up (JEU) status are eligible for exemptions from taxes and social security contributions. The exemption from tax on profits can be combined with the research tax credit (CIR – see above) and innovative start-ups can also receive an immediate refund of their CIR receivables.
- Competitiveness and Employment Tax Credit (CICE): The purpose of the Competitiveness and Employment Tax Credit (CICE) is to enhance the competitiveness of businesses in France, mainly by funding capital expenditure, R&D, innovation, training, hiring, canvasing of new markets, environmental and energy transition costs and the replenishment of working capital. The tax credit is not capped.

  From 2017, the rate is 6% of the wages paid as from 1 January 2018 (the rate was 7% in 2017). It is 9% in France's overseas départements since 2016. The measure is to be abolished with effect from 1 January 2019 and is replaced by a reduction in the employer's health insurance contributions. The CICE is based on a company's gross wages up to 2.5 times the minimum wage. Wages over this amount do not count towards the tax credit, even for the portion within the cap. The minimum wage for determining this cap is calculated for one year based on statutory working hours. The CICE is determined on a calendar-year basis, regardless of the date or length of a company's financial year.

  The CICE is deducted from the income tax or corporation tax due by the business for the year in which the remuneration was paid. Any remaining non-deducted CICE is considered to be a (non-taxable) claim on the State that can be offset against taxes owed by the company for the subsequent three years following the year for which the claim was established. After this three-year period, it is refunded.
- In certain privileged 'priority zones', companies created to carry out new industrial, commercial or even, under certain conditions, non-commercial activities, are exempt from corporate income tax during the first two years of their operation. They are also exempt from tax on 75%, 50% and 25% of their profits for the next three years respectively. The exemptions also apply to local business taxes, reduced transfer taxes and accelerated depreciation. Various tax incentives are available to enterprises operating in Corsica, Overseas Departments and specified, disadvantaged urban and suburban zones.

OTHER

Deferred remunerations paid to directors or managers (such as golden parachutes) are deductible up to a maximum of EUR 119,196.

C. FOREIGN TAX RELIEF

Foreign tax paid on dividends, royalties and interest may be allowed as a credit against the French tax due from a French resident under a double tax treaty (or by way of deduction under domestic law when received from a non-treaty country).

D. CORPORATE GROUPS

Where a French company holds 95% or more of the shares of one or more French companies, the group may elect to be taxed as a single entity, i.e. the subsidiaries are treated as branches of the parent company and corporate tax is payable only by the parent company. Therefore, profits and losses of group companies may be offset. France's Amended Finance Act for 2014 extended the scope of the French tax consolidation regime to "horizontal" tax consolidated groups (i.e. tax consolidation between sister or cousin companies).

According to article 216 of the French Tax Code, for financial years commencing on or after 1 January 2016 1% of the value of intra-group dividend distributions is added back and taxed within a tax-consolidated group and for intra-group dividend distributions received from an EEA subsidiary that meets the conditions

required for a resident company to be included in the tax-consolidated group. As a result, intra-group dividend distributions benefit from a 99% participation exemption.

E. RELATED PARTY TRANSACTIONS

Pre-tax income indirectly transferred abroad either through an increase or decrease of purchase or sales price, or by any other means, to an enterprise established outside France which controls or is controlled by the French corporate taxpayer may be added back to taxable income by the Tax Authorities. Groups of companies may obtain an advance transfer pricing (APA) agreement from the French Ministry of Finance. Transfer pricing documentation for companies of a certain size must be made available to the tax authorities on request and from 2017 certain transfer pricing information must be provided each year.

F. WITHHOLDING TAX

Withholding tax must be deducted from dividends, interest and royalties paid to non-residents to the extent they are not franked. See section I below for more details.

G. EXCHANGE CONTROL

In principle, inbound non-resident investments in France are free of prior review and approval by the government unless they are in a sensitive economic sector where prior authorisation must be obtained from the French Treasury

H. PERSONAL TAX

Income tax is payable by French residents on non-exempt income derived from all sources (worldwide income subject to tax treaties). Non-residents are only required to pay tax on French-sourced income.

French law establishes three criteria, any one of which is sufficient to indicate that an individual is resident in France for tax purposes:

- Habitual residence of the person or family;
- Principal place of residence (more than 183 days in a calendar year);
- Professional activity or centre of economic interest.

Income tax is payable on assessable income less allowable deductions. Assessable income includes property income, industrial or commercial profits, certain directors' remuneration, agricultural profits, wages, salaries, pensions and life annuities, non-commercial profits and investment income. Allowable deductions include expenses incurred in performing the duties of an office of employment, interest on certain loans and pension contributions.

There are other deductions such as an allowance paid to members of the taxpayer's family and investment incentives. The family quota or coefficient system mitigates the effect of the progressive nature of the tax rate bands. A single person with no dependents has a coefficient of one and pays tax on his actual taxable income. By comparison, a married couple with two children has a coefficient of three and pays tax by dividing their income first by three, calculating an amount due as if they were single, and then multiplying the amount due by three (there are ceiling constraints to limit the benefit of this system).

The tax return is generally due by the latest at the end of May (year Y) (returns must for (taxpayers with a taxable revenue greater than EUR 15,000) now be filed online). The tax return relates to the income derived in the previous year (year Y-1) and the tax is paid in three instalments in year Y (15 February, 15 May and 15 September). The first two instalments are calculated simply as one-third of the tax paid in the previous year and the third represents the balance of the liability. Alternatively, the taxpayer can elect to pay his tax monthly. The following table gives the rates of tax for 2018 assessment of 2017 income:

Bracket of taxable income (EUR)	Rate (%)
0 – 9,807	0
9,807 to 27,086	14
27,086 to 72,617	30
72,617 to 153,783	41
Over 153,783	45

Those individuals earning the highest incomes are subject to an additional extraordinary contribution. This contribution is equal to 3% or 4% depending on the amount of the income. Interest paid on the mortgage for the purchase of the taxpayer’s principal residence can no longer be deducted from his taxable income.

From 1 January 2019 employers, pension providers etc will have to apply a withholding tax as and when salaries/pensions are paid such that income tax will be paid in year Y on the basis of the revenues of year Y (and no longer on the basis of the revenues of year Y-1). There are complex transition rules for revenues earned in 2018.

Capital Gains: Capital gains on any immovable property are exempt if the sales price does not exceed EUR 15,000 or the asset concerned is the taxpayer's principal residence (applicable to French tax residents).

The sale of a French situs property (or of shares in a deemed French real estate investment company) is subject to capital gains tax as follows:

- French resident: capital gain is taxed at a rate of 19% plus social contributions (17.2%). A decreasing scale applies if the property is held for more than 5 years. Capital gains are exempted from income tax if the property concerned has been held for at least 22 years and are totally exempted from income tax and social charges if the property concerned has been held for at least 30 years.
- European Union resident: the capital gain is taxed at a rate of 19% plus social contributions. The progressive exemption of capital gain applies.
- All other non-French residents: The capital gain is taxed at a rate of 19% plus social contributions (if the sale of the property is made by a non-French corporate structure, the taxable gain increases by 2% each year). The progressive exemption for capital gains applies. Social contributions may not be due. The rate increases to 75% if the seller is a resident of a non-cooperative state.

In addition, and if greater than EUR 50,000, the capital gain (with certain exceptions) is subject to an additional tax ranging from 2% to 6% (depending on the amount of the capital gain).

Wealth tax is assessed on individuals whose net wealth exceeds EUR 1,300,000 (threshold), the tax due is computed on the value of the real-estate assets held by the taxpayer on 1 January exceeding EUR 800,000. French residents are subject to wealth tax on worldwide real-estate assets, while the tax basis for non-residents is limited to real-estate assets situated in France. It is only possible to deduct debts that are related to taxable assets (there are special rules for non-repayment mortgages). The wealth tax return must be filed by 15 June. The tax is payable upon filing of the return. As from 2014, the tax rates range from 0.5% to 1.5%.

A cap system applies only to French residents: income tax and wealth tax cannot exceed 75% of the worldwide net income received by the taxpayer in the preceding year.

Inheritance tax is paid by the inheritors of the estate of a French resident or the French assets of a non-French resident. Since 1 January 1999, inheritance tax is also due by the French resident inheritors on all the estate of a non-French resident. The tax is due on all property transferred by will, by intestate succession or donation before death.

If the deceased is a French tax resident, all assets owned are subject to inheritance tax, whether the beneficiary is a French tax resident or not, and whether the assets are located in France or not.

But, if the deceased and the beneficiary were not French tax residents, only the assets located in France would be subject to French taxation (except in certain specific cases: art. 750ter of the FTC)

Transfers of assets held through a trust or earnings capitalized as such are subject to inheritance tax. A declaration giving a description and valuation of the assets received must be sent to the Administration within six months following the death. Certain tax free allowances are granted, the amount of which depends on the relationship with the deceased. The tax rates range from 5% to 60%.

I. STANDARD AUDIT FILE FOR TAX (FICHIER D'ÉCRITURES COMPTABLES)

All businesses subject to business taxes, e.g. corporate tax or VAT, must produce at tax audit a Standard Audit file for tax in a predetermined format (providing transaction level detail) as set down by the French tax authorities.

J. TREATY AND NON-TREATY WITHHOLDING TAX RATES

France has recently signed a number of supplemental clauses modifying some international tax treaties. Notably, these relate to the exchange of information.

	Dividends[2] (%)		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	0/15/30/75[1]	0	0/75[12]	0/33.33/75[13]
Individuals	21/30/75	n/a	0/75	15/33.33/75
Treaty countries:				
Albania	15	5[6]	10	5
Algeria	15	5[3]	0/10	5/10
Andorra	–/15	–/5[3]	0/5	0/5
Argentina	15	15	20	18
Armenia	15	5[3]	10	5/10
Australia	15	0/5[3]	0/10	5
Austria	15	03	0	0
Azerbaijan	10	10	10	5/10
Bahrain	0	0	0	0
Bangladesh	15	10[3]	10	10
Belarus9	15	15	0/10	0
Belgium	15	10[3]	15	0
Benin	–[8]	–[8]	–[8]	0/–
Bolivia	15	15[3]	15	15
Bosnia and Herzegovina[10]	15	5	0	0
Botswana	12	56	10	10
Brazil	15	15	10/15	10/15/25
Bulgaria	15	5[4]	0	5
Burkina Faso	–[8]	–[8]	–[8]	–/0
Cameroon	15	15	0/15	0/7.5/15
Canada	15	5[3]	0/10	0/10
Central African Republic	–[8]	–[8]	–[8]	0
Chile	15	15	5/10/15	5/10
China	10	5	10	10
Congo (Rep.)	20	15[3]	0	15
Croatia	15	0[3]	0	0
Cyprus	15	10[3]	0/10	0/5
Czech Republic	10	0[6]	0	0/5/10
Ecuador	15	15	10/15	15
Egypt	0	0	15	15

Estonia	15	5[3]	0/10	0/5/10
Ethiopia	10	10	5	7.5
Finland	0	0	0/10	0
French Polynesia	–[8]	–[8]	0	–[8]
Gabon	15	15	0/10	0/10
Georgia	10	0/5	0	0
Germany	15	0[3]	0	0
Ghana	15	5[3]	10	10
Greece	–[8]	–[8]	0/12	5
Guinea	15	15	0/10	0/10
Hong Kong	10	10	10	10
Hungary	15	5[6]	0	0
Iceland	15	5[3]	0	0
India	10/15	10/15[3]	10/15	10/20
Indonesia	15	10[6]	10/15	10
Iran	20	15[6]	15	0/10
Ireland	15	10[7]	0	0
Israel	15	5[3]	5/10	0/10
Italy	15	5[3]	0/10	0/5
Ivory Coast	15	15	0/15	10/–
Jamaica	15	10[3]	10	10
Japan	10	0/5[4]	0/10	0
Jordan	15	5[3]	0/15	5/15/25
Kazakhstan	10/15	5[3]	0/10	10
Kenya	10	10	12	10
Korea (Rep.)	15	10[3]	0/10	10
Kosovo[10]	15	5	0	0
Kuwait	0	0	0	0
Latvia	15	5[3]	5/10	0/5/10
Lebanon	0	0	0	–
Libya	10	5[3]	0	0/10
Lithuania	15	5[3]	10	5/10
Luxembourg	15	5[6]	0	–
Macedonia (FYR)	15	0[3]	0	0
Madagascar	25	15[6]	15	10/15
Malawi[11]	–[8]	10[7]	–	0/–
Malaysia	15	5[3]	15	10/–
Mali	–[8]	–[8]	–[8]	–/0

Malta	15	5[3]	10	0/10
Mauritania	–[8]	–[8]	–[8]	–/0
Mauritius	15	5[3]	–[8]	0/15
Mexico	15	0/5[3]	0/5/10/15	0/10/15
Moldova[9]	15	15	10	0
Monaco	–[8]	–[8]	–[8]	–[8]
Mongolia	15	5[3]	10	0/5
Montenegro[10]	15	5	0	0
Morocco	0/15	0/15	10/15	–/5/10
Namibia	15	5[3]	10	0/10
Netherlands	15	5[6]	10	0
New Caledonia	5/15	5	0	0/10
New Zealand	15	15	10	10
Niger	–[8]	–[8]	–[8]/0	–/0
Nigeria	15	12.5[3]	12.5	12.5
Norway	15	0[3]	0	0
Oman	0	0	0	7
Pakistan	15	10[3]	10	10
Panama	15	5[3]	5	5
Philippines	15	10[3]	0/15	15
Poland	15	5[3]	0	0/10
Portugal	15	15	12	5
Qatar	0	0	0	0
Quebec (Canada)	15	5[3]	0/10	0/10
Romania	10	10	10	10
Russia	15	5/10	0	0
Saudi Arabia	0	0	0	0
Senegal	15	15	0/15	–/0/15
Serbia[10]	15	5	0	0
Singapore	15	5[3]	0/10	0
Slovak Republic	10	10	0	0/5
Slovenia	15	0[6]	0/5	0/5
South Africa	15	5[3]	0	0
Spain	15	0[3]	0/10	0/5
Sri Lanka	–[8]	–[8]	10	0/10
St. Martin	15	0	0/10	0
St. Pierre and Miquelon	5/15	5	0	0/10
Sweden	15	0[3]	0	0

Switzerland	15	0[3]	0	5
Syria	15	0[3]	0/10	15
Taiwan	10	10	0/10	10
Thailand	–[8]	15/20[6]	3/10/–	0/5/15
Togo	–[8]	–[8]	–[8]	–/0
Trinidad and Tobago	15	10[3]	10	0/10
Tunisia	–[8]	–[8]	12	–/0/5/15/20
Turkey	20	15[3]	15	10
Turkmenistan9	15	15	10	0
Ukraine	15	0/5[3]	0/2/10	0/10
United Arab Emirates	0	0	0	0
United Kingdom	15	03	0	0
United States	15	0/5[3]	0	0
Uzbekistan	8/10	5[3]	0/5	0
Venezuela	15	03	0/5	5
Vietnam	15	5[3]	0	5/10
Zambia11	–[8]	10[7]	–[8]	0
Zimbabwe	15	10[6]	10	10

Notes to the tables above:

1. Unless a tax treaty provides for a lower rate, gross dividends distributed to non-resident corporate shareholders are subject to a final withholding tax of 30% (articles 119bis and 187 of the CGI). The 30% rate is reduced to 15% for dividends distributed by French companies to non-profit organizations (e.g. pension funds) resident in another EEA country (articles 187 and 219bis of the CGI). Dividends distributed by a resident company to a company resident in an NCST (Non-cooperative states or territories) are subject to a 75% final withholding tax, unless the distributing company proves that the distribution made to a resident of an NCST neither seeks nor allows abusive profit shifting to the NCST.
2. Under article 119ter of the CGI implementing the provisions of the (EU) Parent-Subsidiary Directive (2011/96), no withholding tax is levied on dividends paid by a French company to a qualifying parent company resident in the European Economic Area (EEA). The exemption also applies to dividends paid to a permanent establishment located in France with a qualifying EEA parent company. The exemption applies if:
   i. the parent company is the beneficial owner of the dividends;
   ii. the parent company has its place of effective management in an EEA state with which France concluded a tax treaty containing an administrative assistance clause, and is not deemed to be domiciled outside the EEA pursuant to a tax treaty concluded with a non-EEA state;
   iii. the parent company has one of the legal forms listed in the Directive, or a comparable form if its place of effective management is located in an EEA state;
   iv. the parent company holds directly at least 10% of the full or bare ownership of the share capital of the French subsidiary for an uninterrupted period of at least 2 years (or commits to hold the shares for at least 2 years). The 10% participation threshold is reduced to 5% if the parent company holds shares that fulfil the conditions provided for in the French participation exemption rules, and is unable to make use of a tax credit for French withholding tax in its country of residence; and
   v. the parent company is subject to corporate income tax in the EEA state where its place of effective management is located, with no possibility to opt for such tax and without being exempt from it.
3. A 10% shareholding is required.

4. A 15% shareholding is required.
5. A 20% shareholding is required.
6. A 25% shareholding is required.
7. A 50% shareholding is required.
8. No reduction under the treaty. The domestic rate applies.
9. Treaty concluded between France and the former USSR.
10. Treaty concluded between France and the former Yugoslavia.
11. Extension of the 1950 treaty with the United Kingdom.
12. Generally, no withholding tax is levied on interest paid to non-resident companies. Only interest paid to a company located in an NCST (Non-cooperative states or territories) is subject to a final 75% withholding tax, unless the taxpayer proves that the payments are not motivated by tax avoidance.
13. Gross royalties are subject to a 33.33% withholding tax unless a tax treaty provides for a lower rate (article 182 B of the CGI). This withholding tax is not final as it is credited against the corporate income tax assessed under the general rules. Under article 182 B bis of the CGI implementing the provisions of the EU Interest and Royalties Directive (2003/49), outbound royalty payments are exempt from withholding tax, provided that the beneficial owner is an associated company of the paying company and is resident in another Member State or such a company's permanent establishment is situated in another Member State. Royalties paid to a company resident in an NCST (Non-cooperative states or territories) are subject to a 75% final withholding tax, unless the taxpayer proves that the payments are not motivated by tax avoidance.

GAMBIA

MEMBER FIRM

City	Name	Contact Information
Banjul	Donald C Kaye	+220 441 4419 donald.kaye@pkf.gm

BASIC FACTS

Full name:	The Republic of the Gambia
Capital:	Banjul
Main languages:	English
Population:	2.15 million (2018 estimate)
Monetary unit:	Gambian Dalasi (GMD)
Internet domain:	.gm
Int. dialling code:	+220

KEY TAX POINTS

- Corporation tax is payable based on the higher of 27% of chargeable profits or 1% and 2% of turnover for audited and unaudited accounts respectively.
- Value Added Tax (VAT) at a standard rate of 15% is payable on taxable supplies made in the Gambia, taxable imports of goods and on taxable supplies of imported services.
- Withholding tax applies in relation to retention of the services of a contractor or subcontractor, a company or partnership paying dividend to a resident individual, and interest paid to resident companies.

A. TAXES PAYABLE

COMPANY TAX

Corporation tax is payable based on the higher of 27% (2017: 30%) of chargeable profit or 1 % (2017: 1.5%) of total revenue for the tax year. This implies that even if a company has an adjusted tax loss figure for any

particular year, it will still be liable to tax. Note that if for any reason a company is not audited, tax on its total revenue will be 2% (2017: 2.5%) and not 1% (2017: 1.5%).

Income tax is payable in quarterly instalments, i.e. the three month period ending on the last day of the third, sixth, ninth and twelfth month of the tax year. This instalment is based on 1.5% of total revenue for a company with audited accounts or 2.5% for a company without audited accounts and is due by the 15th of the following month, failing which a penalty equal to 5% of the unpaid tax per month can be applied. Advance payments during the tax year are credited against income tax assessed.

Corporate Income Tax Return form is mandatory for all taxable entities and is expected to be submitted by 31 March of the year following that to which it relates. The form is used to determine annual tax liability.

CAPITAL GAINS TAX (CGT)

CGT is payable on the disposal of a capital asset. In the case of a partnership, company or trustee, tax is paid on the greater of:

- 25% of the capital gain arising on disposal or;
- 10% of the consideration received for the disposal.

In the case of an individual, body of persons or trustee of a deceased estate:

- 15% of the capital gain arising on percentage of the disposal or;
- 5% of the consideration received on disposal.

Capital gains tax is exempt on the disposal of agricultural land, private residence and if the gain does not exceed GMD 7,500.

BRANCH PROFITS TAX

A branch's profit is taxed at the higher of 27% (2017: 30%) on chargeable profit or 1% of total revenue as the branch is considered a permanent establishment meaning a resident company. There is no branch remittance tax in the Gambia.

VALUE ADDED TAX (VAT)

Value Added Tax (VAT) is payable on:

(a) a taxable supply made in The Gambia;

(b) a taxable import of goods;

(c) a taxable supply of imported services.

Registration requirements

- A person is required to register for VAT at the end of any 12-month or shorter period if, during the period, the total value of supplies of goods or services made by the person equals or exceeds GMD 1 million.
- A person is required to register for VAT at the beginning of any 12-month period if there are reasonable grounds to expect that the total value of supplies of goods or services to be made by the person during that period will equal or exceed GMD 1 million.
- A person who is not required to register for VAT is permitted to register within six months of the end of a 12–month or shorter period in which the total value of supplies made by the person exceeded GMD 500,000.

VAT is payable on a taxable supply of goods made in the Gambia. In the case of certain taxable supplies of goods the rate is 0% and in any other case, the rate is 15%. A registered person shall provide a VAT return for each tax period within 15 days after the end of the period, whether or not tax is payable for the tax period.

AIR TRANSPORT TAX

Air Transport Tax is applicable to all Airlines and Travel Agencies and came into effect on 1 January 2014. All air ticket sales for flights originating from the Gambia attract a 15% Air Transport Tax. The tax is due on or before the 15th of the following month. A standard form for submission is prescribed by GRA.

FRINGE BENEFITS TAX

Fringe benefits are specific and direct payments of expenditure for and on behalf of an employee, in addition to his /her salary. The tax levied is at a rate of 35% on the grossed-up taxable value of each benefit provided and is payable by the organisation that provides the benefit to the employee. The total amount of fringe benefits plus tax thereon is an allowable deduction for corporate income tax calculation purposes.

LOCAL TAXES

NATIONAL EDUCATIONAL LEVY

The threshold for eligibility for payment of the National Education Levy is GMD 1 million. The applicable levy rate is 0.75% of annual business revenue subject to a maximum amount of GMD 100,000. Businesses with annual business revenue of less than GMD 1 million are not liable to pay National Education and Technical Training Levy and business with annual business revenue in excess of D1,000,000 pay between GMD 7,500 and GMD 100,000. The information used to determine how much is payable is the previous year's audited financial statements.

EXPATRIATE TAX

An annual payment of GMD 40,000 is payable for each employee with citizenship from any country outside the West African region but for employees from West Africa the rate is set at GMD 10,000.

BUSINESS REGISTRATION

An annual payment of GMD 1,000 should be made by all businesses at the start of the year.

STAMP DUTY

The duty is levied on juristic acts resulting in a flow of wealth between the parties involved. Thus, stamp tax is applicable inter alia to acts whereby transactions on Real Estate or financial obligations are documented. Rates vary according to the type of transaction involved.

CUSTOMS AND EXCISE DUTIES

Are applied on the importation or exportation of certain goods.

OTHER TAXES – RESIDENTIAL RENT TAX

Tax is imposed for each tax year on a person who has a taxable rental amount at a rate of 10% per annum.

B. DETERMINATION OF TAXABLE INCOME

The calculation of taxable income is arrived at by adjusting the accounting profits/losses for non-taxed income and disallowed expenses.

CAPITAL ALLOWANCES

The following annual rates are applied against the written down value of assets:

Annual allowance:	Rate
Building	5%
Motor Vehicle	40%
Plant and machinery	20%
Plant and machinery used in manufacturing, mining	30%
Office furniture and equipment	20%

Initial Allowance

Initial allowance is applied at 20% of the cost of the asset or 10% for buildings, structures or works of a permanent nature. Initial and annual allowance cannot be granted on the same asset in the same year. Therefore, annual allowance is not granted in the year a fixed asset is first put to use, only initial allowance is granted.

Intangible assets

An amortization deduction is allowed. The deduction is computed by using the cost of the asset divided by the useful life of the intangible asset in whole years.

DEPRECIATION

No deduction is allowed in the tax computation but rather capital allowances are allowed.

STOCK / INVENTORY

A deduction is allowed for the cost of stock in trade disposed of in a tax year in deriving the chargeable income.

CAPITAL GAINS AND LOSSES

If the consideration received exceeds the written down value of the asset, the excess is business income which has to be included in the person's income for that year and, if less, the difference is allowed as a deduction when computing the chargeable income for the year.

DIVIDENDS

Withholding tax on dividends is at a rate of 15%.

INTEREST DEDUCTIONS

A deduction is allowed for any interest incurred in a tax year if the company used the proceeds or benefit of the debt on which the interest is payable. The interest not deducted can be carried forward for a period of six years.

LOSSES

If a company has a business loss for the year, that amount is carried forward to the following year and allowed as a deduction in computing the chargeable income for that year. Losses can only be carried forward for six years after the tax year in which the loss is incurred.

FOREIGN SOURCE INCOME

A foreign sourced income received by a resident company is exempt from income tax. If foreign income tax has been paid, a tax credit is allowed.

INCENTIVES

Expenditure on certain pre-commencement expenditure qualifies for accelerated deductions. A deduction is allowed in the tax year in which the expenditure is incurred and in the following three years at a rate of 25% each year. Granting of investment incentives and tax exemptions can only be obtained from the Gambia Investment and Export Promotion Agency (GIEPA).

BAD DEBTS

A deduction is allowed for a debt written off if certain conditions are met.

LOSS RESERVE OF BANKS

A bank is allowed a deduction for the addition to its provision for doubtful debts in a tax year provided the addition has been determined in accordance with the prudential requirements specified by the Central Bank of The Gambia. The amount allowed as a deduction for a tax year shall not exceed 0.5% of the total outstanding debt claims of the bank as at the end of the tax year.

C. FOREIGN TAX RELIEF

The Government of The Gambia has a double tax treaty with Norway, Sweden, Switzerland, Taiwan and the United Kingdom. If a resident person has a foreign tax loss for a tax year, the amount of the loss can be carried forward to the following tax year and allowed as a deduction against the person's foreign-sourced business income. The loss can be carried forward for a period of six years.

D. CORPORATE GROUPS

Tax on certain payments to non-resident persons does not apply if the conditions below are met:

(i) If the holding giving rise to the dividend is connected with a permanent establishment in The Gambia of a non-resident company;

(ii) Any interest if the debt claim giving rise to the interest is connected with a permanent establishment in The Gambia of a non-resident company;

(iii) Any royalty if the property or right giving rise to the royalty is effectively connected with a permanent establishment in The Gambia of a non-resident company;

(iv) Any technical service fee if the services giving rise to the fee are rendered through a permanent establishment in The Gambia of a non-resident company.

E. WITHHOLDING TAX

A person who retains the services of a contractor or subcontractor to carry out work or supply labour or materials for the carrying out of work shall withhold tax at the rate of 10% of the gross fees.

A company or partnership paying dividend to a resident individual shall withhold tax at the rate of 15%.

A 15% withholding tax shall be withheld on interest paid to resident companies but it does not apply to interest paid to financial institutions.

F. EXCHANGE CONTROL

There are no exchange controls in place.

G. PERSONAL TAX

On 11 April 2018, in accordance with the Budget for 2018 the Gambia Revenue Authority published the revised personal income tax rates and bands which are applicable for the 2018 tax year:

Income Range Per Annum	Tax Rate
GMD 0 to GMD 24,000	0%
GMD 24,001 to GMD 34,000	5%
GMD 34,001 to GMD 44,000	10%
GMD 44,001 to GMD 54,000	15%
GMD 54,001 to GMD 64,000	20%
Above GMD 64,000	30%

H. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)		Interest (%)	Royalties (%)
	Individuals, companies	Qualifying companies		
Non-treaty countries				
Companies	15	15	15	15
Individuals	15	--	15	15
Treaty countries:				
Norway	15	5[1]	15	12.5
Sweden	15	5[2]	5/15[3]	5/12.5[4]
Switzerland	--	--	--	--
Taiwan	10	10	10	10
United Kingdom	15	15	15	12.5

NOTES:

1. The 5% rate applies if the beneficial owner is a company which holds directly at least 25% of the capital of the paying company.
2. The 5% rate applies if the beneficial owner is a company (other than a partnership) which owns at least 15% of the voting stock of the paying company.
3. The 5% rate applies to interest paid with respect to indebtedness arising on the sale on credit, by an enterprise of a Contracting State, of any merchandise or industrial, commercial or scientific equipment to an enterprise of the other Contracting State, except where the sale or indebtedness is between related persons. The 15% rate applies in all other cases.
4. The 5% rate applies to royalties paid with respect to any patent, secret formula or process, or for information concerning industrial, commercial or scientific experience. The 12.5% rate applies in all other cases.

GEORGIA

MEMBER FIRM

City	Name	Contact Information
Tbilisi	David Gvetadze	+995 32 2 24 30 30 (office) +995 59 9 50 19 75 (mobile) david.gvetadze@pkfgeorgia.com

BASIC FACTS

Full name:	Georgia
Capital:	Tbilisi
Main languages:	Georgian
Population:	3.91 million (2018 estimate)
Monetary units:	Georgian Lari (GEL)
Internet domain:	.ge
Int. dialling code:	+995

KEY TAX POINTS

- There are six main taxes in Georgia: Personal Income Tax (PIT); Corporate Income Tax (CIT); Value Added Tax (VAT); Import Duty; Excise Duty and Property Tax.
- Companies incorporated and tax resident in Georgia (tax residents) are subject to tax on their worldwide income, whereas companies incorporated overseas are normally treated as non-resident tax residents and taxable on Georgian-sourced income only or income arising from business activities carried on through a permanent establishment in Georgia.
- Georgian and foreign enterprises are subject to Corporate Income Tax on their taxable profits at a flat tax rate of 15% of net taxable income. Companies must file individual tax returns and report their taxes separately. Consolidated tax returns are not permitted.
- Value Added Tax (VAT) applies to a vatable supply of goods or services in Georgia and is chargeable on the customs value of goods imported. The standard VAT rate is 18%.
- Property tax is a local tax administered by local self-government bodies (up to a maximum limit specified within the Tax Code) and comprises land tax and property tax of individuals and enterprises.
- Individuals resident in Georgia are subject to personal income tax (PIT) on their worldwide income, whereas non-residents are subject to PIT on Georgian-sourced income only, subject to double tax treaty relief. Unless other rates apply (for example, for interest and dividends), the income of an individual is taxed at the flat rate of 20%.

A. TAXES PAYABLE

The principal source of tax law in Georgia is the Tax Code, with the new Tax Code being adopted by the Parliament of Georgia and effective from 1 January 2011. Tax concessions and exemptions are granted through amendments to the Tax Code. There are six main taxes in Georgia:

- Personal Income Tax (PIT) – a nationwide tax;
- Corporate Income Tax (CIT) – a nationwide tax;
- Value Added Tax (VAT) – a nationwide tax;
- Import Duty – a nationwide tax;
- Excise Tax – a nationwide tax; and,
- Property Tax – a local tax.

COMPANY TAX (old regime)

Companies incorporated and tax resident in Georgia (tax residents) are subject to tax on their worldwide income, whereas companies incorporated overseas are normally treated as non-resident tax residents and taxable on Georgian-sourced income only or income arising from business activities carried on through a permanent establishment in Georgia. Georgian and foreign enterprises are subject to Profit Tax on their taxable profits and the following types of income are treated as received from Georgian sources:

- Income earned from employment in Georgia;
- Income or benefit earned from the supply of goods within the territory of Georgia;
- Income earned from the delivery of services in Georgia;
- Dividend income from a resident entity;
- Royalty income received from a resident entity;
- Interest income on debt obligations issued by a permanent establishment of a foreign company or resident entity;
- Income from immovable property, i.e. arising from the sale of immovable property located in Georgia;
- Some other types of income.

The profit of a Georgian enterprise, which represents all taxable income from its economic activities less allowable deductions, is taxed at a flat rate of 15%. A foreign enterprise carrying on economic activities through a permanent establishment in Georgia is also subject to profit tax at a flat tax rate of 15% on its net taxable income (gross income received from Georgian sources which relate to the activities performed by its permanent establishment less any deductions allowable under the Tax Code). The tax period for corporate income tax is a calendar year. Annual profit tax returns must be submitted to the tax authority by 31 March each year.

COMPANY TAX (new regime)

A new system of corporate income taxation was introduced in Georgia in 2016, which has become effective as of 1 January 2017. This new system has radically reformed the existing classical corporate income tax system. The core idea behind this reform is to exempt undistributed profits (reinvested or retained profits) from corporate income tax and to only tax profit distributions (including 'deemed' profit distributions), i.e. the so-called 'Estonian model'. Corporate income tax is payable at the time of profit distribution only.

According to the amendments made to the Georgian Tax Code (hereinafter the TCG), entrepreneurial entities including PEs (except for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops, as well as organizations) have been transferred to the new income tax model. According to the new model of profit tax, the tax is calculated by dividing the object of taxation by 0.85 and then multiplying it by 15%. This model is intended to stimulate reinvestments as businesses will have an incentive to retain their earnings and reinvest in growth upgrading their facilities and increasing their competitiveness.

According to the new model the following items are to be taxed:

1. Distribution of profit (profit, which can be distributed by the enterprise as a dividend to its partner(s), in cash or non-cash form);
2. Taxation of distortions (difference between the cost and market price of the transaction with a related party (who is not subject to profit tax according to the new regime) or the person exempted from income tax/profit tax (except for a budget organisation, the Legal Entity under Public Law – the Deposit Insurance Agency and the National Bank of Georgia) and the carrying out of a controlled operation if the conditions set out in this operation do not meet the market principle);
3. Costs incurred or other payments that are not related to economic activity, e.g.:
   - Expense which is not documented, if this obligation is established in accordance with the TCG;
   - Costs of reimbursement that are not intended for profit, income or compensation;
   - Costs for goods/services purchased from a natural person with a micro business/fixed taxpayer status;
4. Temporary taxation of some kind, e.g. a loan to a natural person or a non-resident, a person registered in a country with a preferential taxation, as well as a payment to a person exempted from profit tax in accordance with the TCG, etc.;
5. Delivery of goods/services and/or transfer of cash to gratuitous goods supplied free of charge or rendering of services which is not intended for profit, income or compensation;
6. Costs above limit:

- Interest paid with respect to a credit (loan) above the annual interest rate set by the Minister of Finance;
- A donation to a charitable organization that does not exceed 10% of the net profit earned during the previous calendar year;
- Representative expenses incurred during the calendar year above the limit. The marginal amount is 1% of the revenue received during the previous calendar year and 1% of the cost incurred if the expenditure exceeds the received income.

These amendments have resulted in the abolition of the deferred tax concept. Because the profit tax rate is calculated based on the outcome of the financial statements, temporary differences are no longer the basis for accounting for deferred taxes.

Also, if a resident enterprise distributes a dividend from a net profit gained during the reporting periods from 1 January 2008 to 1 January 2017, it may offset the amount of profit tax assessed and paid based on the reporting periods.

Until 1 January 2019, the object of profit taxation for commercial banks, credit unions, insurance organisations, microfinance organisations and pawnshops is the difference between the gross income gained during a calendar year and deductible amounts under the TCG (according to the announced amendment, it is planned to transfer the deadline up to the year 2023).

BRANCH PROFITS TAX

Corporate tax is levied at a rate of 15% on profits derived through and distributed from a permanent establishment. There is no branch remittance tax in Georgia.

CAPITAL GAINS TAX

There is no separate capital gains tax legislation in Georgia. Capital gains are subject to regular income tax when they are realized. Unrealized capital gains are not subject to taxation.

VALUE ADDED TAX

VAT applies to a vatable supply of goods or services in Georgia and chargeable on the Customs value of goods imported (as set by the Customs legislation of Georgia). Advances received by a supplier of goods/services will also be subject to VAT within the limits of such supply operations. Advances will be taxable when:

- It is possible to identify the delivered goods/services;
- It is possible to identify the quantity and volume of delivered goods/services;
- It is possible to identify the cost of delivered goods/services;
- It is possible to identify whether the delivered goods/services are exempt from VAT or are the subject of taxation.

This will not be applicable to cases when goods are supplied regularly or continuously (firm capacity, electric or heat energy, gas or water) and also not when services are delivered regularly or continuously.

The standard VAT rate is 18%, which is applied to most goods/services. Certain transactions however are exempt from taxation. There are two types of exempted transactions:

- Transactions exempted with the right of deduction (zero-rated), e.g. where the export of goods is exempted but VAT input rights remain; and
- Transactions exempted without the right of deduction, e.g. where the import of certain medicines, machinery, mass media and baby products are exempted without input VAT rights.

VAT returns should be submitted to the tax authorities by the 15th day of the following month.

LOCAL TAXES

Property tax is a local tax administered by local self-government bodies (up to a maximum limit specified within the Tax Code) and comprises land tax and property tax of individuals and enterprises.

PROPERTY TAX (PHYSICAL PERSON)

The property tax rate applying to an individual depends on the amount of his annual income, regardless of their tax residency status, from sources in and outside Georgia. The tax is levied on:

- Real estate (including an unfinished construction, building or structure, or a part thereof), yachts (cutters), helicopters, airplanes, and motor cars specified under Code 8703 (National Commodity Nomenclature of Foreign Economic Activities) that are owned by him;

- Fixed assets used for economic activities, immovable property (building or a part thereof) and construction in progress (it does not apply to land);
- Property received from a non-resident under a lease agreement.

The property tax rate ranges from 0.05% to 0.2% of the fair market value of the property that is located in Georgia if the individual's family worldwide income is between GEL 40,000 and GEL 100,000 during the reporting calendar year. However, if the individual's family worldwide annual income exceeds GEL 100,000, the tax rate is between 0.8% and 1%. A tax return must be submitted by the individual before 1st November following the reporting calendar (tax) year and tax must be paid to the tax authority by 15th November.

Income of a non-resident natural person being a citizen of Georgia shall be determined as per the income received from Georgia-based sources.

PROPERTY TAX (GEORGIAN ENTERPRISES)

Georgian enterprises and foreign enterprises engaged in economic activity in Georgia through permanent establishments and organizations whose property or part of property is used for economic activity may be subject to property tax. For Georgian enterprises as for foreign enterprises, property tax is imposed only on property located in Georgia.

Unless specifically exempted, property tax applies at a flat rate of 1% of the average annual net book value of fixed assets, uninstalled equipment and construction in progress (or similar property of an enterprise utilised for economic activity) listed on its balance sheet.

LAND TAX

Physical and legal persons are subject to land tax if they possess land plots or use state owned areas, including land used for agricultural and non-agricultural purposes as of 1 April of the tax year. The land tax depends on where the land is located and its quality. It is not based on the taxpayer's economic position.

The base maximum annual rate for non-agricultural land is GEL 0.24 per one square meter and the tax is calculated by multiplying the annual base tax rate by the territorial coefficient, however, a territorial coefficient shall not exceed 1.5.

The annual basic property tax rates on agricultural land and forest land are differentiated according to administrative-territorial units and land categories for 1 ha, in GEL and the tax is calculated by multiplying the annual basic tax rate by the territorial coefficient, which is determined by a decision of the representative body of local self-government. However, such rate shall not exceed 150% of the annual basic rate.

A (physical) person is required to submit an annual tax return by 1st November each year. A legal entity is required to submit an annual tax return by 1st April each year.

OTHER TAXES– CUSTOMS DUTIES

The taxation of the import and export of goods is regulated by the Tax Code. Customs duties include VAT, Import Duty and Excise Duty.

According to the TCG, the export of goods from the territory of Georgia is exempt from VAT and excise tax, with VAT and excise input deduction rights.

IMPORT DUTY

Depending on the type of goods being imported, customs tax can be applied at a rate of 0%, 5% or 12%.

EXCISE DUTY

Excise Duty applies to certain goods such as alcoholic beverages, tobacco products, oil and gas, cars and for termination services for international calls received from a resident or a non-resident person in a mobile or fixed network). Excise tax rates are fixed per physical unit of excisable good (1 cigarette, pcs, litre, cm3, m3, kilogram, tonne, ml etc.) and can vary from product to product.

B. DETERMINATION OF TAXABLE INCOME

FOR ENTERPRISES WHICH HAVE NOT YET MOVED TO THE NEW INCOME TAX MODEL

Generally, expenses connected with earning gross income can be deducted to arrive at the net taxable income. Therefore, expenses not connected with the economic activities of an entity such as personal expenses and entertainment expenses are not deductible (unless entertainment is considered to be the taxpayer's economic activity).

Any limitations or restrictions relating to certain expenses or deductions which otherwise would be deductible in full, are provided within the Tax Code. Restrictions, conditions and limitations can apply e.g. to the deduction of interest, doubtful debts, repairs, insurance payments and reserve funds, scientific research expenses, depreciation of fixed and intangible assets.

CAPITAL ALLOWANCES

The general rules for the operation and deduction of tax depreciation are provided within the Tax Code and they provide a taxpayer with the option to either deduct tax depreciation on fixed assets over a period of time or deduct 100% of the purchase (production) cost of the asset immediately. Whatever option is selected by a taxpayer, it should be consistently followed for the following five years and applied to all purchased, produced or leased fixed assets.

Tax depreciation allowances can generally be claimed for all capital assets, including fixed and intangible property, except for land, art (such as paintings, jewellery and antiques), historical objects (except for buildings), biological assets, museum items, and any other assets that are not subject to wear and tear. Fixed assets costing below GEL 1,000 are not subject to tax depreciation but can be deducted in full against the gross income of the accounting year of purchase or production.

Fixed assets are categorised into five groups and the rate of tax depreciation applying to each group is shown below. Please note that tax depreciation is charged individually on buildings and structures as each building or structure is effectively considered as a separate group.

Group	Types of Fixed Assets	Rate (%)
1	Motor cars; motor-and-tractor equipment for the use on roads; office furniture, movable parts of motor transport; trucks, buses, special motor vehicles and trailers; machinery and equipment for all sectors of industry and the foundry industry; black smith and pressing equipment; construction equipment; agricultural vehicles and equipment.	20
2	Special tools, stock and equipment; computers, peripheral devices and equipment for data processing; electronic devices.	20
3	Railway, maritime and river transport vehicles; power vehicles and equipment; thermos-technical equipment turbine-powered equipment; electric engines and diesel generators; electricity transmission and communication facilities; pipelines.	8
4	Building and structures.	5
5	Assets subject to depreciation not included in other groups.	15

The expenses of an intangible asset can be written off for depreciation (amortization) over their limited useful life and recorded as a separate group for this purpose. If it is not possible to determine the useful life of an intangible asset it should be depreciated at the rate of 15%.

DIVIDENDS

Dividends paid to resident companies are not subject to withholding tax and are not included within the taxable income of the recipient resident company. Dividends paid to resident and non-resident individuals, organisations and non-resident companies are subject to withholding tax. Where a resident natural person/ non-entrepreneurial (non-commercial) legal entity receives dividends that have been taxed at source, they will not be subject to further taxation and will therefore be excluded from the taxable income of the recipient. Dividends earned from the shares/interest of an international financial company, from a FIZ Enterprise in a Free Industrial Zone or an agricultural cooperative (until 1 January 2023) are not subject to withholding tax and are not included in the taxable income of the recipient. Also, dividends paid to the State by a resident enterprise shall not be taxed at the source.

INTEREST DEDUCTIONS

Where a taxpayer incurs interest in the course of its business activities it is generally deductible subject to certain limitations. Where the interest paid and/or payable (using the accruals method) does not exceed 24% of the credit (loan) per annum, it is deductible. Please note that thin capitalisation rules are expected to come into force on 1 January 2018 and it is expected that a debt-to-equity ratio of 3:1 will be applied (5:1 for a leasing company). It is also expected that certain entities will be outside the scope of these rules, such as financial institutions and entities with gross income below GEL 200,000 as well as certain others.

LOSSES

Georgian legal entities can carry forward tax losses and offset them against future taxable profits arising in the following five years. Where the statute of limitation is increased from 5 to 11 years a taxpayer can elect a 10-year loss carry forward period. Losses cannot be carried back. However, the carry forward of losses is not permitted for an international financial company, a special trade company or a free-zone industrial company.

The statute of limitation for assessing taxes on a taxpayer and for submitting a notice of assessment to the taxpayer shall be three years (effective from 2017), unless otherwise provided for by the Tax Code.

C. FOREIGN TAX RELIEF

Where income from a foreign source has been subject to overseas tax a credit for the overseas tax paid is available that is the lower of:

i. The amount of the foreign tax paid; and,

ii. The amount of Georgian corporate income tax levied on the foreign income.

Therefore, the maximum relief available is only up to the amount of the tax that would be payable on the foreign income in Georgia. In order to support the foreign tax relief claim, supporting evidence of the overseas tax paid should be made available to the Georgian Tax Authority.

D. CORPORATE GROUPS

Companies must file individual tax returns and report their taxes separately. Consolidated tax returns are not permitted. Branches and other units of Georgian companies do not file separate returns or pay CIT independently. They consolidate their taxable profit (or loss) within the main company, which pays corporate income tax on the total taxable profit.

E. RELATED PARTY TRANSACTIONS

Comprehensive transfer pricing rules are contained within the Georgian tax legislation and specific provisions exist in the Tax Code that are aimed at regulating the taxation of transactions between related parties (where a Georgian enterprise performs one or more financial or commercial transactions with a related enterprise, which is not a Georgian enterprise). Georgian transfer pricing rules generally follow OECD transfer pricing principles and five pricing methods are recognised by the tax authority, namely, the comparable uncontrolled price, cost plus, resale price, profit split and net profit margin methods.

Income and expenses may be allocated between related parties by the tax authorities to reflect a third-party arm's length position with the principle of fair market value also being taken into account. Where possible, the tax authority will compare the cost of related party transactions with the cost of similar transactions between unrelated parties. A taxpayer is obligated to maintain supporting records to evidence that its related party transactions were conducted on a third-party arm's-length basis and the documentation should be made available to the tax authority, if requested, within 30 calendar days.

Principles of market price are used for internal transactions carried out between related parties, except where the existence of related parties does not affect the result of such a transaction.

F. WITHHOLDING TAX

Foreign companies which do not conduct economic activities through a permanent establishment in Georgia are subject to withholding tax on the Georgian-sourced gross income. The tax is withheld by the payer at source and no deductions from the gross income are permitted. However, non-resident taxpayers who receive certain types of income can be treated as if the income is connected to a permanent establishment in Georgia and the Tax Code allows the non-resident taxpayer to file a tax return and claim any allowable deductions.

The following withholding tax rates apply to the Georgian-sourced income of non-residents where such income is not attributable to any permanent establishment of the non-resident in Georgia:

Income from Georgian Sources	Tax Rate
Dividends	5%
Interest	5%
Oil and gas subcontractors	4%
International telecommunication and transportation services	10%

Royalties	5%
Management fees	-
Income received in the form of wages	20%
Payments to non-residents of other Georgian source income not connected to their PE in Georgia	10%

Where a non-resident is registered in an offshore or low tax jurisdiction, royalty, interest and service fee payments will be subject to withholding tax at the rate of 15%.

Royalties paid by a non-resident's permanent establishment or by a resident to a resident natural person (other than a natural person registered as a VAT payer) are subject to withholding tax at the rate of 20%.

Dividends are subject to withholding tax regardless of whether they are paid to individuals or foreign entities. Please note:

- Dividends received by entrepreneurial legal entities are excluded from taxable gross income; and,
- Dividends paid to Georgian legal entities are exempt from withholding tax at source.

G. PERSONAL INCOME TAX

Individuals resident in Georgia are subject to personal income tax (PIT) on their worldwide income (but exempted for income received which is not Georgian-sourced), whereas non-residents are subject to PIT on Georgian-sourced income only, subject to double tax treaty relief. An individual is considered to be a resident of Georgia for PIT purposes if they are present in Georgia for more than 183 days in any 12-month period ending in a tax (calendar) year.

PIT is levied on salaries and any other compensation paid to employees including benefits-in-kind, subject to certain exceptions. PIT is deducted at source from an employee's salary by an employer. Tax is levied on the annual income of an individual entrepreneur, which consists of gross income less the relevant expenses in earning that gross income (except for non-deductible or partially non-deductible expenses). Unless other rates apply (e.g. for interest and dividends), the income of an individual is taxed at the flat rate of 20%.

Annual personal income tax returns must be submitted to the tax authority by 31 March of each year. There is no liability to social security payments on income paid or received by employers, employees or individual entrepreneurs. Similarly, there is no inheritance tax or wealth tax in Georgia.

FRINGE BENEFITS TAX

Broadly, all payments or benefits-in-kind provided by an employer to an employee are taxable unless specifically exempted.

H. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Georgia currently has double tax treaties with 54 countries:

Country	Dividends (%)	Interest (%)	Royalties (%)
Armenia	5%/10%	10%	5%
Austria	0%/5%/10%	0%	0%
Azerbaijan	10%	10%	10%
Bahrain	0%	0%	0%
Belarus	5%/10%	5%	5%
Belgium	5%/15%	10%	5%/10%
Bulgaria	10%	10%	10%
China	0%/5%/10%	10%	5%
Croatia	5%	5%	5%

Cyprus	0%	0%	0%
Czech Republic	5%/10%	8%	0%/5%/10%
Denmark	0%/5%/10%	0%	0%
Egypt	10%	10%	10%
Estonia	0%	0%	0%
Finland	0%/5%/10%	0%	0%
France	0%/5%/10%	0%	0%
Germany	0%/5%/10%	0%	0%
Greece	8%	8%	5%
Hungary	0%/5%	0%	0%
Iceland	5%/10%	5%	5%
India	10%	10%	10%
Iran	5%/10%	10%	5%
Ireland	0%/5%/10%	0%	0%
Israel	5%	15%	0%
Italy	5%/10%	0%	0%
Japan	15%	0%/10%	0%/10%
Kazakhstan	15%	10%	10%
Korea	5%/10%	10%	10%
Kuwait	0%/5%	0%	10%
Latvia	5%	5%	10%
Liechtenstein	0%	0%	0%
Lithuania	5%/15%	10%	10%
Luxemburg	0%/5%/10%	0%	0%
Malta	0%	0%	0%
Netherlands	0%/5%/15%	0%	0%
Norway	5/10%	0%	0%
Poland	10%	10%	10%
Portugal	5%/10%	10%	5%
Qatar	0%	0%	0%
Rumania	8%	10%	5%
San Marino	0%	0%	0%
Serbia	5%/10%	10%	10%
Singapore	0%	0%	0%
Slovakia	0%	5%	5%

Slovenia	5%	5%	5%
Spain	0%/10%	0%	0%
Sweden	0%/10%	0%	0%
Switzerland	10%	0%	0%
Turkey	10%	10%	10%
Turkmenistan	10%	10%	10%
Ukraine	5%/10%	10%	10%
United Arab Emirates	0%	0%	0%
United Kingdom	0%/15%	0%	0%
Uzbekistan	5%/15%	10%	10%

GERMANY

MEMBER FIRM

City	Name	Contact Information
Berlin	Oliver Beier	+49 30 30 69 07 10 oliver.beier@pkf-fasselt.de
Braunschweig	Sören Damerau	+49 531 24 03 210 soeren.damerau@pkf-fasselt.de
Cologne	Wolfgang van Kerkom	+49 221 16 43 0 wolfgang.van.kerkom@pkf-fasselt.de
Duisburg	Peter Pflugfelder	+49 203 30001 407 peter.pflugfelder@pkf-fasselt.de
Frankfurt	Horst Woerner	+49 69 17 00 00 0 horst.woerner@pkf-fasselt.de
Hamburg	Thomas Rauert	+49 40 355 520 thomas.rauert@pkf-fasselt.de
Heidelberg	Franz-Josef Appel	+49 6221 6096 0 office@pkf-hd.de
Herford	Dr. Marc Danne	+49 5221 99 130 marc.danne@pkf-herford.de
Munich	Hans Lummel	+49 89 29032 0 hans.lummel@m.pkf.de
Nuremberg	Prof. Dr. Bertram Fischer	+49 911 47 43 132 wp.fischer@pkf-nuernberg.de
Osnabrueck	Dr. Klaus Stein	+49 541 944 22 0 klaus.stein@os.pkf.de
Stuttgart	Steffen Schmid	+49 741 17404 0

		s.schmid@pkf-niggemann.de
Würzburg	Dr. Dirk Altenbeck	+49 931 3 55 78 32
		dirk.altenbeck@pkf-issing.de

BASIC FACTS

Full name:	Federal Republic of Germany
Capital:	Berlin
Main languages:	German
Population:	82.26 million (2018 estimate)
Monetary unit:	1 Euro (EUR) = 100 Cents
Internet domain:	.de
Int. dialling code:	+49

KEY TAX POINTS

- Companies resident in Germany are subject to tax on all of their income. Non-resident companies are subject to tax on German-source income.
- Business enterprises operating in Germany are also subject to a trade tax on business income, as assessed by each municipality.
- There is no separate capital gains tax - broadly, capital gains from business assets are taxed at the ordinary tax rate. Capital gains realised by a corporate shareholder on the sale of shares held in an enterprise are tax free.
- VAT is applied on the supply of goods and services in Germany by a taxable person, subject to exemptions.
- Profits of foreign companies may be attributed to German shareholders under a controlled foreign companies (CFC) regime.
- A transfer pricing regime imposes record-keeping requirements and provides for income to be adjusted on an arm's length basis.
- Capital gains realised by individuals or partnerships are added to annual income, subject to a 40% participation exemption on the sale of shares held as business assets. Roll-over relief may be available where gains are reinvested in shares.
- Dividends paid to residents and non-residents are subject to a 25% withholding tax, although this is reduced to nil in certain circumstances under the EC Parent/Subsidiary Directive or a Double Tax Treaty.
- Both personal and corporate income taxes carry a surcharge at the rate of 5.5% of the tax.
- Income tax is payable by German resident individuals on their worldwide income. Non-resident individuals are only required to pay tax on German-sourced income.
- Assets transferred by gift or inheritance are subject to tax. Other taxes include an annual real estate tax, an insurance tax and a church tax.

A. TAXES PAYABLE

COMPANY TAX

German-resident companies are subject to tax on their worldwide income. Non-resident companies are required to pay tax in various forms on income derived from German sources. Resident companies are those that are incorporated in Germany or have their place of management and control in Germany.

The corporation tax rate is 15%. In addition, a solidarity surcharge is levied at the rate of 5.5% of the corporation tax. The tax year in Germany is the calendar year. Companies are required to make quarterly prepayments of tax based on the previous year's income. Corporation tax returns should be submitted by 31 May of the following year. An automatic extension of seven months (31 December) is granted for returns prepared by a tax consultant. Starting with the tax year 2018 the returns shall be submitted until 31 July of the

following year and returns prepared by a tax consultant until 28/29 February of the year after the following. Tax balance sheets have to be handed in electronically following a special tax account mapping.

TRADE TAX

Trade tax is applied only to business income. All business enterprises operating in Germany are subject to this tax. The trade tax rate is assessed independently by each municipality. The effective tax rates range from 7% to 19.25%. Individuals may deduct trade tax as a block credit to a certain extent against individual income tax. No tax relief by deduction or credit will be available to companies.

CAPITAL GAINS TAX

There is no special or separate capital gains tax. For privately held shares a flat withholding tax of 25% plus solidarity surcharge of 5.5% of the tax due applies (for details see below under 'Capital gains and losses').

BRANCH PROFITS TAX

There is no separate branch profits tax in Germany. Trading profits and capital gains of a German branch of a foreign company are calculated and taxed on the same basis as those of a German resident company.

SALES TAX / VALUE ADDED TAX (VAT)

This is a tax on the supply of goods and services, other than exempt supplies and services, rendered in Germany by a taxable person. The tax rates are as follows:

- Standard rate: 19%;
- Reduced rate: 7%.

FRINGE BENEFITS TAX

For some services provided to its employees (e.g. canteen food, office outings, transportation of employees, accident insurances and payments to retirement funds), the company has the option to pay the income tax on account for the employee. The tax is paid at a flat tax rate which varies depending on the service provided, from 15% to 25% of the given value.

OTHER TAXES

In Germany a net wealth tax is not levied. Other taxes include real estate transfer tax (RETT) at a rate of 3.5% to 6.5% and insurance tax (excluding life insurance and private medical insurance) at 19%. RETT is not only due on the transfer of real estate but may also apply in cases of a transfer of shares in companies owning real estate. Certain exemptions for RETT on intra-group restructurings may apply.

B. DETERMINATION OF TAXABLE INCOME

The taxable income of a company is determined by ascertaining assessable income and then subtracting all allowable deductions. Business expenses are generally deductible for tax purposes, although there are some exceptions such as entertainment expenses which are only 70% deductible. Special rules apply in respect of the categories listed below.

DEPRECIATION

Tangible fixed assets, other than land, are written off over their estimated useful lives at rates prescribed by the tax law or an administrative regulation. Generally the straight-line method of depreciation is used. In the case of a long-term devaluation of assets, an extraordinary depreciation is allowed. This write-down has to be reversed if the value of the asset increases again. Assets with purchase costs from EUR 250 to EUR 1,000 exclusive of VAT can be pooled every year. The pool for each year has to be written off in five years. Taxpayer may elect for an immediate write-off of goods with a value of less than EUR 800. Good with a value of less than EUR 250 are written off immediately.

STOCK/INVENTORY

Inventory includes raw materials, work-in-progress, finished goods and payments on account. Each item of inventory must be valued at acquisition cost or cost of production. Accepted valuation methods include 'last in, first out' (LIFO) and average cost.

CAPITAL GAINS AND LOSSES

In principle, capital gains from business assets are taxed at the ordinary tax rate. Profits on the sale of land and buildings may be reinvested tax-free (roll-over relief). Where the shareholder is a corporation, capital gains relating to the sale of shares held in an enterprise (German or foreign) are tax-free. Correspondingly, a write-down of participation does not have tax consequences. Losses arising from the sale of such a stake will not be recognised. However, a lump sum of 5% of the gains is added back to taxable income representing non-deductible business expenses.

Where the shareholder is an individual or a partnership, capital gains arising from the sale of shares held as business assets are taxable, but only 60% of the capital gain is added to the individual's/partner's annual gross income. The remainder is tax-free (40% participation exemption). Correspondingly, only 60% of the losses are deductible. Capital gains realised by partnerships may be tax-free if reinvested in shares within two years (roll-over relief).

Where the shareholder is a private individual, capital gains arising from the sale of privately held shares bought after 31 December 2008 are subject to a 25% flat withholding tax plus a solidarity surcharge of 5.5% of the tax due if the participation is below 1%. Capital gains arising from the sale of privately held shares bought before 31 December 2008 are generally not taxed. If the participation is 1% or more, the rules for shares held as business assets apply. Losses from the sale of privately held shares may be deducted only from gains arising on privately held shares. Non-deductible losses may be carried forward.

Capital gains arising from the sale of other privately held movable assets are not taxed unless the assets are sold within one year. Capital gains arising from the sale of privately held land and buildings are not taxed unless the assets are sold within ten years.

DIVIDENDS

Dividend income is subject to 25% withholding tax plus a solidarity surcharge of 5.5% of the tax due. The withholding tax rate may be reduced in accordance with tax treaties or EU regulations (Parent-Subsidiary Directive).

Where the shareholder is a corporation, the dividend income is tax-free (100% participation exemption). However, a lump sum of 5% of the gross dividends is added back to taxable income representing non-deductible business expenses, irrespective of the actual expenses incurred by the company. This applies to dividends received from both German and foreign enterprises. Recently a minimum participation requirement of 10% for corporate tax purposes (trade tax: 15%) as at the beginning of the calendar year was introduced.

Where the shareholder is a partnership, only 60% of the dividend income is added to the partner's annual gross income. The remainder is tax-free (40% participation exemption). Correspondingly, only 60% of the expenses directly connected to the dividend are deductible. A resident taxpayer may credit the withholding tax which has been deducted by the corporation against his own individual tax liability. Corporation tax cannot be credited against the individual tax.

Where the shareholder is an individual, dividends are subject to a 25% flat withholding tax plus a solidarity surcharge of 5.5% of the tax due. However, if the withholding tax rate exceeds the marginal income tax rate of the shareholder, the shareholder may opt to report the dividend in his income tax return instead. Economically connected expenses such as financing fees are not deductible.

INTEREST DEDUCTIONS

Interest is deductible to the extent that it is payable on credits raised to generate taxable income. Where interest is paid in order to finance a participation in another company, the above mentioned special provisions concerning business expenses which are directly related to tax-free dividends apply.

In order to combat abusive transfers of profits, an "interest barrier" limiting the deductibility of interest payments as business expenses has been introduced. Interest payments are generally deductible if they do not exceed interest income for the period. The excess amount is only deductible up to 30% of EBITDA as defined for tax purposes. An 'exemption threshold' for interest payments of less than EUR 3,000,000 per annum applies. An EBITDA carry-forward mechanism also exists.

The interest barrier is only applicable to companies belonging to a group. Such a group is deemed to exist if a German company may be consolidated with other companies. The interest barrier does not apply to companies that are part of a group if, under IFRS, the ratio of equity to total assets of the company is equal to or higher than the ratio of equity to total assets for the group as a whole. In addition, a shortfall of up to

2% compared to the group ratio is permissible. This escape clause will not be applicable for corporations if more than 10% of the interest expenses are on related party debt, i.e. to shareholders with participations of 25% or more.

Whether the interest barrier is in line with the constitution is currently under review by the constitutional court.

LOSSES

In the year in which losses are incurred, they may, in principle, be deducted without restrictions. Remaining losses may be carried back to the preceding accounting period up to an amount of EUR 1,000,000. Excess losses may be carried forward indefinitely to future years. However, in each future year, the deduction must not be more than EUR 1 million. Profits in excess of this may be set off only to an amount of 60% by a loss carry-forward. Loss carry-forwards may be forfeited by certain share transfers or corporate restructurings. For trade tax special rules apply.

FOREIGN SOURCED INCOME

Foreign sourced income is generally taxable. In addition, Germany has a controlled foreign company (CFC) regime. Its objective is to ensure that profits of German controlled companies are not transferred to, or generated in, low tax jurisdictions. A low tax jurisdiction is deemed to be any country which taxes income at a rate of less than 25%. Where German residents hold more than 50% of the shares or the voting rights of an intermediate corporation with passive income, the income is deemed to be distributed to the German shareholders and taxed at their level if the intermediate corporation is located in a low tax jurisdiction. Under certain conditions, a participation of 1% in the foreign intermediate corporation is sufficient to trigger the CFC taxation.

Profit distributions by corporations and capital gains arising from the sale of these participations are deemed to be active income. Income derived by foreign holding companies is thus effectively exempt from CFC tax.

INVESTMENT ALLOWANCE/INCENTIVES

Qualifying investment aids are tax-free and available in selected areas from local authorities for the improvement of the regional economic structure. Investment grants are provided by the tax authorities for the acquisition of new buildings or depreciable, new movable assets in the new federal states.

C. FOREIGN TAX RELIEF

Even in the absence of a double tax treaty, foreign tax on income derived by a German resident may be credited against his income or corporation tax liability. The tax relief must not exceed the German tax charged on the same profits. Alternatively, the foreign tax may be deducted from the income of the German resident.

D. CORPORATE GROUPS

Profits and losses of German group companies may be pooled for corporate tax and trade tax purposes, if the requirements of the so-called 'Organschaft' are met. The controlling company must hold, directly or indirectly, the majority of the shares of the controlled company and there must be a profit and loss pooling agreement between the two companies.

E. RELATED PARTY TRANSACTIONS

Inter-company pricing between affiliated companies must be carried out on an arm's length basis. If this is not the case, the income of both companies is adjusted for tax purposes. Arbitration proceedings are available within the European Union. Legislation is in force that specifies the duty to document the way in which a taxpayer arrives at the transfer prices on transactions with foreign closely related persons/enterprises. The documentation must encompass the nature and contents of the business relationship and the economic and legal basis underlying the arm's length prices. Specific legislation applies to a "transfer of functions" between intra-group companies.

F. WITHHOLDING TAX

Under domestic law, all dividends, regardless of whether they are paid to a resident or a non-resident, are subject to a 25% withholding tax plus a solidarity surcharge of 5.5% of the tax due as a flat tax. This is reduced to nil in the case where the shareholder satisfies the conditions of the EU Parent Subsidiary Directive (broadly that the shareholder is an EU resident company with a 10% or more interest in the company paying the dividend).

Interest is subject to 25% withholding tax plus a solidarity surcharge of 5.5% of the tax due if it is paid to a resident. Interest paid to a non-resident is not subject to withholding tax. Royalties paid to a non-resident are

subject to 15% withholding tax plus a solidarity surcharge of 5.5% of the tax due. Certain German double tax treaties provide for an exemption or a reduced rate (see below).

G. EXCHANGE CONTROL

There are no exchange control requirements.

H. PERSONAL TAX

Income tax is payable by German resident individuals on their worldwide income. Non-resident individuals are only required to pay tax on German-sourced income. Individuals are deemed resident if they have a residence in or their customary place of abode is in Germany. The latter is generally the case if the continuous stay lasts more than six months while short-term interruptions are not taken into account.

Income tax is payable on assessable income less allowable deductions. Assessable income includes business income, income from agriculture and forestry, income from self-employment, income from employment, certain capital gains, capital investment income, and rental and royalty income. Allowable deductions include personal allowances, deductions for business/professional expenses and contributions to specified (insurance) bodies.

Tax instalment payments are withheld from employees' salaries by their employers. Self-employed individuals and those with non-salary income have to pay instalments on a quarterly basis with reference to the income realised in the previous year. The tax rates effective for single taxpayers are as follows:

Annual taxable income (EUR)	Marginal rate (%)	Tax payable (EUR)
Up to 9,000	Nil	0
9,001 to 13,996	14 - 23.97	0 - 949
13,997 to 54,949	23.97 - 42	949 – 14,457
54,950 to 260,532	42	14,457 – 100,802
More than 260,532	45	From 100,802

The highest tax rate is 45% for taxable income of individuals that exceeds EUR 260,533 (EUR 521,066 for married couples). Retained profits from a trade or business, agriculture or self-employment generated by individually-owned firms or partnerships are taxable upon application at a reduced tax rate of 28.25%. When profits are withdrawn, the amount withdrawn is subject to a further tax charge (tax rate 25%) in the assessment year of the withdrawal but is reduced by taxes already paid on the profits distributed.

Interest and dividend income is subject to a 25% flat withholding tax plus solidarity surcharge of 5.5% of the tax due only. Expenses connected with the receipt of investment income are not deductible but a lump sum of EUR 801 can be deducted. The shareholder may opt to report the interest in his income tax return if the withholding tax rate exceeds his marginal income tax rate. If the taxpayer is married, the income of the taxpayer can be combined with the income of the spouse. Then the tax on 50% of the combined income is doubled correspondingly. In addition to the personal income tax, a solidarity surcharge is levied at the rate of 5.5% of the personal income tax.

Social security contributions are withheld from employees' salaries and wages. The employer and employee each generally contribute 50% of the total social security contributions. Members of the Roman Catholic, German Protestant, Lutheran and Jewish churches have to pay church tax. The tax rate amounts to about 8% or 9% of the annual income tax liability and varies according to the district of residence. It is a deductible expense for income tax purposes. Assets transferred by gift or inheritance are subject to tax. If either the transferor or the recipient is resident in Germany, all transferred assets are taxed wherever situated. If neither party is a German resident, the tax is limited to property located in Germany. The Federal Republic of Germany keeps tax treaties with six countries for these purposes: Denmark, France, Greece, Sweden, Switzerland and USA

The tax rates and exemptions for Inheritance and Gift Tax vary according to the relationship between the transferor and the recipient and the value of the assets. Where children or the spouse are the recipients, the rates range between 7% (where the assets have a value of EUR 75,000 or less) and 30% (where the assets have a value of more than EUR 26,000,000). The rates for brothers and sisters have been reduced and vary between 15% and 43%. If the transferor and the recipient are unrelated, the rates vary between 30% and 50% respectively. The spouse of the transferor is granted a personal allowance of EUR 500,000 and the children of the transferor are granted an allowance of EUR 400,000.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)	Interest (%)	Royalties (%)
Non- treaty countries	25	0/25[10]	0/15[11]
Treaty countries:			
Albania	15/5[1]	0	5
Algeria	15/5[3]	0	10
Argentina	15	0	15
Armenia	10/7[1]	0	6
Australia	15/5[9]	0	5
Austria	15/0[6]	0	0
Azerbaijan	15/51	0	10/5[5]
Bangladesh	15	0	10
Belarus	15/5[2]	0	5/3[5]
Belgium	15/0[6]	0	0
Bolivia	10	0	15
Bosnia-Herzegovina8	15	0	10
Bulgaria	15/5[6]	0	5
Canada	15/5[3]	0	10/0[5]
China	15/5[1]/10	0	10
Croatia	15/5[3]	0	0
Cyprus	15/5[3]	0	0
Czech Republic	15/5[1]	0	5
Denmark	15/0[6]	0	0
Ecuador	15	0	15
Egypt	15	0	25/15[5]
Estonia	15/5[6]	0	10/5[5]
Finland	15/5[6]	0	0
France	15/0[6]	0	0
Georgia	0/5/10[7]	0	0
Ghana	15/5[3]	0	8
Greece	25/0[6]	0	0
Hungary	15/5[3]	0	0
Iceland	15/5[1]	0	0
India	10	0	10

Indonesia	15/10[1]	0	15/10/7.5[5]
Iran	20/15[1]	0	10
Ireland	15/5[6]	0	0
Israel	10/5[3]	0	0
Italy	15/0[6]	0	5/0[5]
Ivory Coast	15	0	10
Jamaica	15/10[1]	0	10
Japan	15/53/0[1]	0	0
Kazakhstan	15/5[1]	0	10
Kenya	15	0	15
Korea	15/5[1]	0	10/2[5]
Kuwait	15/5[3]	0	10
Kyrgyzstan	15/5[1]	0	10
Latvia	15/0[6]	0	10/5[5]
Liberia	15/10[1]	0	10/20[5]
Liechtenstein	0/5/15	0	0
Lithuania	15/5[1]	0	10/5[5]
Luxembourg	15/5[3]	0	5
Macedonia	15/5[3]	0	5
Malaysia	15/5[3]	0	7
Malta	15/5[3]	0	0
Mauritius	15/5[3]	0	10
Mexico	15/5[3]	0	10
Moldova	15	0	0
Mongolia	10/5[3]	0	10
Montenegro[8]	15	0	10
Morocco	15/5[3]	0	10
Namibia	15/10[3]	0	10
Netherlands	15/10/5[3]	0	0
New Zealand	15	0	10
Norway	15/0[1]	0	0
Pakistan	15/10[2]	0	10
Philippines	15/10/5[4]	0	10
Poland	15/5[6]	0	5

Portugal	15/0[6]	0	10
Romania	15/5[3]	0	3
Russia	15/5[3]	0	0
Serbia8	15	0	10
Singapore	15/5[3]	0	8
Slovak Republic	15/5[1]	0	5
Slovenia	15/5[1]	0	5
South Africa	15/5[3]	0	0
Spain	15/5[3]	0	0
Sri Lanka	15	0	10
Sweden	15/0[6]/5	0	0
Switzerland	30/15/5/0[3]	0	0
Syria	10/5[3]	0	12
Tajikistan	15/5[3]	0	5
Taiwan	10	0	10
Thailand	20/15[1]	0	15/5[5]
Trinidad and Tobago	20/10[1]	0	10/0[5]
Tunisia	15/10[1]	0	15/10[5]
Turkey	15/5[1]	0	10
Turkmenistan	15/5[1]	0	10
Ukraine	10/5[2]	0	5/0[5]
United Arab Emirates	15/10/5[3]	0	10
United Kingdom	15/10/0[6]	0	0
United States	15/5[3]	0	0
Uruguay	15/5[3]	0	10
Uzbekistan	15/5[1]	0	5/3[5]
Venezuela	15/5[4]	0	5
Vietnam	15/10/5[4]	0	10/7.5[5]
Zambia	15/5[1]	0	10
Zimbabwe	20/10[1]	0	7.5

Notes:

1. Lower rate applicable where recipient holds an interest of at least 25%.
2. Lower rate applicable where recipient holds an interest of at least 20%.
3. Lower rate applicable where recipient holds an interest of at least 10%.
4. Lower rates applicable where recipient holds an interest of at least:

a. 25% or 70% (Vietnam; Philippines); or,

b. 15% (Venezuela).

5. The tax rates vary with the nature of the royalty/dividend.

6. The dividend is tax free within the EC where the recipient corporation holds an interest of at least 10% (Parent/Subsidiary EC Directive and domestic law).

7. The 5% rate applies where the dividend is paid to a company which holds directly at least 10% and has invested more than EUR 100,000 in the capital of the distributing company. The 0% rate applies where the dividend is paid to a company which holds directly at least 50% and has invested more than EUR 3 million in the capital of the distributing company.

8. The Treaty between Germany and ex-Yugoslavia is still applicable.

9. Lower rate applicable where the recipients holds an interest of at least 10% for at least 6 months.

10. Interest payments to non-residents are generally not subject to withholding tax. However, withholding tax is imposed on interest from convertible bonds, profit-sharing bonds, participation loans, as well as income from the participation of silent partners in a trade or business. The rate is 25% (26.375% including the 5.5% solidarity surcharge). Under German domestic tax law implementing the provisions of the EU Interest and Royalties Directive (2003/49), interest and royalty payments are exempt from withholding tax, provided that the recipient is an associated company of the paying company and is a resident in another EU Member State or such a company's permanent establishment situated in another Member State. Two companies are associated companies if (i) one of them has a direct minimum holding of 25% in the capital of the other or (ii) a third company has a direct minimum holding of 25% in the capital of two companies.

11. Royalties paid to non-residents are subject to a 15% withholding tax rate (15.825% including the 5.5% solidarity surcharge). For a 0% rate under the application of the Interest and Royalties Directive (2003/49), see footnote 10.

GHANA

MEMBER FIRM

City	Name	Contact Information
Accra	Frederick Bruce-Tagoe	+233 302 221 266 fbrucetagoe@pkfghana.com
Accra	Albert Addo Cofie	+233 302 221 266 albert.cofie@pkfghana.com

BASIC FACTS

Full name:	Republic of Ghana
Capital:	Accra
Main languages:	English, African languages including Akan, Ewe
Population:	29.4 million (2018 estimate)
Monetary unit:	Ghanaian New Cedi (GHS)
Internet domain:	.gh
Int. dialling code:	+233

KEY TAX POINTS

- The assessment period in Ghana is the calendar year (i.e. January to December). Companies and bodies of persons are allowed to choose their accounting year.

- Companies that are resident in Ghana are liable to income tax on income earned domestically and from foreign sources. Tax credit from foreign sources is allowable as tax credits domestically.
- Non- resident companies are liable to tax only on income with a source in Ghana.
- Companies deemed as permanent establishments are liable to tax on all source of taxable income.
- The basis of assessment is the net profit of the companies. This is adjusted by tax laws to arrive at the chargeable income.
- Repatriated branch profit is taxable at 8%.
- There is no separate rate for capital gains and gifts for companies. Income from the realization of assets is subsumed in corporate income for tax purpose. Individuals may however opt for a rate of 15%.
- Local production and importation of goods and services attract VAT. Business with annual income of GHS 200,000 are required to register and charge Value Added Tax. There is no obligation to register if you deal in exempt supplies. Rate for goods (wholesale and retail) have a flat rate of 3%. VAT on other supplies is 15%. National Health Insurance Levy of 2.5% applies in tandem with the 15% VAT.
- Transfer pricing regulations apply to related party transactions.
- Subject to treaty agreements and exemptions, various withholding tax rates apply to payments made for transactions between companies resident in Ghana and non-residents.
- Subject to exemptions that may be available, resident individuals pay tax on income (cash and kind) earned in Ghana and abroad. Non-residents are taxed only on income with a source in Ghana.
- Statutory and voluntary pension deductions apply to employment benefits.
- There is no wealth or inheritance tax due in Ghana. However, municipal authorities charge property rates.

A. TAXES PAYABLE

National taxes and levies apply in all ten regions of the country.

COMPANY TAX

Unless specifically exempted in the law, resident companies are required to pay tax on all income (domestic and foreign) relating to business and investment. Non-resident companies pay tax on income with a source in Ghana. Necessary adjustments are made to the net profit based on tax laws to determine the chargeable income. The rate of tax generally is 25%. There are different rates applicable to certain companies (see 'Incentives' below). From 2012, mining companies are to pay corporate tax at a rate of 35%.

The corporate entity is taxed separately from its shareholders.

The tax year in Ghana is January to December. Companies prepare financial statements on an accrual basis. They may choose their own accounting date without permission, on commencement of operation. However, companies desiring to change their chosen accounting date must obtain prior permission from the Commissioner General of GRA.

All companies have to file returns four months after their accounting year. It is also required that they make quarterly tax payments on the current year's income based on the provisional assessment made by the DTRD or the companies' own estimates (where the DTRD has granted that permission).

CAPITAL GAINS AND GIFT TAX

What used to be known as Capital Gain and Gift Tax have been incorporated into Corporate or Income Tax and taxed at the corporate tax rate. However for an individual, the rate of tax for capital gain can be 15% on the gain realized or the income is added to the Chargeable Income of the person and taxed at the graduated rates.

In ascertaining the income of a person from investment or business for a year of assessment one has to include all gains and deduct all losses.

Gains

A gain made from the realization of an asset or liability is the amount by which:

- The sum of the consideration received for the asset exceeds the cost at the time of realization; or
- The sum of the consideration offered for the liability is less than the amount outstanding at the time of realization.

The calculation of cost includes:

- Expenditure in the acquisition of the assets (including expenditure of construction, manufacturing or production of the assets)
- Expenditure incurred in altering, improving, maintaining or repairing the assets
- Incidental expenditure in acquiring and realizing the assets(including legal fees, advertisement/ canvassing)

Exemptions and adjustment of computation

The following exemptions and adjustments apply under Sections 42 to 50 of Act 896:

- Realization with retention of asset;
- Transfer of asset to spouse or former spouse;
- Transfer of asset on death;
- Transfer of asset for no consideration;
- Realization of asset with replacement asset;
- Realization of asset by way of merger, amalgamation or re-organization;
- Transfer by way of security, finance lease or instalment sale;
- Realization by separation;
- Apportionment of costs and consideration received.

BRANCH PROFITS TAX

A branch of an external company or a deemed permanent establishment of non-resident companies pay domestic corporate tax at the specified rate applicable to the industry. When the domestically taxed profit is repatriated, branch profit tax of 8% is applied. This operates as dividend tax as may be applicable to local companies.

Income exempted from tax

Included in exempt income are as listed below. Exemptions apply to other categories of income that may not be relevant to business.

- Income of a non-resident from the business of operating aircrafts where reciprocal exemption are extended to Ghana in the country if residence of the carrier;
- Gains from the realization of securities that are traded on the Ghana Stock Exchange up to 31 December 2021;
- The income of an approved unit trust scheme or mutual fund;
- The income of an approved Real Estate Investment Trust;
- Interest paid to an individual by a resident financial institution or on bonds issued by the Government of Ghana;
- The interest or dividend paid or credited to a holder or member on an investment in an approved unit trust scheme or mutual fund and housing scheme;
- Income of privately-owned universities shall be exempt from tax when they plough back a hundred percent of their profit after tax into the business.

SALES TAX/ VALUE ADDED TAX (VAT)

These are indirect taxes charged by businesses on the supply of some goods and services in Ghana. VAT applies to the stages of production of goods. There are supplies that are exempt from VAT. Exports attract VAT at zero rate.

VAT rate

All persons registered to charge Value Added Tax (VAT) and are currently operating the standard rate scheme are required to charge and account for VAT and the National Health Insurance Levy (NHIL) simultaneously at the rates of 15% and 2.5% respectively of the taxable value of their supplies. This in effect amounts to a total charge of 17.5% of the taxable value of the supply.

VAT flat rate

The existing VAT law (The Value Added Act, 2013 (Act 870)) was amended in 2017 by Act 948 to re-introduce the Flat VAT Rate Scheme. Under this scheme, a taxable person who is a retailer or wholesaler of goods is to account for VAT at a flat rate of 3% calculated on the value of the taxable supply without deducting any input VAT. The Flat rate Scheme does not include the supply of the following goods:

- Any form of power heat;
- Refrigeration or ventilation.

Threshold

As earlier indicated the current threshold for registration of VAT is GHS 200,000 for a 12 month period or GHS 50,000 for a period of 3 months.

However the following entities are not bound by the threshold and are required to apply for registration upon operation:

- Promoters of public entertainment;
- An auctioneer;
- A national, regional, local or other authority or body.

FRINGE BENEFITS TAX

With the exception of dental, medical, and health insurance expenses, all fringe benefits derived from employment are taxable. Benefits relating to accommodation and cars have their own treatment specified in the Tax Law.

Car Element		
Driver and Vehicle with fuel	12.5% of TCE	Limit GHS 600 per month
Vehicle with fuel	10% of TCE	Limit GHS 500 per month
Vehicle Only	5% of TCE	Limit GHS 250 per month
Fuel Only	5% of TCE	Limit GHS 250 per month

Rent Element		
Accommodation with furnishing	10% of TCE	No Limit
Accommodation Only	7.5% of TCE	No Limit
Furnishing Only	2.5% of TCE	No Limit
Shared Accommodation	2.5% of TCE	No Limit

Loan benefit

Interest on loan granted an employee, Manager, or Director is taxable. However, there is a Nil Tax where a loan is granted to an employee under the following conditions:

- The loan is from an employer to an employee;
- The term of the loan does not exceed 12 months; and
- The aggregate amount of the loan and any similar loan outstanding at any time during the previous 12 months does not exceed 3 months basic salary.

Benefit for tax purpose

In cases other than the above, the employee is considered to have benefited and is to suffer tax at the individual tax rate. The benefit is computed as 25% of Interest at BOG Rediscount Rate less interest at employer's rate. For all other benefits, the open market value or a reasonable value is added to taxable income and subject to tax.

TAX AMNESTY

A Tax Amnesty Act, 2017 (Act 955) has been passed, effective 29 December 2017, to among other things

exempt newly registered entities from the payment of taxes, interest and penalties in respect of previous years up to and including 2017. An entity qualifies for this amnesty where that person on or before 30 September 2018 registers with the Ghana Revenue Authority (GRA) and files income tax returns for the 2014, 2015 and 2016 years of assessment.

The tax amnesty shall apply to persons who have not previously registered with the GRA or who, having been registered previously, have not submitted returns or are in arrears for the submission of returns.

A formal written application is requested to be submitted to the Commissioner-General commencing from 1 January 2018 and ending 31 August 2018.

ADMINISTRATIVE SANCTIONS AND PENALTIES

Failure to maintain records	Where the failure is deliberate or reckless, 75% of the tax attributable to the period. In any other case, the lesser of 75% or 250 currency points
Failure to pay tax on due date	Interest of 125% of the statutory rate, compounded monthly on the amount outstanding
Underestimating tax	Interest of 125% of statutory rate, compounded monthly, and applied to the difference between 90% of the Actual Tax and Tax paid in instalment
Failure to file Returns (Individual)	2 currency points and prosecution after 4 months
Failure to file Returns (Entity)	4 currency points and prosecution after 4 months
Failure to comply with the Act	Where the failure may result in an underpayment of tax exceeding GHS 200, the fine is, if convicted, between GHS 2,400 - GHS 4,800. For any other case GHS 120 - GHS 2,400
Making false or misleading statements	a. Where the statement/omission is made without reasonable excuse: a fine of 200% of the tax underpaid b. Where the statement/omission is made knowingly or recklessly: a fine of 300% of the tax underpaid or a fine of GHS 600 – GHS 2,400 or a term of imprisonment between 6 months and 1 year or both c. Any other case: a fine between GHS 600 - GHS 2,400 or a term of imprisonment of 1 month - 3 months or both. Impeding Tax Administration a fine of between GHS 1,200 – GHS 12,000 or term of imprisonment between 6 months and 1 year or both
Impeding tax administration	A fine of between GHS 1,200-GHS12,000 or term of imprisonment between 6 months and 1year or to both

LOCAL TAXES

Taxes are collected by the District, Municipal and Metropolitan Assemblies (authorities) from persons doing business within their localities. They are also responsible for the collection of property taxes.

OTHER TAXES:

STAMP DUTY

Stamp duty is paid at various rates by a person who undertakes certain transactions including the following:

- Conveyance or transfer on the sale of any property;
- Appointment of a new trustee;
- Natural resource lease or license (e.g. mining and timber);
- Agreement or memorandum of agreement;
- Award of cost in a matter of dispute;
- Bill of exchange (e.g. issue of cheques);
- Bill of lading;

- Insurance policy;
- Registration of increase in stated capital.

MINERAL ROYALTIES

The Minerals and Mining Act 2006, Act 703 imposes a ground rent on holders of mineral right. Payment of rent in connection with Stool lands are paid to the Administrator of Stool Lands whilst payment of mineral rights are made to the Minerals Commission.

Act 794 has fixed the rate of royalty at 5% on the total revenue earned from minerals obtained. Payment is made on monthly basis.

COMMUNICATION SERVICE TAX

This is a tax on communication service providers based on turnover. The coverage of this tax has been extended to include the following:

- Public/corporate data operators;
- Providers of radio(FM) broadcasting services;
- Providers of free-to-air television services.

TAX STAMP

This is a tax imposed on business operators in the informal sector. The amount paid is based on turnover and nature of product but not on profit. This is a final tax.

VEHICLE INCOME TAX

This is a tax imposed on commercial vehicles. It is paid quarterly. It is a tax payment on account.

AIRPORT TAX

This is imposed on both domestic and international travels. It varies depending on the passenger class and the place of destination. The current rates are:

- Domestic travel USD 5;
- Regional travel within West Africa USD 60;
- International travel:
  a) Economy class travel outside West Africa USD 100;
  b) Business class travel outside West Africa USD 150;
  c) First class travel outside West Africa USD 200.

LEVIES

As earlier stated, the only notable national levies in the country are:

- The National Health Insurance Levy of 2.5% imposed on certain goods and services. The National Health Insurance Levy is administered on the lines of Value Added Tax.
- National Fiscal Stabilization Levy (NFSL). The NFSL was introduced in 2009 but was abolished in January 2012. It has been reintroduced by Act 862, effective 30 September 2013. The expiry date has been subsequently extended to year of assessment 2019. The rate of levy is 5% on the profits before tax, payable on a quarterly basis and covers the following entities:
- Banks (excluding Rural and Community banks);
- Non-Bank Financial Institutions;
- Insurance Companies;
- Telecommunication companies liable to collect and pay Communication Service Tax under Act 754 of 2008;
- Breweries;
- Inspection and Valuation Companies;
- Shipping lines, Maritime and Airport Terminals.

The levy is collected upfront by the Ghana Revenue Authority. The levy is not an allowable deduction for the

purpose of ascertaining the chargeable income of an entity under the Income Tax Act, 2015, Act 896. For the purpose of enforcing the recovery of the levy, the provisions of the Revenue Administration Act, 2016 (Act 915) relating to collection, enforcement, refund and penalties apply.

- The Special Import Levy which was extended in 2015 to end in 2017 has again been extended to 2019. The Levy is charged on the cost, insurance and freight value of all imported goods into Ghana. This excludes importation of petroleum, fertilizer, machinery and equipment that are listed under Chapters 84 and 85 of the Harmonized System and Customs Tariff Schedules.

B. DETERMINATION OF TAXABLE INCOME

Chargeable income is defined by the Income Tax Act 2015, (Act 896):

- 'The chargeable income of a person for a year of assessment is the total of the assessable income of that person for the year from each employment, business or investment less the total amount of deduction allowed that person under this Act.
- A person who determines the chargeable income of that person or of another person shall, determine chargeable income from each source separately.'

ASSESSABLE INCOME

Assessable Income is made of income from Business, Investment and Employment.

These are made of income from Business, Investment and Employment.

- Business Income includes: income from a trade, profession, vocation or isolated arrangement with a business character; gains from the realisation of capital assets; and, gifts received in respect of the business.
- Investment income includes gains on realization of investment asset; gifts received in respect of an investment; winning from the lottery; and, consideration for accepting a restriction to conduct investment.
- Employment income includes payments or benefits received by an employee from an employer by way of remuneration, fees, overtime, bonuses, personal allowances, commissions, other payments, including gifts in respect of the employment and lump sum payments. Payments or benefits received also include retirement contributions made to a retirement fund on behalf of an employee (subject to the National Pensions Act, 2008 Act 766), retirement payments received in respect of an employment (subject to the National Pensions Act, 2008 Act 766) and gratuities.

Assessable Persons

Assessable persons include individuals, partnership, trust, beneficiary of a trust, companies, shareholders.

- **Individuals**

  Individuals are required to pay tax on gains or profit from employment, business or investment. For a resident individual, both income derived from within Ghana and from foreign sources are assessable to tax. However the income of a resident individual from employment exercised in a foreign country is exempt if

  a) The employer is non-resident;

  b) The employer is resident but the employee is present in the foreign country for 183 days or more during the year of assessment.

  For a Non-resident individual only income which has its source from Ghana is assessable to tax. Aside deductions allowed, individuals are entitled to personal relief.

- **Partnership**

  A partnership is liable to pay income tax only with respect to final withholding payments.

- **Trust**

  A Trust is liable to pay tax separately from its beneficiaries at a rate of 25%. However, in the case of a trust of an incapacitated individual, the individual tax rate shall apply.

- **Beneficiaries of a Trust**

  A distribution of a resident trust is exempt from taxation if the distribution is in the hands of a beneficiary of the trust. A distribution of a non-resident trust is included in calculating the income of the beneficiary

of the trust. A gain on the disposal of the interest of a beneficiary in a trust is included in calculating the income of the beneficiary.

- **Companies**

  A Company is liable to tax separately from its shareholders. For tax purposes a company is defined to include the following:

  - A Partnership with 20 or more partners having a limited liability;
  - A Trust with 20 or more beneficiaries whose entitlement to participate in the income or capital of the trust are divided into trusts.

Deduction Rules

The following deduction rules should be noted:

- No deduction is allowed in calculating income from employment;
- No deduction is allowed in respect of domestic or excluded expenses;
- An expense is deductible to the extent that it is wholly, exclusively and necessarily incurred in the production of the income from the business or investment;
- No deduction is allowed for an expense of a capital nature.

Excluded Expenditure

These include the following:

- Tax payable under Act 896;
- Bribes and expenses incurred in corrupt practices;
- Interest, penalties and fines paid or payable to a government or a political division of a government of any country for breach of any legislation;
- Expenditure incurred in deriving exempt amounts or final withholding payments;
- Retirement contributions unless they are included in calculating the income of an employee;
- Dividends of a company.

Domestic Expenditure

These include the following:

- Individual expenditure in respect of that individual;
- Expenditure in maintaining the individual, including the provision of shelter, meals, refreshment, entertainment or other leisure activities;
- By the individual in coming from home to the office and from office to the house;
- In acquiring clothing for the individual other than clothing that is not suitable for wearing outside of work;
- In educating the individual, other than education that is directly relevant to a business conducted by the individual and that does not lead to a degree or diploma.

CAPITAL ALLOWANCE

Capital allowance is granted in respect of fixed assets (depreciable assets), both tangible and intangible, acquired by persons in businesses for each year of assessment. To qualify for these allowances, the following conditions must be met:

a) The assets should be capital in nature;

b) The asset should be owned by the business;

c) The asset should be in the business up to the end of the year of assessment;

d) The asset should be used in carrying on business during the period.

Class	Comments	Rate
1	Computers and data-handling equipment.	40%
2	Automobiles, buses, minibuses, construction and earth-moving equipment, trailers and trailer-mounted containers, plant and machinery used in manufacturing. Assets resulting from expenses relating to timber concern or large scale rubber, oil palm or other long term crop plantation	30%
3	Railroad cars, locomotives and equipment, vessels, barges, tugs and similar water transportation equipment, aircraft, specialized public utility plants, equipment, machinery office equipment and fixtures, and any other depreciable asset not included in another class	20%
4	Buildings, structures and similar works of a permanent nature	10%
5	Intangible assets.	Useful life

*An importer or manufacturer of excisable goods who acquires affixing machinery and equipment imported for the implementation of the Excise Tax Stamp Policy shall be granted an accelerated depreciation of 50% of the initial value (i.e. depreciated over two years).

There are 5 classes of Depreciable Assets with the removal of the Mining and Petroleum Class

- All classes operate under the Pooling System;
- A Class 4 or 5 asset is to be placed in a pool of its own separately from other assets of that Class or any other assets. Additions to that asset are to be added to the Pool. Disposal of the asset amounts to disposal of all the assets in the pool;
- Capital allowance cannot be deferred;
- An additional capital allowance is to be granted where a written down value(WDV) of a Pool falls below GHS 500 and the Pool emptied.

Disposal of depreciable assets in a pool will result in additional income or additional allowance.

- For Class 1,2 or 3 pool, the additional income is arrived at by this formula:

  Consideration received less the depreciation basis of each pool at the end of the year;
- For Class 4 and 5 pool, the additional income is arrived at by this formula:

  Consideration received less (WDV of pool at the end of the year and capital allowance granted);
- For Petroleum Operations, the additional income is arrived by this formula:

  Total Consideration received
- For Mining Operations, the computation is as follows:
  - Reduce the total WDV of the pool by the total WDV of the asset disposed (X)
  - Where the consideration received is higher than X the excess is treated as income
  - Where the consideration received is lower than X, additional depreciation allowance is granted.

Repairs and improvements-Sec 12

- An expense is deductible to the extent that it is wholly, exclusively and necessarily incurred in the production of the income from the business or investment;
- Amount deductible shall not exceed 5% of the WDV of the pool at the end of the year;
- Deduction is allowed in the order in which the expense is incurred;
- Any excess expense is to be added to the depreciable basis of the pool to which it belongs.

CAPITAL ALLOWANCE ON LEASED ASSETS

The lessee of an asset, whether under finance or operating lease, was not entitled to capital allowance on the asset. This position has changed. Currently, the lessee of an asset under a finance lease arrangement is entitled to capital allowance on the principal/capital portion of loan. The interest is however deducted against income.

In the case of the lessor, capital allowance is claimed under an operating lease. The full amount of rent

received is included in the lessor's income for the year. Where the arrangement is a finance lease, the lessor does not qualify for capital allowance. The amount of rent payment is included in taxable income for the year is reduced by capital amounts determined by the Commissioner.

DEPRECIATION

Depreciation of any fixed asset is not an allowable deduction in arriving at the assessable income. The same goes for amortization of intangible assets. These are compensated for by the granting of capital allowance.

STOCK / INVENTORY

For the purpose of tax, a person who is ascertaining the income of that person or of another person from a business for a year of assessment shall deduct in respect of trading stock of the business an allowance calculated as follows:

- Adding the opening value of the trading stock to the purchases for the year;
- Deducting from the sum obtained above the closing value of trading stock for the year.

The closing stock is valued at the lower of

- The cost of the trading stock at the end of the year; or
- The market value of the trading stock at the end of the year. However, any method of stock valuation accepted by accounting principle that is consistently applied is accepted.

In determining the cost of trading stock;

- Cost of repair, improvement or depreciation of a depreciable asset is not to be included;
- The absorption-cost method is to be used.

Trading stock or any type of asset prescribed by regulation to be fungible and not readily identifiable, may be determined using the first-in-first-out method or the average-cost method. However the method opted for may be changed with the written permission of the Commissioner-General

CAPITAL GAINS AND LOSSES

As earlier indicated, there is no different rate for capital gains. In ascertaining the income of a person from investment or business for a year of assessment one has to include all gains and deduct all losses.

Gains

Capital Gains Tax gain made from the realization of an asset or liability is the amount by which:

- The sum of the consideration received for the asset exceeds the cost at the time of realization; or
- The sum of the consideration offered for the liability is less than the amount outstanding at the time of realization.

The calculation of Cost includes;

- Expenditure in the acquisition of the assets (including expenditure of construction, manufacturing or production of the assets);
- Expenditure incurred in altering, improving, maintaining or repairing the assets;
- Incidental expenditure in acquiring and realizing the assets(including legal fees, advertisement/ canvassing).

Losses

A loss from the realization of an asset or liability is the amount by which:

- The cost of the asset exceeds the sum of the consideration received for the asset at the time of realization; or
- The sum of the consideration offered for the liability is more than the amount outstanding at the time of realization.

This treatment of gains and losses is in line with the Income Tax law that does not recognize depreciation policies set out by businesses. The pool system adopted by the Ghana Revenue Authority (GRA) for capital allowance purposes for Classes 1,2 and 3 makes it almost impossible to ascertain whether a loss or gain was made on the disposal of a particular asset.

It should be noted that assets disposed of are subject to Value Added Tax (VAT) and National Health Insurance Levy (NHIL).

DIVIDENDS

A shareholder earning dividend from a resident company is subject to a final withholding tax at the rate of 8%.

A capitalization of profit is treated as dividend paid to each of the company's shareholders in proportion to their respective interest in the company and is taxed at 8%.

Where a company (controlled by not more than five persons) records profit over a reasonable period but does not declare dividends, the Commissioner has the authority to treat part of the company income as distributed and demand tax on dividends.

Exemption Clause

A dividend paid to a resident company by another resident company is exempt where the company that received the dividend controls directly or indirectly at least 25% of the voting power of the company paying the dividend.

INTEREST DEDUCTIONS

Interest incurred in respect of a borrowing employed by a business entity in the production of income is a deduction allowed for the purpose of ascertaining the assessable income of the person. Thin Capitalization rules apply to allowable interest deductions. The debt-equity ratio of 3:1 (2:1 from 2001 to 2015) is applied. Prior to 2016, the ratio was restricted to shareholder or related party debt. However rules from 2016 apply to all forms of debt.

TAX LOSSES

In ascertaining the income from a business for a year of assessment, the following deductions are allowed:

- Unrelieved loss of a business in a specified priority sector for any of the previous 5 years of assessment;
- Unrelieved loss of a business in any other sector for any of the previous 3 years of assessment.

The following should be noted:

- An unrelieved loss from a business may be deducted in calculating income from an investment and not the reverse. An unrelieved loss from investment shall be deducted from investment income only.
- Where a person makes a loss and if the loss were a profit, the profit would be taxed at a reduced rate the loss shall be deducted only in calculating income taxed at the same reduced rate or exempt amounts.
- Where a person makes a loss and if the loss were a profit, the profit would be exempt, the loss shall be deducted only in calculating exempt amount.
- Specified Priority Sector include
  - Petroleum Operations;
  - Minerals and Mining Operations;
  - Agro Processing;
  - Tourism;
  - Information & Communication Technology;
  - Farming;
  - Manufacturing;
  - Venture Capital Financing;
  - Energy & Power.
- Unrelieved loss is the amount of loss that is deducted in calculating the income of the person for tax purpose;
- Loss from operation is the excess of amount deducted in calculating the income of that person from investment or business over the amount included in calculating that income;
- Tax Losses are deducted in the order in which they occur (apply the principle of 'first come first served');
- In computing tax losses it should be reminded that capital allowance cannot be deferred.

Definitions

- Manufacturing business means an entity that manufactures mainly at least 70% for export;
- Information Technology-ICT involved in software development;

- Tourism-Entity should be registered with Ghana Tourist Authority.

Foreign currency exchange losses

- Gains on foreign currency and financial instruments are taxable whether realized or unrealized;
- Losses on foreign currency and financial instruments are deductible whether realized or unrealized, subject to the rules under Financial Cost.

The amount of financial cost other than interest deductible shall not exceed the sum of:

- Financial gain included in the income from business or investment; and
- 50% of the income from business or investment calculated without including a financial gain derived and also not deducting the financial cost incurred.

Any financial cost denied may be carried forward in the order in which it is incurred during any of the following 5 years of assessment

FOREIGN SOURCED INCOME

Foreign sourced income of a resident person is included in that person's income for the year and taxed. The same principle applies to Ghanaian permanent establishment (PE) of a non-resident. The person is allowed the deduction of foreign tax credits or entitled to some reliefs where there is a double taxation agreement.

The income of a resident individual from employment exercised in a foreign country is exempt if the employer is non-resident or if the employer is resident but the employee is present in the foreign country for 183 days or more during the year of assessment.

For a non-resident person only incomes which have its source from Ghana are assessable to tax.

The Minister of Finance may by legislative instrument, make Regulations to prescribe the following:

- Criteria for exempting from tax, the income of a foreign Permanent Establishment(PE);
- Criteria for exempting from tax, the foreign income of a resident person;
- Circumstances in which the income of a foreign PE is not exempt, but is taxable in the hands of the resident owner with a foreign tax credit;
- Circumstances in which the income of a foreign trust or company that is controlled by residents is attributed and taxed to the members of the trust or company.

INCENTIVES

There are a number of incentives provided for in the Income Tax Act, 2015 (Act 896) and other laws and enactments geared towards the development of certain sectors of industry and of certain parts of the country. These incentives include reduced rate of taxes, exemption from the payment of duties and other taxes for specified periods, higher rate of capital allowance, among others. These cannot be exhaustibly dealt with but below are a few of such concessions granted.

LOCATIONAL INCENTIVES FOR MANUFACTURING BUSINESS

Location	Rate
Location in regional capitals of Ghana	18.75%
Location in free zone enclave for the first 10 years	0%
Location outside regional capitals	12.5%

SECTORIAL INCENTIVES (REDUCED TAX RATES)

Tax rates vary depending upon the area (sector or industry) from which the income is coming from as shown below:

Sector	Rate
Hotel industry	22%
Export of non-traditional production	8%
Loans granted to a farming enterprise	20%
Loans granted to a leasing company	20%
Companies in Free Zones after tax holiday	15%

INDUSTRIAL CONCESSIONS (EXEMPTION PERIOD)

Tree Crop Farming	10 years of assessment from year of first harvest
Cocoa tree	Indefinite exemption
Livestock Farming	5 years of assessment from year of commencement of business
Cattle Farming	5 years of assessment from year of commencement of business
Agro-Processing Business	5 years of assessment from year of commencement of commercial production
Cocoa By-product Business	5 years of assessment from year of commencement of commercial production
Rural Banking	10 years of assessment from year of commencement of business
Waste Processing	7 years of assessment from year of commencement of business
The income of a certified company from a low-cost housing business	5 years of assessment from year of commencement of operation
Approved Unit Trust Scheme	Indefinite
Mutual Fund of business	Indefinite
Real Estate Investment Trust	Indefinite
Venture Capital Company	10 years of assessment from year of commencement of business
Venture Capital Financing	10 years of assessment from year of commencement of business
Free Zone Company	10 years of assessment from year of commencement of business

Aside Companies in the Free Zone, all entities are to pay tax on their profit at the rate of 1% during their Tax Holiday periods.

Exclusions

- A person is not entitled to a concession if an associate person has benefited or is benefiting from that concession;
- The concession shall not apply as between two associated individuals who are residents;
- The concession shall not apply 'where the Government of Ghana has concluded, whether before or after the commencement of this Act, a binding agreement with a person that purports to modify the manner in which tax is imposed, including by reason of a fiscal stability clause'.

New Temporary Concessions

The following additional temporary concessions are provided under the Income Tax Act, 2015 (Act 896):

1) Young Entrepreneur

The income of a young entrepreneur, who is not more than 35 years old, from the business of manufacturing, information and communications technology, agro processing, energy production, waste processing, tourism and creative arts, horticulture and medical plants is exempt from tax for a period of five years.

The tax rate applicable for the next five years after the initial concession period is as follows:

Location	Rate
Accra and Tema	15%
Other regional capitals outside the three Northern Regions	12.5%
Outside other regional capitals	10%
The three Northern Regions	5%

Such a young entrepreneur may carry forward an unrelieved loss for a period of five basis periods.

2) Private Universities

A Privately-owned university is exempt from tax when it ploughs back 100% of its profit after-tax into the institution.

C. FOREIGN TAX RELIEF

Foreign tax credits are available to relieve double taxation on overseas income. Credits are calculated separately for each source of business, employment and investment income and may not exceed the average rate of Ghanaian income tax of that person for the year of assessment applied to that person's taxable foreign income for the year.

D. CORPORATE GROUPS

Corporate groups, irrespective of their affiliations, prepare accounts separately and are taxed separately. Unutilized capital allowance on assets transferred is not transferable. Realization of asset by way of merger, amalgamation or re-organization is exempt from tax. A dividend paid to a resident company by another resident company where the company that received the dividend controls directly or indirectly at least 25% of the voting power of the company paying the dividend is exempt from tax.

E. RELATED PARTY TRANSACTIONS

Although nothing in the law disallows related party transactions, the Commissioner has the authority to disregard or reverse any transaction that is geared towards tax avoidance.

F. WITHHOLDING TAX

Tax is withheld at various rates for the following transactions:

Resident persons		
Income	**Rate**	**Remarks**
Interest earned by individuals from Government of Ghana of Ghana bonds or Mutual Funds	0%	Final
Interest earned by persons other than individuals or financial institution	8%	Not final
Dividend	8%	Final
Rent from residential property deemed as investment income	8%	Final
Rent from a non-residential property deemed as investment income	15%	Final
Rent from residential property deemed as business income	8%	Not final
Rent from a non-residential property deemed as business income	15%	Not final
Remittance for royalties and other natural resource	15%	Not final
Fees to lecturers, invigilators, examiners, part-time teachers and endorsement fees	10%	Final
Fees to lecturers, invigilators, examiners, part-time teachers and endorsement fees	20%	Not final
Endorsement Fees	10%	Final
Commission to resident lotto receiver or agent	10%	Not final
Commission to resident insurance, sales or canvassing agents	10%	Not final
Supply or use of goods exceeding GHS 2,000	3%	Not final
Supply of works exceeding GHS 2,000	5%	Not final
Supply of service exceeding GHS 2,000	7.5%	Not final
Any amount due a local sub-contractor in respect of works or services under a Petroleum Agreement	7.5%	Not final
Payment for unprocessed precious minerals located or won in Ghana	3%	Not final

Exemption from Withholding Tax under Contract:

- Premium paid to a Resident Insurance Company;
- Interest paid to a resident financial institution;
- Where goods constitute trading stock of both the vendor and the purchaser.

Where the payee has an exemption certificate from the Commissioner General

Non-resident persons		
Income	**Rate**	**Remarks**
Dividend	8%	Final tax
Royalties, natural resources payments and rents	15%	Final tax
Management, consulting, technical service and endorsement fees	20%	Final tax
Repatriated branch after tax profits	8%	Final tax
Interest	8%	Final tax
Short-term insurance premium	5%	Final tax
Income from telecommunication, shipping and air transport	15%	Final Tax
Income under a contract for the supply of goods, works or service where the contract gives rise to income in Ghana	20%	Final Tax

G. EXCHANGE CONTROL

Ghana has an Exchange Control Act that regulates, among other things, the following:

- Use of foreign exchange among residents;
- Trading in gold (coins and/or bullion);
- Exports and import on bank notes;
- Exports and export proceeds;
- Capital and money market instruments.

Subject to the Foreign Exchange Act, 2006(Act 723) and the Regulations and Notices issued under the Foreign Exchange Act, an entity shall, through an authorized dealer bank be guaranteed unconditional transfer in freely convertible currency of the following:

- Dividends or net profits attributable to the investment made in the entity;
- Payments in respect of loan servicing where a foreign loan has been obtained;
- Fees and charges in respect of a technology transfer agreement registered under the Ghana Investment Promotion Centre Act,2013 (Act 865);
- The remittance of proceeds ,net of all taxes and other obligations, in respect of sale or liquidation of the entity or any interest attributable to the investment in the entity.

There are restrictions to the amount allowed to be repatriated determined by the Bank of Ghana under Act 723. The restrictions relate to Section 15, 16, 18, 19 and 29 of Act 723 which among others require that each payment in foreign currency to or from Ghana between a resident and a non-resident, or between non-residents, shall be made through a bank.

Where the Bank of Ghana has reason to believe that an offence in contravention of Act 723 is likely to be committed or has been committed, the Bank of Ghana may require a bank to obtain its permission prior to the execution of any payment in foreign currency.

H. PERSONAL TAX

The assessment period for individuals is January to December. Individuals are required to pay tax on gains or profit from employment, business or investment.

Resident Individuals

Resident individuals are to pay tax on their worldwide income unless specifically exempted under the law. The income of a resident individual from employment exercised in a foreign country is exempt if the employer is non-resident or the employer is resident but the employee is present in the foreign country for 183 days or more during the year of assessment.

Among other definitions, an individual is considered resident if he or she is a citizen of Ghana domiciled in Ghana (or absent from Ghana for 365 days or less), or is an individual who has stayed in Ghana for an aggregate period of 183 days or more in any 12 month period. All incomes are aggregated and taxed after

the various adjustments relating to the type of income earned are made.

Tax rates applicable to residents are as follows:

ANNUAL RATES				MONTHLY RATES		
	INCOME (GHS)	RATE			INCOME (GHS)	RATE
First	3,132.00	0%		First	261.00	0%
Next	840.00	5%		Next	70.00	5%
Next	1,200.00	10%		Next	100.00	10%
Next	33,720.00	17.5%		Next	2,810.00	17.5%
Exceeding	38,892.00	25%		Exceeding	3,241.00	25%

Non-Resident Person

For a Non-resident Person only incomes which have a source from Ghana are assessable to tax. The tax rate is 20%.

Fringe benefits earned by individual employees are taxable (Refer to Fringe Benefit Tax above).

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

In the absence of any treaty with the Government of Ghana, the provisions of the income tax law apply for the treatment of all tax matters. Thus, tax rates applicable on various income apply. Where there is a treaty with the Government of Ghana, the terms of the treaty prevail over all provisions of the income tax law. However, where the rates of taxes set out in a treaty are higher than those of the laws of Ghana, the lower rates are used. Currently, notable double taxation treaties Ghana has are with the United Kingdom, France, Italy, South Africa, Belgium, Denmark, Switzerland, the Netherlands and Germany.

Tax rates in percentages are as follows:

	Dividends (Where recipient holds at least 10% shares) %	Dividends (In any other case) %	Royalties %	Technical/ management service fees %	Interest %
Belgium	5	15	10	10	10
Denmark	5	15	8	8	8
France	7.5	15	12.5	10	12.5
Germany	5	15	8	8	10
Italy	5	15	10	10	10
Netherlands	5	10	8	8	8
South Africa	5	15	10	10	5/10
Switzerland	5	15	8	8	10
United Kingdom	7.5	15	12.5	10	12.5

GIBRALTAR

MEMBER FIRM

City	Name	Contact Information
Gibraltar	Joseph Canilla	+350 200 71876 jcanilla@pkf-canillas.gi

BASIC FACTS

Full name:	Gibraltar
Capital:	Gibraltar
Main language:	English
Other language:	Spanish
Population:	32,291 (2017 estimate)
Monetary unit:	Gibraltar Pound (GIP)
Internet domain:	.gi
Int. dialling code:	+350

KEY TAX POINTS

- A company is taxed on profits which accrue, or are derived, in Gibraltar for a financial year at a rate of 10% (although the rate can be 20% in some cases).
- Profits of foreign companies including branches in Gibraltar are taxed at the same rate as resident companies.
- There is no capital gains tax in Gibraltar.
- There is no VAT in Gibraltar.
- For individuals and partnerships, the tax year runs from 1 July to 30 June and tax is payable on the actual taxable profits for the year. For tax purposes, individuals can elect between the Allowance and Gross Income Based Systems. The standard rate of tax for individuals is 20%.
- As from 1 August 2017 Gibraltar minimum wage increased from GIP 6.28 to GIP 6.45/hour.

A. TAXES PAYABLE

COMPANY TAX

The standard rate of Gibraltar corporation tax is 10%. For utility companies and companies that enjoy and abuse a dominant position there is a higher rate of tax applied which is 20%. The utility companies are classified as Telecommunications, Petroleum, Water and Sewage. Companies are taxed on profits for the financial year on income accrued or derived in Gibraltar.

CAPITAL GAINS TAX

There is no capital gains tax in Gibraltar. The Commissioner of Income Tax will refer to case law to judge whether a benefit is of a capital or trading nature.

BRANCH PROFITS TAX

Profits of foreign companies are taxed at the same rate as resident companies.

SALES TAX / VALUE ADDED TAX

There is no VAT in Gibraltar.

Derogation from implementing VAT

Although Gibraltar joined the EU alongside the United Kingdom at the time of the United Kingdom's accession Gibraltar was granted derogation from implementing VAT. Therefore there is no VAT in Gibraltar.

Customs and excise duties

Goods imported into Gibraltar from outside are, with some exceptions, generally subject to import duty at the applicable rate of 6% or 12%.

FRINGE BENEFITS TAX

Perquisites or benefits in kind are taxed as gains from employment. There is specific detailed legislation on how to tax benefits and also the allowances available, particularly with respect to:

- Expense payments; vouchers and credit tokens;
- Living accommodation; removal benefits and expenses;
- Cars, vans and related expenditure;
- Loans to: employees, directors, shadow directors or connected persons.

The Commissioner for Income Tax has the ability to tax benefits not specifically covered in the legislation. Where the benefits are less than GIP 250 in total for any year of assessment no tax is payable in respect of those benefits. The employer may opt to pay the tax on the benefits on behalf of an employee. When the annual value of these benefits is between GIP 250 and GIP 15,000 the tax under this Schedule shall be paid at the rate of 20%. When the annual value of the benefit is above GIP 15,000 tax shall be paid at the rate of 29%.

LOCAL TAXES

GENERAL RATES

General rates are levied on all properties in Gibraltar.

STAMP DUTY

Stamp Duty is payable on the transfer or sale of any Gibraltar real estate or shares in a company owning Gibraltar real estate (on an amount based on the market value of the said real estate) at the following guidance rates:

First or second time buyers as defined by section 19A the Act:

Value of property	Stamp Duty
First GIP 260,000;	0%
From GIP 260,001 to GIP 350,000	5.5%
Above GIP 350,000	3.5%

Non-qualifying purchasers	Stamp duty
Not exceeding GIP 200,000	0%
From GIP 200,000 to GIP350,000	2% on first GIP 250,000 and 5.5% on balance
Above GIP 350,000	3% on first GIP 350,000 and 3.5% on balance

Stamp Duty is also payable on mortgages secured on Gibraltar real estate at the following rates:

	Stamp duty
Mortgages up to GIP 200,000	0.13%
Mortgages over GIP 200,000	0.20%

CAPITAL DUTY

Capital duty of GIP 10 is payable on the nominal share capital or any increase thereof Limited liability companies.

GAMING TAX

Gaming tax is levied at 1% of the gaming income. The tax paid is subject to a minimum of GIP 85,000 and maximum of GIP 425,000 per licence per annum.

ROYALTIES

Royalties received or receivable by a Gibraltar company are chargeable to tax.

OTHER TAXES

There are no capital gains, wealth, inheritance or gift taxes in Gibraltar.

B. DETERMINATION OF TAXABLE INCOME

INDIVIDUALS

An individual who is ordinary resident in Gibraltar is chargeable to tax on his/her worldwide income in accordance with tables A to C of schedule 1 of the Income Tax Act 2010.

INDIVIDUAL ORDINARY RESIDENT

A person who is resident in Gibraltar for a period (or accumulated period) totalling at least 183 days in any year of assessment or is present in Gibraltar in any year of assessment which is one of three consecutive years in which the total of the days on which the individual is present in Gibraltar exceeds 300 days. Non-residents who undertake activities in Gibraltar which are ancillary to their employment or self-employment elsewhere and the duration of the activity is less than 30 days in aggregate in any year of assessment or such other number of days that the commissioner may by prior written agreement in his discretion allow, will not be liable to income tax in Gibraltar. This also covers directors' fees.

CORPORATIONS

A company is taxed on profits which accrue or are derived in Gibraltar. The Act defines accrued or derived by reference to the activities that generate the profit. A company is considered ordinarily resident in Gibraltar if management and control as defined is exercised in Gibraltar. A regulated company is subject to tax irrespective of where its income is accrued or derived.

STOCK OPTIONS

The granting of an option or share to an employee is an event which is taxable. When the option is exercised and there is a disposal of the shares capital gains arises and the capital gain is not taxable on the individual as there is no capital gain tax in Gibraltar.

CAPITAL ALLOWANCES

100% First year allowances: The first GIP 30,000 of qualifying expenditure on fixtures & fittings plant and machinery acquired in a year of assessment. The first GIP 50,000 of Computer equipment acquired in a year of assessment.

Annual allowances: There is an additional annual allowance on the surplus balance of the pooled amount at the rate of 15% per annum on a reducing balance basis. Motor vehicles not qualifying as plant and machinery there is an allowance at the rate of 15% per annum on a reducing balance basis. Unincorporated entities and companies on the higher 20% rate of income tax there is a 20% allowance on the pooled balance. There is an allowance at the rate of 4% per annum on a straight line basis for capital allowances on entertainment centres, hotel, mill, factory or other similar premises (excluding the cost of the land).

CAPITAL GAINS AND LOSSES

Capital gains are not subject to tax therefore capital losses are not allowable deductions.

DIVIDENDS

There is no charge to tax on the receipt by a Gibraltar company of dividends from any other company, whether it is a Gibraltar resident or non-resident. There is no tax on a dividend paid by a Gibraltar company to a non-resident of Gibraltar. There is also no withholding tax on dividends paid, but when a dividend is declared to a Gibraltar resident person, individual or company, a dividend return must be filed with the tax authorities.

INTEREST DEDUCTIONS

There is no withholding tax on interest payments.

WITHHOLDING TAX – PAYMENTS TO SUBCONTRACTORS

Payments made to subcontractors (in the construction industry) without a valid tax exemption certificate issued by the Commissioner of Income Tax are subject to 25% withholding tax on that portion of the payment which is not for materials used in construction.

LOSSES

A trading loss incurred can be carried forward and set off against future trading profit. Non trading losses are not allowable deductions. If within any period of three years there is both a change in ownership of a company and there is a major change in the nature or conduct of a trade carried on by the company no relief shall be given in respect of any losses brought forward from the period beginning before the change of ownership against any profits or gains. There is no provision for the carrying back of losses.

FOREIGN SOURCED INCOME

Income tax is charged on income accruing in or derived from Gibraltar. Residents of Gibraltar are taxed on their world-wide income.

INCENTIVES

DEDUCTION OF APPROVED EXPENDITURE ON PREMISES

Resident taxpayers whether individuals or companies (although there is a different approach to each category) who have an interest in a building situated in Gibraltar, have a special allowance for approved expenditure on the repair or enhancement of the façade of the building. This allowance is in addition to any normal allowance given. The taxpayer will have to comply with the requirement contained within the special provisions in order to be able to reap its advantages. Individuals whose assessable income is based on the gross income based system the allowance is restricted to GIP 5,000 per annum.

DEVELOPMENT AID

The development Aid Act is aimed at private development in Gibraltar. There are conditions to be met in order to take advantages of the incentives offered. Application for development aid must be made to the Minister responsible.

NEW START-UP INCENTIVE SCHEME

Businesses setting up in Gibraltar between 5 July 2016 and 30 June 2017 are entitled to a tax credit equal to tax due up to a maximum of GIP 50,000 per annum over each of the first three financial years of trading. This incentive is subject to the following conditions:-

- It must be a new business setting up in Gibraltar and not the transfer of an existing business
- already in Gibraltar;
- The business must employ at least 5 people in the first year;
- The business must be a company or limited partnership but not an individual trading in its own name.
- The tax credit does not carry forward from one year to the next.

DEDUCTION FOR IMPROVEMENT IN EPC RATING

A deduction is available for the investment made by an individual, company or business that makes a significant improvement to the EPC rating. The percentage is subject to the discretion of the Commissioner of Income Tax.

TRAINING COSTS

Training costs for employees working towards a qualifying qualification are allowable as an expense at a rate of 150%. A self-employed individual undertaking qualifying training may also claim the 50% deduction. Qualifying training means any qualification and training as approved by the Commissioner.

PROPERTY INVESTMENT INCENTIVE

Proprietors of property constructed in Gibraltar in the subsequent 30 months from 1 July 2016 and rented for residential purposes will receive a tax credit equal to the tax payable on the profits earned on the first twenty-four months of rent occurring in the first five years after the completion of construction of that property.

C. FOREIGN TAX RELIEF

Any person ordinarily resident in Gibraltar can claim unilateral tax relief on tax paid abroad subject to providing the necessary evidence of the payment to the Commissioner of Income Tax. The taxpayer is entitled to a tax credit equivalent to the lesser of the tax payable on that income in Gibraltar or the tax payable abroad

in respect of that income. If relief from the double taxation has to be made abroad then the relief allowed is reduced accordingly.

D. CORPORATE GROUPS

There is no group relief available in Gibraltar.

E. RELATED PARTY TRANSACTIONS

Anti-avoidance provision

The 2010 Income tax Act introduced a number of anti-avoidance clauses which can be invoked to set aside arrangements that can be seen to be fictitious or artificial. Also the promoters of tax planning schemes have to notify the Commissioner of Income Tax within 30 days of any schemes which result in the payment of less tax. There are a number of clauses that specifically consider and address anti-avoidance arrangements that can lead to the reduction or elimination of tax payable as follows:

Thin capitalisation rules

This is aimed at shareholder or connected persons and refers to interest paid on a loan by a company to related parties (which is not itself a company) or loans where security is provided by related parties and where at any time in an accounting period the loan capital to equity ratio is greater than 5 to 1. The interest paid will be deemed to be a dividend by the company and received by the connected part and not deductible on the company in computing the profits for the period.

Transactions with connected persons

When it appears that transactions with connected persons in the course of the business are arranged with a view to make no profit or reduce profits or increase losses any excess will be deemed to be a dividend paid and not deductible on the company in computing the profits for the period. When expenses incurred in favour of a connected person the expense allowed shall be the least of the expense incurred; 5% of the gross turnover of the person for the accounting period or 75% of the pre-expense net of profit of the person for the accounting period.

Non-deductibility of interest paid on certain secured loans

This refers to interest payable and back to back loans. Where a loan is made by a lender at an arm's length and all or part of the loan is secured by a cash deposit or an investment as defined by the Act of any connected person over which the lender has taken security the loan interest will not be deductible when computing the profit or gain.

Chargeability of dual employment contracts

Where an employee of an employer ordinarily resident in Gibraltar has one or more other contracts with that or another employer whether resident in Gibraltar or elsewhere who is a connected person to the employer ordinary resident in Gibraltar the income derived shall be subject to tax. If it can be proved to the Commissioner that the purpose of the transactions is not to avoid tax this is a mitigation circumstance that will be considered.

Transfer of assets abroad

This is to prevent the transfer of assets abroad by an ordinary resident individual with the purpose of avoiding taxation in Gibraltar and the income becomes payable by persons resident outside Gibraltar.

When the person affected can demonstrate to the Commissioner that the intention is not to avoid tax the provisions do not apply.

F. EXCHANGE CONTROL

There are no exchange controls in Gibraltar.

G. PERSONAL INCOME TAX

Individuals and partnerships

The tax year runs from 1 July to 30 June and tax is payable on the actual taxable profits for the year. Individuals can elect between the allowance and Gross Income Based Systems

Allowance based system

Under the allowance based system the individual will be taxed on their income less allowances (see below). The main allowances (which are reduced by one twelfth for each complete calendar month that the individual is not resident in Gibraltar during the year of assessment) for the tax year 2016/2017 are as follows:

Type of allowances	GIP	
Personal allowance	3,300	
Spouse allowance	3,300	
Child allowance- first child only	1,135	
Child studying abroad allowance (each child)	1,290	
Apprentice allowance	380	
Nursery allowance	5,160	
Single parent allowance	5,435	
Blind person allowance	5,155	
Dependent relative (non-resident) allowance	210	
Dependent relative (resident) allowance	315	
Disabled individual allowance	9,285	
House Purchase allowance	12,000	
House Purchase (special deduction) allowance	4,000	(GIP 1,000 max p.a.)
Medical allowance	5,155	
Social Insurance (employee) allowance	335	
Social Insurance (self-employed)	432	

"Topping-up" allowances

Individuals with allowances amounting to less than GIP 4,188 will have their allowances topped up to that amount. For elderly individuals (men over 65 and women over 60) the allowances are topped up to GIP 12,200.

Low incomes earners allowance

Taxpayers with assessable income of GIP 11,150 or less will be brought out of the taxation system altogether and will pay no income tax. This applies to taxpayers in both the Allowance Based System and the Gross Income Based System.

Under the allowance based system the minimum allowance of GIP 4,188 will be tapered for taxpayers whose earned income for the tax year is between GIP 11,050 and GIP 19,500.

Tax credit

A tax credit equal to the higher of GIP 300 or 2% of the tax payable is available for the year. For employed individuals aged 60 and over who are in receipt of an occupational pension or annuity income below GIP 6,000 are entitled to a tax credit amounting to GIP 4,000.

Students

The earnings of a full-time student are exempt from tax.

Life assurance Relief

Premiums allowed up to 1/7th of assessable income or 7% of capital sum assured. Relief is granted at the rate of 17%.

Personal pension schemes or retirement annuity contracts

The lesser of 20% of the earned assessable income or GIP 35,000.

Health Insurance

Premiums paid for the purpose of an approved health insurance for an individual, spouse or his dependent children. The deduction is limited to GIP 5,155 in aggregate.

Installation of Solar energy for boilers

Up to a maximum of GIP 3,000 over two years in respect of expenditure incurred towards the installation of solar energy for boilers.

Approved expenditure on premises

A deduction from their assessable income in respect of approved expenditure incurred on the enhancement of the frontage of their property.

Mortgage Interest Relief

Interest payable on a loan taken by an individual to acquire or improve a Gibraltar property to be used as a tax payer's principle residence is allowable on loans up to a value of GIP 350,000

Tax bands under the allowance bases system for ordinary resident taxpayers.

Taxable Income	Tax Rate
First GIP 4,000	14%
Next GIP 12,000	17%
The remainder of taxable income	39%

Tax bands under the allowance bases system for non-resident taxpayers

Taxable Income	Tax Rate
First GIP 16,000	17%
The remainder of taxable income	39%

Standard rate of tax

The standard rate of tax for individuals is 20%.

Tax bands under the gross income based system

Ordinary residents with taxable income of up to GIP 25,000 opting for GIB system:

Taxable Income	Tax Rate
The first GIP 10,000	6%
The next GIP 7,000	20%
The remainder of taxable income	28%

Ordinary residents with taxable income of more than £25,000 opting for GIB system:

Taxable Income	Tax Rate
The first GIP 17,000	16%
The next GIP 8,000	19%
The next GIP 15,000	25%
The next GIP 65,000	28%
The next GIP 395,000	25%
The next GIP 200,000	18%
The remainder of taxable income	5%

CHARGE TO TAX

Persons under the gross income based system may also benefit from:

- A deduction from their assessable income up to a maximum of GIP 1,500 in respect of mortgage interest payments;
- A deduction from their assessable income of GIP 1,500 per annum in respect of pension contributions;
- A deduction from their assessable income of up to GIP 3,000 per annum in respect of medical insurance;
- A deduction from their assessable income up to a maximum of GIP 5,000 in respect of approved expenditure incurred on the enhancement of the frontage of their property;
- First time buyers: a deduction from their assessable income up to a maximum of GIP 6,500 in respect of approved expenditure incurred towards the purchase of their home during the year;
- Up to a maximum of GIP 3,000 over two years in respect of expenditure incurred towards the installation of solar energy for boilers.

TAX INCENTIVES FOR HIGH NET WORTH INDIVIDUALS

Qualifying (Category 2) Individual Rules 2004

Individuals may apply to the Finance Centre Director acquire Category 2 status and on successful application will be issued a certificate to this effect. The conditions to become a Category 2 individual are as follows:

- Must have not been resident of Gibraltar within a period of 5 years immediately preceding the year of assessment in which the application is made or have been resident for 183 days in any one of those years or an average of 90 in any 3 of those years;
- Not have been engaged in any trade or employment in Gibraltar other than on incidental duties.

The application form to become a Category 2 individual must be supported by 2 character references from recognised and established professionals; copy of passport; a curriculum vitae and proof is worth a minimum of GIP 2 million; must also prove that they have approved accommodation in Gibraltar for their and their family use. The application fee is GIP 1,000.

The advantages associated with becoming a Category 2 is that the individual can engage in certain commercial activities and their tax payable will be limited to the first £80,000 of taxable income. The minimum tax payable will be GIP 22,000 and the maximum GIP 27,560.

High Executive Possessing Specialist Skills Rules 2008

This scheme for executives possessing specialised skills (HEPSS) only taxes the first GIP 120,000 and the maximum tax payable under the current Gross Income Based system is GIP 29,940.

They must also comply with the following criteria:

- Earn more than GIP 120,000 a year; must have approved residential accommodation in Gibraltar for their exclusive use and families; not have been occupied or resident in Gibraltar for the past 3 years.

The application fee is GIP 1,000

QUALIFYING RECOGNISED OVERSEAS PENSION SCHEME

Gibraltar is an HMRC recognised compliant jurisdiction and pensions received from an approved pension scheme shall be taxed at 2.5% from QROPS pension income.

SOCIAL SECURITY CONTRIBUTIONS

Social insurance is payable on earning by all individuals working in Gibraltar either as employees or self-employed. Employee's contributions to social insurance are made up of a proportion payable by the employer and another paid by the employee. Self-employed only pay their share. The rates applicable as from 1 April 2017 are as follows:

Contributions payable by	Rate payable on gross earnings	Minimum payable per week/per month	Maximum payable per week/per month
Employees	10%	GIP 5.50/GIP 23.83	GIP 27.50/GIP 119.17
Employers	20%	GIP 16.50/GIP 71.50	GIP 36.50/GIP 158.17
Self-employed	20%	GIP 11.00/GIP 47.67	GIP 33.50/GIP 145.17

Detached workers will make a contribution of employees and employers social insurance contributions as per the above rates.

Individuals with a second job, working pensioners and individuals employed in essential services will be exempt from employee social insurance contributions and will only make a contribution under the employer social insurance scheme as per the above rates.

Employees still in employment aged 60 and over are exempt from paying social insurance contributions.

Social insurance contributions are payable by every employee or self-employed person in any week in which they work.

INHERITANCE TAX

There is no inheritance tax in Gibraltar.

H. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Countries that do not have a double taxation treaty with Gibraltar can enjoy unilateral relief for foreign taxes paid that are also subject to tax in Gibraltar.

I. TAX INFORMATION EXCHANGE AGREEMENTS

Gibraltar is a fully self-governing and fully self-financing British Overseas Territory to which the Treaties establishing the European Union apply, with only certain exceptions. As a generality, Gibraltar is within the EU single market for the purposes of the free movement of persons, the freedom to provide services and the free movement of capital. All relevant EU Regulations apply directly to Gibraltar and all relevant EU Directives are transposed by Gibraltar's Parliament. This includes all EU measures on financial supervision and regulation, direct taxation and the fight against money laundering.

Automatic Exchange of Information on Taxation matters:

Gibraltar has signed a FATCA Intergovernmental Agreement with the United Kingdom, and with the United States and has signed a formal commitment to the Common Reporting Standard on automatic exchange of information with close to 100 countries committed to exchanging information; the first wave in 2017 (including Gibraltar) and the second wave in 2018. In addition, Gibraltar applied the EU Savings Directive which first came into force in 2005. This Directive was repealed by the European Union with effect from 1 January 2016. Gibraltar has transposed the EU Directive 2014/107/EU on automatic exchange of information with all member states of the EU (the 'EU Common Reporting Standard').

J. TAX PAYMENTS

Employment income	It's the responsibility of the employer to deduct from the employees emoluments a specified amount of tax and make payment by the 15th day of the following month.
Companies	Advanced payment on account by the 30 September and 28 February. Each payment should be equal to 50% of the tax liability of the previous year. Any remaining balance payable after deducting the actual liability from the payment on accounts should be paid within nine month of the financial year end of the company.
Self-employed and trust	Advanced payment on account by the 31 January and 30 June. Each payment should be equal to 50% of the tax liability of the previous year. Any remaining balance payable after deducting the actual liability from the payment on accounts should be paid by the 30th November following the end of the tax year.

K. SUBMISSION OF ACCOUNTS AND TAX RETURNS

Individuals	Tax return (Form IT1P) up to 30 June should be submitted by every individual in employment by the 30 November.
Companies	Corporate tax return (Form CT1), dividend return (Form CT2) and financial statements are due within nine months after the financial year end. All Gibraltar resident companies have a duty to file returns and accounts with the Income Tax Office. The accounts to be filed depend on the size of the company.

Self-employed	Tax return (Form IT1S) and financial statement up to 30 June should be submitted by every self-employed individual by the 30 November.
Trusts	Tax return (Form ITT) and financial statement up to 30 June should be submitted by every representative of the trust by the 30 November.

After 1 January 2016 all companies registered in Gibraltar have a duty to file a tax return even if they don't have income assessable to tax in Gibraltar.

L. PENALTIES AND SURCHARGES

Penalties for late filing of returns	
Failure to file a return by the due date	GIP 50
Failure to file within three months from the due date	GIP 300
Failure to file within six months from the due date	GIP 500

Surcharges for late payment of tax liability

There is a surcharge imposed of 10% of the amount of tax due on the day after such payment was due. If unpaid for a further 90 days a further surcharge of 20% of the tax is due is charged.

GREECE

MEMBER FIRM

City	Name	Contact Information
Athens	Stratos Kittakis	+30 210 7480 600 athens@pkf.gr

BASIC FACTS

Full name:	Hellenic Republic
Capital:	Athens
Main language:	Greek
Population:	11.14 million (2018 estimate)
Monetary unit:	1 Euro (EUR) = 100 cents
Internet domain:	.gr
Int. dialling code:	+30

KEY TAX POINTS

- Companies resident in Greece are subject to corporate income tax on their worldwide income. Non-resident companies are liable for tax on income derived through a permanent establishment in Greece.
- There are no special rules for groups and each company is taxed separately. However, for transactions between group companies, transfer pricing rules should be adhered to.
- Capital gains are treated differently in company taxation in relation to individual taxation rules. In company taxation, capital gains are generally added to and taxed together with normal business income. Specific tax rates apply on capital gains obtained from individuals.
- VAT is imposed on the sale of goods and supply of services at a standard rate of 24%. There is also a reduced rate of 13% and an extra reduced rate of 6%.
- Company's profits are taxed at 29%. In addition, dividends are subject to a dividend tax of 15%.
- Many types of payments are subject to withholding tax (including payments for salaries, interest and royalties).

- Greek residents are subject to income tax on their worldwide income. Non-residents are taxed on net income sourced in Greece.
- An annual real estate tax is imposed on the value of real estate property.

A. TAXES PAYABLE

COMPANY TAX

Companies resident in Greece are subject to corporate income tax on their worldwide income from all sources. Non-resident companies that have a permanent establishment in Greece are subject to corporate income tax on income derived through the permanent establishment. Companies are deemed to be resident if they are incorporated in Greece (the registered office is in Greece) or have their place of effective management in Greece.

The fiscal year usually runs from 1 January to 31 December. However, all companies maintaining a double-entry accounting system can choose to have the fiscal year ending on 30 June. Also, if a Greek company is a subsidiary of a foreign parent company with the parent company holding a minimum of 50% of the share capital, the Greek company can choose to align the fiscal year with that of the foreign parent company.

The tax rate applicable to undistributed profits is 29% for all forms of companies including Public Limited Companies (SA), Limited Liability companies (EPE) and branches of foreign companies.

Distributed or capitalised profits are subject to an additional income tax of 15%. Dividends paid to parent companies based in European countries are exempted from such dividend tax if certain conditions are met.

CAPITAL GAINS TAX

Taxation of capital gains obtained by companies is different from the taxation of capital gains obtained by individuals. In company taxation capital gains are treated as ordinary business income. This applies to different kinds of capital gains including:

- Capital gains derived from the sale of shares, stocks, bonds and other securities (whether listed or not listed on the Stock Exchange);
- Capital gains derived from the sale of real estate property;
- Capital gains derived from the sale of fixed assets in general.

Capital gains obtained by individuals are treated as follows:

- Capital gains from the sale of shares listed on the Stock Exchange are taxed at a rate of 15%, on the condition that the shares sold represent more than 0.5% of the company's capital;
- Capital gains from the sale of shares not listed on the Stock Exchange are taxed at a rate of 15%;
- Capital gains derived from the sale of real estate property are taxed at a rate of 15%. However, the application of this tax has been postponed and will become effective as of 1 January 2019.

BRANCH PROFITS TAX

The calculation of tax on the taxable profits of branch offices of international companies is the same as the tax applicable to Greek companies in general. The tax is calculated at 29% of net taxable income. There is no branch remittance tax in Greece.

VALUE ADDED TAX (VAT)

VAT is imposed on the sale of goods and supply of services at a standard rate of 24% which applies to the majority of goods and services. For specific categories of goods and services a reduced rate of 13% and an extra reduced rate of 6% applies. The above rates are reduced by 30% for sales to a few specific remote Aegean islands but this reduction is expected to be abolished by 30 June 2018.

PROPERTY TAXES

For each transfer of real estate, the following taxes are paid:

- For land and old buildings: Transfer tax 3%.
- For new buildings: VAT 24%.

Owners of real estate property (individuals or companies) are subject to a yearly real estate property tax. This tax includes Main tax on land and buildings and Additional tax.

Main tax calculation depends on the size, geographical location of the property, year of construction, use,

zone price and other characteristics. Main tax is ranging from EUR 12.00 to EUR 13.00 per square meter.

Additional tax on real estate property owned by legal entities is imposed on the total value of the property and is calculated at the rate of 0.55% of the total property value.

For individuals the Additional tax is imposed on real estate property value if it is exceeding EUR 200,000 calculated according to the following table:

Property Value (EUR)	Tax rate
0,0100 – 200,000	0.0%
200,000.01 – 250,000	0.10%
250,000.01 – 300,000	0.15%
300,000.01 – 400,000	0.30%
400,000.01 – 500,000	0.50%
500,000.01 – 600,000	0.60%
600,000.01 – 700,000	0.80%
700,000.01 – 800,000	0.90%
800,000.01 – 900,000	1.00%
900,000.01 – 1,000,000	1.05%
100,000.01 – 2,000,000	1.10%
> 2,000,000	1.15%

OTHER TAXES

Transactions not subject to VAT are subject to Stamp Duty at rates ranging from 1.2% to 3.6%.

SOCIAL SECURITY CONTRIBUTIONS

Companies pay contributions to the social security organisation (IKA) for their employees. The employer's contribution is computed on the employee's gross salary at a rate of 25.06%. In addition there is an employee contribution of 16.00 % withheld from the salary.

B. DETERMINATION OF TAXABLE INCOME

Taxable income is based on the profit or loss shown in the financial statements. The accounting profit or loss is then adjusted according to the specific tax provisions of Greek tax law. Generally, expenses are deductible if they are properly documented and have been incurred to generate taxable income with the exception of particular types of expenses specified in tax law as non-deductible (such as provision for employment and retirement benefits).

DEPRECIATION

Fixed asset depreciation is computed annually using the following fixed rates:

- Plant and other buildings: 4%;
- Public Transportation means (including airplanes, ships, trains): 5%;
- Machinery: 10%;
- Furniture and other equipment: 10%;
- Intangible assets: 10%;
- Transportation means for cargo: 12%;
- Transportation means for personnel: 16%;
- Computers, hardware and software: 20%.

STOCK / INVENTORY

Stock is valued according to acceptable valuation methods. Cost of sales is deductible during the process of calculating taxable profit.

INTEREST DEDUCTIONS

Interest on loans is tax deductible if it does not exceed 30% of the company's EBITDA.

LOSSES

Losses incurred in a business year may be carried forward to be offset against profits of the following five business years. Tax losses carried forward may be forfeited if there is a change in company ownership of more than 33 % of the capital unless it can be proved that the change was made for valid commercial reasons.

TAX INCENTIVES

A new investment law (Law 4399/2016) was recently enacted governing incentives for investment projects in all economic sectors with very few exceptions. A special focus is given to investments in innovative and pioneer technology.

Different kinds of incentives are provided by the law including:

- Exemption from corporate income tax for a specified period;
- Subsidy of the investment;
- Subsidy of the employment cost;
- Fixed corporate income tax rate for a specified period.

C. FOREIGN TAX RELIEF

In the absence of a double tax treaty, a Greek resident company is entitled to a credit for foreign tax paid on foreign-sourced income against Greek corporate income tax levied on that income. The credit amount is limited to the Greek tax amount attributable to the foreign-sourced income. When the double tax treaty relief is more advantageous than the unilateral relief, the former relief is applied. However, if unilateral relief is more advantageous then this will apply.

D. CORPORATE GROUPS

There are no special tax provisions for corporate groups. Each company of the group is taxed separately.

E. RELATED PARTY TRANSACTIONS

Transactions between related parties must be carried out following arm's length rules. Companies should prepare and maintain transfer pricing documentation.

CbC (Country-by-Country) Reporting

The obligation for annual filing of the CbC report arises for multinational enterprise groups for tax years beginning from 1 January 2016 onwards, provided the group's total consolidated revenues exceeded EUR 750 million in the tax year preceding the reporting tax year. The CbC report must be submitted within 12 months from the last day of the reporting tax year. The entity required to file the CbC report is the ultimate parent entity of an MNE group that has tax residence in Greece (or any other surrogate entity in Greece).

The CbC report must include the following information, which will be provided and exchanged using standard tables:

- Aggregated data relating to revenue, profit (loss) before income tax, income tax paid, income tax due, share capital, accumulated profits, number of employees, and tangible assets other than cash or cash equivalents for each jurisdiction the group operates in;
- Identification documents for the jurisdiction where each constituent entity has its tax residence, and in case the latter differs from the jurisdiction of tax residence, the jurisdiction under which this constituent entity is organised and the nature of its primary business or businesses.

F. WITHHOLDING TAX

Many types of payments are subject to income tax withholding (salaries, payments to individuals for services, contractors of technical works, etc.).

G. EXCHANGE CONTROL

Greece's foreign exchange market conforms to EU rules on the free movement of capital. Controls only exist to facilitate the enforcement of money laundering and terrorist financing laws. However, capital controls are currently in force due to the Greek financial crisis. These controls are expected to be gradually lifted. As a

result, there are limitations on the amount of funds which can be sent abroad. Cash carried out of the country should be reported if it exceeds an amount of EUR 10,000.

H. PERSONAL TAX

An individual is subject to income tax on his total net income in Greece and abroad (worldwide taxation). Net income sourced in Greece is taxed irrespective of the residence of the individual. Income arising abroad is taxed if the relevant individual is a resident of Greece. The tax year is the calendar year. Personal tax is calculated as follows:

Salary income, Income from pensions, Income from individual business practice.

Taxable income is calculated after deducting the social security contributions. The remaining amount is taxed as follows:

Income Bracket (EUR)	Tax Rate (%)	Tax per Bracket (EUR)	Aggregate	
			Income	Tax
			(EUR)	(EUR)
Up to 20,000	22%	4,400	20,000	4,400
Next 10,000	29%	2,900	30,000	7,300
Next 10,000	37%	3,700	40,000	11,000
Over 40,000	45%	-	-	-

The tax calculated according to the above table is reduced by the following amounts:

- EUR 1,900 for taxable income up to EUR 20,000. For taxable income, which exceeds the amount of EUR 20,000, the amount of the reduction shall be EUR 10 per EUR 1,000 of taxable income.
- 10% of the cost for medical expenses, provided that the total amount of medical expenses exceeds 5% of the taxable income. The amount of the reduction shall not exceed the amount of EUR 3,000.
- 10% of the amount given for donations, provided that the total amount of donations within the tax year does not exceed 5% of the taxable income.

The following types of income earned by individuals are taxed separately using different tax rates:

- Interest income is taxed at the rate of 15%;
- Income from royalties is taxed at the rate of 20%;
- Real estate property rent income is taxed at the following tax rates :
  - For income up to EUR 12,000: 15%;
  - From EUR 12,001 to EUR 35,000: 35%;
  - For income exceeding EUR 35,000: 45%.

Special Solidarity Tax Contribution

In addition to ordinary income tax, individuals are subject to Special Solidarity Tax Contribution calculated on taxable income according to the following table:

Total Income (EUR)	Tax rate
0,0 – 12,000	0.0%
12,001 – 20,000	2.20%
20,001 – 30,000	5.00%
30,001 – 40,000	6.50%
40,001 – 65,000	7.50%
65,001 – 220,000	9.00%
> 220,000	10.00%

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Under the tax treaties which have been concluded by Greece, the residents of certain foreign countries may enjoy reduced rates of withholding taxes on dividends, interest and royalties as follows.

	Dividends (%)	Interest (%)	Royalties[1] (%)
Non-treaty countries:	10	10/25	20
Treaty countries:			
Albania	5	5	5
Armenia	10	10	5
Austria	15/5	8	7
Azerbaijan	8	8	8
Belgium	15/5	0/10	5
Bulgaria	10	10	10
Canada	15/5	10	10
China	10/5	10	10
Croatia	10/5	10	10
Cyprus	25	10	0/5
Czech Republic	--[7]	10	10/0[3]
Denmark	38	8	5
Egypt	10	15	15
Estonia	15/5	10	5/10[2]
Finland	47	10	0/10
France	--[7]	10	5
Georgia	8	8	5
Germany	25	10	0
Hungary	45	10	10
Iceland	15/5	8	10
India	--[7]	--[7]	--[7]
Ireland	15/5	5	5
Israel	--[7]	10	10
Italy	15	10	5/0
Korea	15/5	8	10
Kuwait	5	5	15
Latvia	10/5	10	5/10

Lithuania	15/5	10	5/10
Luxembourg	38	8	7/5
Malta	10/5	8	8
Mexico	10	10	10
Moldova	15/5	10	8
Morocco	10/5	10	10
Netherlands	35	10/8[4]	7/5[5]
Norway	40	10	10
Poland	--[7]	10	10
Portugal	15	15	10
Qatar	5	5	5
Romania	45	10	7/5
Russia	10/5	7	7
Saudi Arabia	5	5	10
Serbia	15/5	10	10
Slovak Republic	--[7]	10	0/10
Slovenia	10	10	10
South Africa	15/5	0/8	5/7
Spain	10/5	0/8	6
Sweden	0	10	5
Switzerland	15/5	7	5
Tunisia	35	15	12
Turkey	15	12	10
Ukraine	10/5	0/10	10
United Kingdom	--[7]	0	0
United States	--[7]	--[6]	0
Uzbekistan	8	10	8

Notes:

1. Where the withholding tax rate on royalties is indicated as nil, no income tax is due. The withholding tax on rental payments may also be reduced under the provisions concerning royalties in various tax treaties. The text of the relevant treaty should be consulted.
2. The 5% rate applies to royalties paid for the use of industrial, commercial or scientific equipment. The 10% rate applies to all other royalties.
3. No tax on royalties on intellectual property.
4. 8% if paid to a bank or other institution.

5. 5% for copyright and film royalties.
6. Where the US resident receiving the interest is not engaged in a trade or business through a permanent establishment in Greece, the interest is exempt from tax in Greece to the extent that it does not exceed a rate of 9% per annum. The exemption is not available (and the domestic withholding tax rate therefore applies) where the US corporation holds more than 50% of the voting power of the Greek payor.
7. The domestic rate applies. There is no reduction under the treaty.

GRENADA

MEMBER FIRM

City	Name	Contact Information
PKFI	Stefaan De Ceulaer	+44 20 3691 2511 stefaan.deceulaer@pkf.com

BASIC FACTS

Full name:	Grenada
Capital:	St. George's
Main languages:	English (official), French patois
Population:	108,267 (2018 estimate)
Monetary unit:	East Caribbean Dollar (XCD)
Internet domain:	.gd
Int. dialling code:	+1473

KEY TAX POINTS

- Grenadian resident companies are taxed on their income earned in Grenada. Non-residents are taxed on the profits of branch operations in Grenada.
- There is no tax on capital gains derived by companies although a transfer property tax applies as well as a Stamp Duty charge in respect of certain transactions.
- There are no withholding or other taxes on the payment of dividends. Withholding taxes are charged on payments to non-residents of interest, royalties and other charges at a rate of 15%.
- Individuals who are resident, ordinarily resident or domiciled in Grenada pay income tax only on income earned in Grenada. Non-residents are subject to tax on income arising from the carrying on of a business in Grenada. Withholding taxes apply to other payments to non-residents.

A. TAXES PAYABLE

COMPANY TAX

Grenadian resident companies are liable to income tax on all sources of non-exempt income wherever arising. A company is regarded as resident in Grenada if its central management and control is located and exercised in Grenada or if it was incorporated in Grenada. A non-resident company is taxed on income of a branch carrying on a trade or business in Grenada, i.e. the income arises in Grenada. The tax rate on companies is 30%. The tax year or 'year of assessment' is a period of 12 months commencing on 1 January in each year. Any business with gross income less than $300,000 per annum and paying 0.5% in annual stamp tax is exempt from filing income returns and there is no tax on the business profits.

Companies are assessed to tax on their income that arises in the basis period. Where the company usually makes up its accounts for a period other than the calendar year, this period will be substituted for the calendar year. The company is expected to submit its tax return by the end of March or three months following the year of assessment and pay any balance of tax due. The company is required by law to make monthly advance payments of income tax based on the results of the preceding year (estimated tax). Any balance of tax is due and payable when the return is filed.

CAPITAL GAINS TAX

There is no income tax on capital gains secured on the disposal of capital assets. However, there is a transfer property tax of 5% of the value of property sold with or without improvement. There is also an aliens' landholding tax: for a foreign company buying into a local company, the foreigner pays 15% and the local pays 10%. For a foreign company buying into another foreign company, each pays 15%.

There is a 1% Stamp Duty charge.

BRANCH PROFITS TAX

Branches of a non-resident corporation or companies doing business in Grenada are taxed on the profits arising in Grenada. The rate of tax is 30%. There is no branch remittance tax in Grenada.

VALUE ADDED TAX

VAT is levied on the sale of goods and services at the rate of 15% except for accommodation at hotels which is at 10% and telecommunications services at 20%. The tax applies to both input and output so that at the end of a month a credit may be claimed where the input is greater than the output. Businesses with income lower than $300,000 per annum are exempted from VAT.

LOCAL TAXES

National Insurance is payable on emoluments up to a maximum of XCD 5,000 per month at a rate of 4% from the employee (XCD 200) and 5% from the employer (XCD 250). This compulsory contribution made both by employer and employee goes towards the provision of a pension at age 60 for women and 65 for men.

Stamp tax is paid on the gross income of businesses. The rates are as follows:

Gross annual income of over XCD 36,000 but less than XCD 300,000	0.5%
Gross annual income exceeding XCD 300,000	0.75%

The charge shall not be less than XCD 100 and is payable by 31 March of each year.

OTHER TAXES

Common External Tariff (CET) and Customs Service Charge (CSC) are imposed. CET is levied at a rate of between 6% and 40% on the CIF value of the landed price of goods purchased outside of CARICOM. Property tax is ad valorem, i.e. the property is assessed at market value and a taxable rate is applied based on the land use classification.

Category	Land Rate (%)	Building Rate (%)
Agricultural	0.0	0.00
Amenity	0.2	0.20
Commercial	0.5	0.30
Hotel	0.3	0.02
Industrial	0.3	0.20
Institutional	0.1	0.10
Residential	0.1	0.15
Reserve	0.1	0.00
Waste	0.1	0.00

B. DETERMINATION OF TAXABLE INCOME

The chargeable income of a company is determined by deducting all non-capital disbursements and expenses wholly and exclusively incurred in acquiring the income from all taxable income brought into charge. Domestic and private expenses are not allowable.

CAPITAL ALLOWANCES

Capital allowances are granted for depreciation of equipment, plant and machinery and other assets used in the business at the following rates per annum:

Plant, machinery and equipment	15%
Air conditioning units, computers, elevators, ships, and other vessels	20%
Motor vehicles other than heavy vehicles	25%
Aircraft and equipment, heavy plant and machinery, public transport	25%

A deduction of up to a maximum of $100,000 is allowed on purchases of plant and machinery in the year of purchase as a one-off deduction.

STOCK / INVENTORY

Stock and work-in-progress are valued at the lower of cost or net realisable value.

CAPITAL GAINS AND LOSSES

Capital gains are not taxed in Grenada.

DIVIDENDS

Dividends are not taxed in Grenada.

INTEREST DEDUCTIONS

Interest paid upon any money borrowed on capital employed in acquiring the income is deductible.

LOSSES

Losses sustained in a trade, profession or business on the island or through the ownership or occupation of land situated on the Island are allowed as expenses in arriving at the chargeable income of the person sustaining the loss. The loss should not be a capital loss. The loss is available to be set off against other income arising in the year of assessment and may be carried forward and deducted in ascertaining the assessable income of the current and following six years or until the assessed loss has been fully utilised, whichever is earlier.

FOREIGN SOURCED INCOME

Where income arises outside Grenada and such income is derived from any act incidental to business carried on in Grenada, such income shall be included in the assessable income of the business in Grenada whether received in Grenada or not. This includes:

(a) Branch or agency profits from business outside Grenada;

(b) Interest, royalties and rents outside Grenada.

INVESTMENT ALLOWANCE / INCENTIVES

The Government of Grenada encourages the establishment and development of new businesses and offers a wide range of incentives to potential investors. All of these incentives and concessions are designed to make investments more profitable. Concessions are available under the following various enactments:

- Fiscal Incentives Act 1974;
- Qualified Enterprise Act;
- Investment Code Incentive Law 1983;
- Hotels Aid Act 1954;
- Common External Tariff (SRO 37 /99); and,
- General Consumption Tax Act 7/95.

TOURISM SECTOR

There is full exemption from taxes on corporate profits for up to ten years. There is also exemption from Customs duties (CET) and taxes (GCT) on articles of hotel equipment to equip and upgrade the hotel property, service vehicles, material tor construction, repair, renovation or alteration to hotel properties.

MANUFACTURING SECTOR

There is full exemption from taxes on corporate profits for up to 15 years. There is also exemption from Customs duties (CET) and taxes (GCT) on plant, machinery, equipment (including equipment for the transportation of goods), spare parts, raw materials and components.

SERVICE SECTOR

There is relief from duties (CET) and taxes (GCT) on equipment.

C. FOREIGN TAX RELIEF

There is no foreign tax relief in Grenada.

D. CORPORATE GROUPS

Tax liability in a group basis is not permissible. The liability of each company within the group is determined separately.

E. RELATED PARTY TRANSACTIONS

Related party transactions which are carried out for considerations not at arm's length, intended to secure a benefit or tax advantage or to reduce the tax payable, are counteracted by the Comptroller who will take appropriate actions to negate this advantage.

F. WITHHOLDING TAX

Dividends derived by non-resident companies are taxable in Grenada at a rate of 15% on the gross amount of the dividend. Interest derived by non-resident companies is not subject to tax. Royalties derived by non-resident companies are subject to a 15% final withholding tax, which is imposed on the gross amount of the royalties. Other income derived by non-resident companies (i.e. discounts, commissions, fees, management charges, rents, lease premiums and licence charges) is subject to a 15% final withholding tax on the gross amount of the income.

G. EXCHANGE CONTROL

There are no exchange controls in Grenada at this time. Foreign currency up to a maximum equivalent of XCD 250,000 can be purchased from any of the commercial banks. Amounts in excess of this limit are subject to permission being obtained from the Ministry of Finance. This permission is generally not withheld and can be obtained within a short time period.

H. PERSONAL TAX

An individual who is resident, ordinarily resident and domiciled in Grenada is subject to income tax on his or her income as it arises. Non-residents are subject to tax on income accruing directly or indirectly from the carrying on of business in Grenada. Income from any source other than from the carrying on of business shall be liable to withholding tax and not form part of the assessable income.

RESIDENCE IN GRENADA

The residency requirements are as follows:

- An individual's permanent place of abode is in Grenada and the individual is physically present therein for some period of time in that year of assessment;
- Physical presence in Grenada for a period of not less than 183 days in that year of assessment;
- Physically present in Grenada for some period of time in that year of assessment and such period is continuous with a period of physical presence in the immediately preceding or succeeding year of assessment of such duration as to qualify him for the resident status.

Broadly, an individual is domiciled in the country or state which he regards as his permanent home. He acquires a domicile of origin at birth, normally that of his father, and retains it until he acquires a new domicile of choice. To acquire a domicile of choice, a person must sever his ties with his domicile of origin and settle in another country with the clear intention of making it his permanent home.

In ascertaining the chargeable income of an individual who is resident in Grenada, the amount of XCD 36,000 per annum is allowed as a deduction. Income from XCD 36,001 to XCD 60,000 is taxed at the rate of 10% while income in excess of XCD 60,000 is taxed at the rate of 30%.

Salaries Per Annum	Rate
Up to XCD 36,000	exempt
XCD 36,001 to XCD 60,000	10%
Above XCD 60,000	30%

The Pay-As-You-Earn (PAYE) system of collection is in operation. The employers, who act as agents, deduct tax from employees' gross monthly emoluments. The tax so deducted must be remitted to the Inland Revenue Department by the seventh day of the month following the period for which the deduction was made. Any tax deducted and not paid within the time specified shall bear interest at the rate of 2% per month or part thereof for the period during which it remains unpaid. Employees whose income is in excess of XCD 36,000 are required to submit an annual income tax return and attach a certification from the employer by the end of March following the year of assessment.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Grenada has not entered into any double tax treaty.

GUATEMALA

MEMBER FIRM

City	Name	Contact Information
Guatemala City	Hugo Arevalo Perez	+502 2332 8831 /32 horevaloperez@pkfguatemala.com
Guatemala City	Siomara Arevalo Iralda	+502 2332 8831/32 sarevalo@pkfguatemala.com

BASIC FACTS

Full name:	Republic of Guatemala
Capital:	Guatemala City
Main languages:	Spanish, more than 20 indigenous languages
Population:	17.18 million (2018 estimate)
Monetary unit:	Guatemalan Quetzal (GTQ)
Internet domain:	.gt
Int. dialling code:	+502

KEY TAX POINTS

- Companies are subject to income taxes, known as the income on lucrative activities regime, at a rate of 25% on net taxable income.
- Solidarity tax is a way to anticipate income taxes so that the amount paid may be credited to income taxes over the following three years.
- VAT is payable on the domestic supply of goods and services and the import of goods. A standard rate of 12% applies although some supplies are exempted.
- For income from entities not residing in the country and acting with or without a permanent establishment, tax regimes do exist for the specific computation of withholding tax at rates ranging from 5% up to 15%.

A. TAXES PAYABLE

TAXES AND LEVIES

Tax laws in Guatemala are based on the territoriality principle. There are a few exceptions, mainly those related to withholdings in origin, and all taxes are applicable to activities conducted within the Guatemalan territory. The Political Constitution of Guatemala provides legislative power to the Congress of the Republic. This provides certainty that no other entity, either local or foreign, shall create indirect or direct taxes.

Guatemala is part of the Multilateral Investment Guarantee Agency (MIGA), which is responsible for facilitating a private capital investment flow to developing countries, while providing guarantees against risks such as expropriation, lack of currency convertibility, civil war or riots, etc. In addition, the country has benefited from the Overseas Private Investment Corporation (OPIC) with the promotion and fostering of private investments from the United States of America.

COMPANY TAX

Companies are subject to income taxes, known as the income on lucrative activities regime, at a rate of 25% on net taxable income. There is also an optional simplified regime on income from lucrative activities with rates ranging from 5% to 7%. In addition, a 5% income tax payment exists on distribution of dividends, earnings and profits.

SOLIDARITY TAX

This tax is a way to anticipate income taxes so that the amount paid may be credited against income taxes over the following three years. The tax rate is 1% on gross income or the net asset amount and is applicable only to taxpayers opting for taxes on income from lucrative activities (25% income tax regime). Taxpayers that pay taxes under the optional simplified tax regime on income from lucrative activities (5% tax regime) are exempt from this tax.

CAPITAL GAINS TAX

Current laws provide for an applicable tax rate on capital from furniture and real estate gains at 10%.

A 5% income tax rate is applicable to payments made to stockholders upon the distribution of dividends, earnings or profits.

BRANCH PROFITS TAX

There is no separate branch profits tax. Overseas companies with a permanent establishment in Guatemala pay tax on the profits of the permanent establishment under the same rules as applied to Guatemala resident companies. There is a 5% branch remittance in Guatemala.

VALUE ADDED TAX (VAT)

VAT is collected during the exchange of goods or services at the local level as well as during the provision of services and importation of goods. Exportation of goods and services are tax exempt. The tax rate is 12%, although some exemptions do exist including:

- Services provided by entities controlled by the Superintendent of Banks, stock exchange brokers, insurance and reinsurance operations;
- Issuance and transfer of some securities;
- Grants and donations to not-for-profit entities;
- Transactions among co-operative entities and their participants;
- Importation of furniture by cooperative entities exclusively for their operations;
- Imports under the temporary importation system: VAT tax returns shall be filed on a monthly basis within a month following that month reported in the tax return. The tax amount in debt shall be payable on the due date.

FRINGE BENEFITS TAX

All benefits in kind are taxable in the hands of individuals receiving those benefits from their employers.

OTHER TAXES - REAL ESTATE TAX

An annual tax is payable on the owners of real estate and levied at the following rates:

Taxable amount (GTQ'000)	Rate
Up to 2,000	0.0%
2,000.01 to 20,000	0.2%
20,000.01 to 70,000	0.6%
Over 70,000	0.9%

Tax is also charged on rural land declared to be uncultivated (i.e. not used for agricultural purposes).

SOCIAL SECURITY CONTRIBUTIONS

Employer's social security is payable at a rate of 10.67% on the total salary of employees.

SOCIAL SECURITY CONTRIBUTIONS, IRTRA AND INTECAP

Contributions made by employers to the social security and other recreational or training institutions shall be payable at 12.67% on the overall employees' salaries.

A contribution made by employees to the social security scheme is 4.83% on their salaries.

B. DETERMINATION OF TAXABLE INCOME

The information provided in the following section is applicable to taxpayers opting for the income on lucrative activities regime.

CAPITAL ALLOWANCES (DEPRECIATION)

A tax deduction is available in respect of fixed assets used in the business. Generally speaking, only the straight-line method is allowed, although other methods may be used if agreed by the tax authorities. Maximum depreciation rates are set and include the following:

Assets	Rate
Buildings and construction	5%
Furniture and equipment	20%
Vehicles	20%
Computers (including software)	33.33%
Tools	25%

STOCK / INVENTORY

In general, the following four methods may be used for valuation of inventories:

(1) Production cost;

(2) First-in, first-out system (FIFO);

(3) Weighted average; and,

(4) Historic cost of goods.

Other methods are allowed upon prior authorisation from the Tax Office.

INTEREST DEDUCTIONS

Interest payments are deductible, but the deductible amount is limited to the amount resulting from multiplying the interest rate authorized by the Monetary Board by an amount equal to three times the average total net assets reported by the company on its annual tax return (thin capitalization rule). This limitation is not applicable to banks and financial institutions subject to the surveillance of the Guatemalan Superintendence of Banks, or to co-operatives legally authorized.

LOSSES

Losses other than capital losses may not be carried back or forward. Capital losses may only be offset for two years against capital gains.

FOREIGN SOURCE INCOME

Tax is only chargeable on Guatemala-sourced income.

TAX INCENTIVES

EXPORT AND DRAW-BACK ACTIVITIES

Some incentives exist, such as exemption of import tax, income tax and VAT for industrial and commercial outfits established under the incentive to exportation and draw-back incentive law.

FREE-TRADE ZONE

Incentives including exemption of import tax, income tax and VAT exist for industrial and commercial entities established within the country's free-trade zone.

INVESTMENT IN RENEWABLE ENERGY SOURCES

Exemption of import tax, income tax and VAT exists by way of the "Incentives for development of renewable energy projects' law".

C. FOREIGN TAX RELIEF

Only Guatemala-sourced income is subject to tax and therefore Guatemalan law does not provide relief for foreign income taxes paid.

Foreign investment is governed by the Foreign Investment Act, which among others, provides for equal conditions for either domestic or foreign investors. Likewise, this law establishes that the Government may not directly or indirectly expropriate investments made by foreign investors.

D. CORPORATE GROUPS

There are no special tax provisions relating to groups of companies.

E. RELATED PARTY TRANSACTIONS/TRANSFER PRICING TAX

In January 2015, transfer pricing rules entered into force. Consequently, taxpayers with non-resident related parties that carry on transactions with such related parties must submit a transfer pricing report attached to their annual tax return (i.e. within the first 3 months of each calendar year). The arm's length principle should be adhered to and must be determined by means of the following methods:

- The comparable uncontrolled price method;
- The resale price method;
- The cost-plus method;
- The profit split method; or
- The transactional net margin method.

Taxpayers may seek to obtain an advance pricing agreement (APA) from the tax authorities under certain conditions.

There is no CFC (Controlled Foreign Companies) legislation in Guatemala.

F. WITHHOLDING TAX

For income from non-resident entities and acting with or without a permanent establishment, tax regimes exist for the specific computation of withholding taxes at rates ranging from 5% up to 15%:

- Dividends and other profit distributions derived by non-residents are subject to a 5% final withholding tax on the gross amount of the payment;
- Interest derived by non-residents is generally subject to a 10% final withholding tax on the gross amount. However, interest paid by the state to non-resident entities is exempt from tax. Furthermore, interest paid to non-resident banks and financial institutions, duly organized and supervised by their corresponding banking authorities, is also exempt from tax;
- Royalties paid to non-residents are subject to a 15% final withholding;
- Income derived by non-residents from the rendering of services, including scientific, economic, technical or financial assistance, is subject to a 15% final withholding;
- Income derived by non-resident insurance companies from insurance, reinsurance, secondary bails and cancellations is subject to a 5% final withholding tax;

- Capital gains derived by non-resident enterprises are subject to a 10% final withholding tax on the amount of the gains.

G. EXCHANGE CONTROL

There are no exchange controls in Guatemala (Decree Number 94-2000 Law of Free Negotiation of Foreign Currency).

H. PERSONAL TAX

Individuals residing in the country and receiving income from labour under a dependency relationship are subject to a progressive tax rate as shown below:

Taxable Base (GTQ)	Fixed Tax Amount (GTQ)	Marginal Rate On Excess
0.01 to 300,000	0	5%
Over 300,000	15,000	7%

Social security contributions and total personal expenses for up to CTQ 60,000 are deductible.

I. TREATY WITHHOLDING TAX RATES

Guatemala does not have any double tax treaties in force. It has signed a tax treaty with Mexico in March 2015 which is not yet in effect. Guatemala entered into an agreement before the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, regarding tax information exchange with 42 countries, which includes among others, taxes on transfer pricing as explained in the preceding paragraphs.

GUERNSEY

MEMBER FIRM

City	Name	Contact Information
St Clement	Robert Behan	+44 1534 858490 robert.behan@pkfbba.com

BASIC FACTS

Full name:	Bailiwick of Guernsey
Capital:	Saint Peter Port
Main language:	English
Population:	66,502 (2018 estimate)
Monetary unit:	Pound Sterling (GBP)
Internet domain:	.gg
Int. dialling code:	+44 1481

KEY TAX POINTS

- There are no capital taxes i.e. capital gains tax or inheritance tax.
- Residents are subject to Guernsey income tax on their worldwide income as it arises. The standard rate of Income Tax is 20%.
- Non-residents are normally only subject to income tax on income arising in Guernsey.
- Double taxation relief is available in accordance with various double tax treaties.
- A company tax resident in Guernsey is chargeable to tax at 0%, 10% or 20% depending upon the nature of its income. Generally trading companies and investment holding companies are taxed at 0%. Financial service entities are liable to tax at the 10% corporate rate. Utility companies and companies with Guernsey rental income and Guernsey property development companies, companies involved in the importation and/

or supply of hydrocarbon oil or gas in Guernsey and large retail business carried on in Guernsey where the company has a taxable profit of more than GBP 500,000 are taxed at 20%.

- Non-resident companies are not liable to Guernsey tax unless managed and controlled in Guernsey and therefore Guernsey tax resident.

A. TAXES PAYABLE

COMPANY TAX

All companies incorporated in Guernsey or managed and controlled in Guernsey are treated as tax resident and, therefore chargeable to Guernsey income tax. A Guernsey resident company is liable to tax at 0%, 10% or 20%.

Income from banking business, domestic insurance business, fiduciary business, insurance intermediary business and insurance manager business, fund administration business and provision of custody services is subject to a 10% rate.

Public utility companies such as those providing electricity, water, gas, telecommunications and postal services are taxed at 20%. Guernsey rental income and profits from property development in Guernsey are taxed at the rate of 20%. Income from the importation and/or supply of hydrocarbon oil or gas in Guernsey is taxed at the rate of 20%.

Most other companies are liable at the standard rate of 0%.

Collective investment vehicles may apply for exempt status in Guernsey.

The tax year runs from 1 January to 31 December, although companies may adopt an accounting year end of their choice. Income is assessable on a current year basis. Assessments are notified to the company in the year following the year of assessment.

CAPITAL GAINS TAX

There is no capital gains tax in Guernsey. Capital gains are not included in ordinary taxable income.

SALES TAX / VALUE ADDED TAX (VAT)

There is no sales tax or value added tax in Guernsey.

LOCAL TAXES

Taxes are levied at a state level only.

OTHER TAXES

The self-employed rate of Social Security is 11% of earnings from self-employment.

Social security contributions are charged on non-employed people at a rate of 10.4% of income for people under 65 and 3.4% of income for people over 65.

Contribution rates for employees and employers are 6.6% of earnings from employment.

FRINGE BENEFITS TAX (KNOWN AS BENEFITS IN KIND IN GUERNSEY)

Taxable benefits include, amongst other things, the private use of a company motor vehicle, rent-free accommodation and free board and lodging. Employees are responsible for payment of tax on benefits.

TAX ON REAL PROPERTY

In Guernsey, there is a list/register of ownership of real property known as Cadastre, and there is a tax on real property.

B. DETERMINATION OF TAXABLE INCOME

For a company or business, taxable trading profits are calculated by ascertaining assessable income and subtracting allowable deductions. Generally, to be deductible, expenditure must be wholly and exclusively incurred for the purposes of the trade and be revenue in nature rather than capital.

CAPITAL ALLOWANCES AND DEPRECIATION

No deduction is permitted in respect of depreciation on capital items. However, annual allowances, calculated using the reducing-balance method, are allowed as follows:

- Plant and machinery: 20%

- Motor vehicles: 20%

If, in any year, there are insufficient profits to cover balancing allowances, which are treated as a deduction from profits, any unrelieved amount is carried forward and treated as an allowance for the following year. This surplus capital allowance and balancing allowances may be carried forward indefinitely, if necessary.

CAPITAL GAINS AND LOSSES

There is no capital gains tax in Guernsey. Capital losses are not allowable.

INTEREST DEDUCTIONS

Interest is deductible to the extent that it relates to monies borrowed for the purpose of the business.

C. FOREIGN TAX RELIEF

Guernsey has double tax treaties with the United Kingdom and Jersey. Double taxation relief is available under those treaties. Associated with its negotiations in relation to Tax Information Exchange Agreements, Guernsey has entered into limited double tax treaties relating to income and mutual agreement procedures with:

Australia	Denmark	Faroe Islands
Finland	Greenland	Iceland
Ireland	Japan	New Zealand
Norway	Poland	Sweden
Tax Information Exchange Agreements (TIEAs) have been signed with:		
Argentina	Australia	Austria
Bahamas	Belgium	Bermuda
Botswana	Brazil	British Virgin Islands
Bulgaria	Canada	Cayman Islands
Chile	China	Costa Rica
Czech Republic	Denmark	Faroe Islands
Finland	France	Germany
Gibraltar	Greece	Greenland
Hungary	Iceland	India
Indonesia	Ireland	Italy
Japan	Korea	Latvia
Lesotho	Lithuania	Macao
Mauritius	Mexico	Montserrat
Netherlands	New Zealand	Norway
Poland	Portugal	Romania
San Marino	Seychelles	Slovakia
Slovenia	South Africa	Spain
St Kitts & Nevis	Sweden	Swaziland

Switzerland	Turkey	Turks & Caicos
UK	USA	Uruguay

D. RELATED PARTY TRANSACTIONS

There is no transfer pricing or related party legislation in Guernsey.

E. WITHHOLDING TAX

There are no withholding taxes in Guernsey.

F. EXCHANGE CONTROL

There are no exchange control rules in Guernsey.

G. PERSONAL TAX

Income tax is charged on Guernsey resident individuals on their worldwide income and profits regardless of whether such profits or income are remitted to Guernsey. The tax year is the calendar year i.e. to 31 December. There are complicated residence rules in Guernsey. Generally, individuals are treated as resident in a year if they are present in Guernsey for more than six months or if they are present for three months or more, on average, over a period of four consecutive years.

Income from offices and employment is assessable on an arising basis. Income tax is levied on the assessable income of the individual less personal allowances and deductions at a rate of 20%.

Where income is chargeable to tax, personal allowances are available as follows:

- Single person
- Married/civil partnership person
- Age Relief Allowance
- Additional Persons Allowance
- Charge of Child Allowance
- Dependent Relative Allowance
- Housekeeper Allowance
- Mortgage Interest relief

There is tax relief for pension contributions. The only other deduction is for employment expenses.

Some reliefs are restricted and have conditions attached to them which need to be satisfied.

H. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends **(%)**	Interest (%)	Royalties (%)
Domestic rates			
Companies	0	0	0
Individuals	0	0	0
Treaty countries:			
Cyprus	0	0	0
Hong Kong	0	0	4
Isle of Man	0	0	0
Jersey	0	0	0
Liechtenstein	0	0	0
Luxembourg	5/15[1]	0	0
Malta	0	0	0

Mauritius	0	0	0
Monaco	0	0	0
Qatar	0	0	5
Seychelles	0	0	5
Singapore	0	12	8

Notes:

1. The lower rate applies in case the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends.

GUYANA

MEMBER FIRM

City	Name	Contact Information
Georgetown	Harry Narine	+592 225 3221 noelnarine@hotmail.com

BASIC FACTS

Full name:	Co-operative Republic of Guyana
Capital:	Georgetown
Main languages:	English and various regional languages
Population:	781,283 (2018 estimate)
Monetary unit:	Guyana Dollar (GYD)
Internet domain:	.gy
Int. dialling code:	+592

KEY TAX POINTS

- Corporate income tax is levied at a rate of 27.5% on non-commercial activities of companies and at a rate of 40% on commercial activities of companies (telephone companies: 45%);
- Alternative minimum tax levied at 2% of turnover for commercial companies (creditable against corporate income tax);
- VAT is levied at 14%;
- Unlimited loss carry-forward provided that it does not reduce taxable income in any year by more than 50% for non-commercial companies and below 2% of turnover for commercial companies. Loss carry-back is not allowed.
- A limited unilateral double taxation relief is available;
- Branch remittance tax is 20% subject to the application of a double tax treaty;
- Dividends, interest, royalties and fees are generally subject to a 20% withholding tax unless a double tax treaty or multilateral treaty applies.

A. TAXES PAYABLE

COMPANY TAX

Company tax rates are:

- Non-commercial companies: 27.5% of chargeable profit. Losses may be carried forward indefinitely and set off is limited to 50% of the chargeable profits in future years.

- Commercial companies: 40% of chargeable profits or 2% of turnover whichever is higher. Any payment in excess of 40% of profit is carried forward as a credit to be used to reduce the tax whenever it is higher than 2% of Turnover.
- Dual Rate: For companies that are engaged in commercial and non-commercial activities, the non-commercial activity of the company shall be taxed at the rate of 27.5% and the commercial activity of the company shall be taxed at the rate of 40%.

A Commercial Company means a company which is trading in goods not manufactured by it and includes commission agency and any telecommunication company. It also includes Banks and Insurance Companies other than long term Insurance business.

PROPERTY TAX (WEALTH TAX)

This is payable on the net assets of the company as at 1 January each year. Assets with attract Wear and Tear Allowances will be included in their income tax values. The rates on net property are as follows:

- The first GYD 10 million is exempt;
- The next GYD 15 million is taxed at 0.5%;
- The remainder is taxed at 0.75%.

A set off would be granted to investors who hold shares in local companies at the appropriate rate. Assets owned prior to 1 January 2011 are required to be revalued at that date, which becomes the new value for tax.

CAPITAL GAINS TAX

The rate is 20% on the gain on disposal unless the asset was held for more than 25 years when becomes exempt. Capital losses are carried forward indefinitely and could be offset against future capital gains until fully recouped. A short term gain is taxed as income (disposal within 12 months).

Gain on disposal of investments in local public companies is exempt.

BRANCH PROFITS TAX

The after-tax profits of a branch of a non-resident company is deemed distributable whether distributed or not and will be subject a 20% withholding tax rate or at tax treaty rates unless the company has reinvested to the satisfaction of the Commissioner General such profits or any part thereof in Guyana.

VALUE ADDED TAX (VAT)

The rate is 14%. Some items are zero rated and very few are exempt. Registration is required if the turnover exceeds GYD 15 million per annum.

FRINGE BENEFITS TAX

There are no specific rules for granting of tax-free allowances except for overseas travel assistance which is described in the Income Tax Act. In practice some management staff may obtain car and entertainment allowances but the amount would be limited to 10% or 15% of their remuneration in each case.

B. DETERMINATION OF TAXABLE INCOME

CAPITAL ALLOWANCES

The rates for Wear and Tear Allowances for different categories of assets are as follows:

- Aircraft: 33,33%;
- Furniture and fitting: 10%;
- Plant and machinery: 20%;
- Building (housing machinery): 5%;
- Boats: 10%;
- Motor vehicles: 20%;
- Computers: 50%;
- Office equipment (electrical): 20%; other 15%.

The claim is computed on reducing balance basis except as stated otherwise. An accelerated write off is granted to pioneer industries and certain other undertakings. The rates for the initial allowances are:

- Plant, equipment and motor vehicle: 40%;
- Industrial buildings: 10%.

There is a special regime for gold, diamond and bauxite mining companies which enjoy a 20% write off on all assets for each year.

There is no limit to the carried forward losses to be set off for each year.

DIVIDENDS

Dividends paid to residents are tax-free. Dividends paid to non-residents are subject to withholding tax at a rate of 20% or at treaty rates.

TAX INCENTIVES

Income Tax in Aid of Industry Act

This Act was passed in order to encourage the establishment or development of certain industries in Guyana including the working of any mine (other than a gold or diamond mine).

The salient features of this Act are:

1. Accelerated Depreciation (wear and tear) on Capital Expenditure

An initial allowance of 40% of the cost of the Machinery and Plant and 10% of the cost of Industrial Buildings and Structures could be claimed in the year of acquisition or the year following. This is in addition to the standard wear and tear granted under the Income Tax Act. So that in year one the Company could claim 60% of the cost of Machinery and Plant and 15% on Industrial Buildings and Structures.

2. Tax Holiday

Section 2, Part 1 of the Act pertaining to Tax Holiday was amended by the Fiscal Enactments (Amendment) Bills 2003 and 2008 whereby the Minister of Finance may grant exemption from Corporation Tax in respect of Income from Economic Activity qualifying under one of the following circumstances.

(a) The Activity demonstrably creates new employment in one of the following regions:

Region 1:	Barima – Waini
Region 7:	Cayuni – Mazaruni
Region 8:	Potaro – Siparuni
Region 9	Upper Takatu – Upper Essequibo
Regional 10	Upper Demerara – Upper Berbice

Such other Regions as the minister may, by Order, subject to negative resolution of the National Assembly specify;

(b) The activity is new economic activity in one of the following fields:

(i) Non-traditional agro processing including aquaculture and production of Bio-fuels;

(ii) Information and communication technology;

(iii) Petroleum explorations, extraction or refining;

(iv) Mineral exploration, extraction or refining;

(v) Tourist facilities;

(vi) Value-added wood processing;

(vii) Textile production;

(viii) Bio technology;

(ix) Development and manufacturing of new pharmaceuticals products, chemical compounds and the processing of raw materials to produce injectables;

(x) Infrastructural development, including the production of electricity using renewal sources of energy;

(xi) Such other fields as the Minister may, or Order, subject to negative resolution of the National Assembly, specify.

The tax holiday period could be between 5-10 year.

Section 2AExemption from Corporation Tax

(1) Notwithstanding anything in the Income Tax Act or the Corporation Tax Act, the Minister may grant an exemption from the following activities

(a) The provision of Wind and solar energy;

(b) The provision of water treatment and water recycling facilities;

(c) The provision of waste disposal and recycling facilities for plastic items.

(2) An exemption granted under this section shall be for a period not exceeding two years.

C. FOREIGN TAX RELIEF

When a double tax treaty provides that foreign-paid tax will be allowed as a credit against tax payable in Guyana, the credit may not exceed the amount which would result from applying to the income a rate calculated by dividing the income tax chargeable (before allowance of the credit) on total income by the amount of total income. The total credit granted cannot exceed the total tax payable by a taxpayer in any year of assessment.

Guyana may grant unilateral relief for foreign-paid tax where those taxes are calculated by reference to the income arising in that country.

D. CORPORATE GROUPS

There are no group provisions. Each company needs to file its own return.

E. RELATED PARTY TRANSACTIONS

The Commissioner-General may disallow a deduction for expenses which he deems unreasonable and unnecessary taking into account the requirements of the trade and business or the actual services rendered (for directors' fees or various payments for services).

Head office expenses in excess of 1% of sales or gross income will be disallowed for deduction purposes.

There are no thin capitalization rules nor is there CFC (controlled foreign companies) regulation in Guyana.

F. WITHHOLDING TAX

Dividends, interest, rental income and royalties paid to non-residents are subject to a 20% final withholding tax rate, or as per treaty rates.

G. PERSONAL TAX

Definition of Resident in Guyana

When applied:

1. To an individual means an individual who:

(b) Resides permanently or being in Guyana intends to reside permanently in Guyana except for such temporary absence as to the Commissioner may seem reasonable and not inconsistent with the claim of such individual to be resident in Guyana; or

(c) Resides in Guyana for more than 183 days in the year.

2. To a body of persons means any body of persons the control and management of whose businesses are exercised in Guyana.

Employment Non Resident

In the case of income arising outside Guyana which is earned income or which arises to a person who is not ordinarily resident in Guyana or not domiciled therein, the tax shall be payable on the amount earned in Guyana. The gains or profits from any employment exercised in Guyana shall be derived from Guyana whether the gains or profits from such employment are received in Guyana or not.

Tax shall not be payable in respect of any income arising out of Guyana to any person who is in Guyana for some temporary purpose only and not with intent to establish his residence therein and who has not actually resided in Guyana at one or more times for a period equal in the whole six months in the year preceding the year of assessment.

Income Tax

There is a standard deduction of GYD 720,000 per annum and National Insurance contribution of the

employees, after which the balance of chargeable income is taxed at 28% for income up to GYD 1,440,000 per annum and for chargeable income greater than GYD 1,440,000 a deduction of 1/3 of the chargeable income is granted per annum and the remainder is taxed at 40%.

There are no other allowances except for Home Mortgage Interest Allowance for which the taxpayer has to apply directly to the Commissioner General for the credit.

Property Tax

Individuals have to return their net property which is taxed as follows:

(Wealth Tax)

- The first GYD 40 million is exempt;
- The Remainder is taxed at 0.75%.

The income tax value of the assets is used when computing net property.

H. TREATY AND NON-TREATY WITHHOLDING TAX RATES

The following table contains the withholding tax rates applicable to dividends, interest, royalties and management fees paid by Guyanese companies to non-residents under the double and multilateral[1] treaties in force. When the domestic rate (see under Section 'Withholding taxes') is lower than the treaty rate, the former applies.

	Dividends (%)	Interest (%)	Royalties (%)	Management/ technical fees (%)
Domestic rates				
Companies	20	20	20	10
Individuals	20	20	20	10
Treaty countries:				
Canada	15	15	10	10
CARICOM[1]	0/15[3]	15	15	15
United Kingdom	10/15[2]	15	10	10

Notes:

1. Guyana is a signatory to the CARICOM multilateral tax treaty. Countries that have ratified the treaty include Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines and Trinidad and Tobago.
2. The 10% rate applies if the beneficial owner is a company which controls, directly or indirectly, at least 10% of the voting power in the dividend-paying company.
3. The 15% rate applies to dividends paid on preference shares.

HONDURAS

MEMBER FIRM

City	Name	Contact Information
Tegucigalpa	Eddy A.Tovar	+504 2270-7365 eat@pkfhonduras.com

Tegucigalpa	Jorge Tovar	+504 2270-7366 jat@pkfhonduras.com

BASIC FACTS

Full name:	Republic of Honduras
Capital:	Tegucigalpa
Main languages:	Spanish
Population:	9,39 million (2018 estimate)
Monetary unit:	Honduran Lempira (HNL)
Internet domain:	.hn
Int. dialling code:	+504

H

KEY TAX POINTS

- Legal entities are subject to 25% income tax, known as the income on lucrative activities regime.
- Legal entities and individuals resident in Honduras are subject to Alternative Minimum Tax (AMT). In 2018, companies that obtain gross income of less than HNL 300 million will not be subject to 1.5% or 0.75% on gross income, favouring the micro, small and part of the medium-sized companies. In 2019, for companies that obtain gross income between HNL 300 million and HNL 600 million, the aforementioned percentages will be reduced to 0.75% and 0.5% respectively. The rate will be 1% for companies with an income exceeding HNL 600 million. In 2020, only companies that earn more than HNL 1 billion will be subject to the application of the measure, the rate being 1%.
- Solidarity Tax is payable at a rate of 5% calculated on gross income exceeding USD 43,956 and is applicable only to taxpayers opting for taxes on income from lucrative activities (25% income tax regime).
- VAT is payable on the domestic supply of goods and services and the import of goods. A standard rate of 15% applies although some supplies are exempted.
- Transfer Pricing (TP) policies are applicable in Honduras. If the company does not conduct a TP study, the government is entitled to determine differences between related party transactions and a transaction done by independent parties. If a difference is detected, this would not be deductible for income tax purposes and a 15% or 30% tax would be paid on the difference.
- No restrictions are imposed on foreign-trade operations or foreign currency transactions.

A. TAXES PAYABLE

COMPANY INCOME TAX

Company profits are taxed at a rate of 25%.

Solidarity Tax

The tax rate is 5% calculated on gross income exceeding USD 43,956 and is applicable only to taxpayers opting for taxes on income from lucrative activities (25% income tax regime), with the exception of Special Regimes of Export and Tourism.

Alternative minimum tax

Under the current regime, the AMT applies to resident business entities or individuals with annual gross income in a tax year equal to or greater than HNL 10 million (approx. USD 420,345). The AMT is calculated by applying a rate of 1.5% to gross income. Entities must apply the ordinary rate of 25% to net taxable income and the alternative minimum tax rate of 1.5% to gross income. The income tax payable is the higher amount resulting from these two calculations. The AMT is reduced to 0.75% of gross income for entities or individuals producing or selling the following products or services: cement production and distribution, public utility services provided by state-owned companies, products and medicines for human use (at the importation and production levels) and bakery-related products.

In 2018, companies that obtain gross income of less than HNL 300 million will not be subject to 1.5% or 0.75% on gross income, favouring the micro, small and part of the medium-sized companies. In 2019, for companies

that obtain gross income between HNL 300 million and HNL 600 million, the aforementioned percentages will be reduced to 0.75% and 0.5% respectively. The rate will be 1% for companies with an income exceeding HNL 600 million. In 2020, only companies that earn more than HNL 1 billion will be subject to the application of the measure, the rate being 1%.

A 1% instalment of gross income tax applies to taxpayers that meet the following conditions:

- During open tax periods, they have reported operating losses in two consecutive or alternate tax periods.
- In the prior tax period, they derived gross income equal to or greater than HNL 100 million (approximately USD 4,395,604). The income tax instalment is a tax credit that may be applied against income tax, asset tax or the temporary Solidarity Contribution Tax on the filing of the year-end tax return. Companies operating under the following special regimes are exempt from income tax, sales tax, customs duties and certain municipal taxes:
  a. Free Trade Zone;
  b. Industrial Processing Zone (Zona Industrial de Procesamiento, or ZIP);
  c. Temporary Import Regime (Régimen de Importación Temporal, or RIT);
  d. Agroindustrial Export Zone (Zona Agro-Industrial de Exportación, or ZADE);
  e. Free Tourist Zone (Zona Libre Turística, or ZOLT).

ASSET TAX

The taxable base will be the resulting difference of the assets reflected in the taxpayer´s Statement of Financial Position minus a deduction of HNL 3,000,000 (USD 131,868), minus the doubtful accounts provisions, loans payables, the accumulated depreciations permitted by the Income Tax Law, revaluation of fixed assets, as long as such are not disposed of and the values from registered investment expansions, such as projects or fixed assets in progress that are not in operation. Income tax may be credited against asset tax. If the income tax equals or exceeds the asset tax for the tax year, no asset tax is due. If the income tax is less than the asset tax, the difference is payable as asset tax. In such circumstances, the asset tax represents a minimum tax for the year.

CAPITAL GAINS TAX

Capital gains tax is calculated on the net profit of the transaction at at rate of 10%. Net profit is calculated by deducting the cost of the property plus any related expenses from the sales price.

BRANCH PROFITS TAX

Branches of foreign companies are subject to the same tax rates as Honduran companies. Branch remittance tax is levied at a rate of 10%.

VALUE ADDED TAX (VAT)

Services and goods are subject to a 15% value added tax and 18% on alcoholic beverages, tobacco and first-class air tickets.

TAX ON FINANCIAL TRANSFERS

1) Checks, debit or credit card payments and transfers are subject to a 0.30% tax on the operation base. This tax is non-refundable and the bank will charge it to the company bank account.
2) It also applies to mobile communications that are subject to a 1% rate while the minerals extraction industry is subject to a 5% rate on the exports FOB (Free on Board) for the protection of the environment. The contribution of the fast food sector under any franchise is subject to 0.5% on monthly sales.

MUNICIPAL OFFICE TAXES

Taxes are paid according to a table and total assets. There are different tables for every city in Tegucigalpa, San Pedro Sula and La Ceiba. In Tegucigalpa, the table varies depending on whether the company is industrial, commercial or other.

Real estate is subject to a rate of up to HNL 3.50 per every thousand for Urban Real State and up to HNL 2.50 per thousand for Rural Real State.

MUNICIPAL REGISTRATION TAX

All industrial or commercial businesses are required to have an annual licence to operate. This tax is paid on the total assets of a company or individual which exceed HNL 500,000. The amount is HNL 0.40 per thousand

up to an amount of HNL 30,000,000 and HNL 0.40 per thousand over this amount.

SOCIAL SECURITY TAX:

These are payments that are made monthly by employers and employees on the payroll of companies for the purpose of guaranteeing the functioning of the worker social security benefits system at national level. The table is as follows:

- Company: 7% of salary (USD 355);
- Employee: 3.50% of salary (USD 355).

As from 2016 the law of Social Protection also establishes a new pension plan whereby 3% of the current contributions go to RAP (1.5% employer and 1.5% employee) and 3% to IHSS (1.5% employer and 1.5% employee). Added to this, there is also a 0.5% solidarity contribution from the State which will complete the regime for the disabled, old aged and deceased.

PENSION TAX

These are payments that are made monthly by employers and employees on the payroll of companies for the purpose of guaranteeing the functioning of the employee pension system and retirement benefits at national level. The table is as follows:

- Company: 1.5% of salary;
- Employee: 1.5% of salary.

Maximum salary of USD 355 per employee. Social Security has a special education tax called INFOP which is 1% of the total amount that the company pays (this applies to companies with more than 5 employees).

TAXES FOR THE DISPOSAL OF PROPERTY

For property sales, which will be valued at the market price, the previous owner pays 1.5% on the value of the transaction. For the transfer of immovable property or rights and values carried out with a non-resident, the buyer must withhold 4% of the transfer value.

RATE OF TOURIST SERVICES

Individuals pay a tax of 4% for daily accommodation in hotels, car rentals and tour operators.

INCENTIVES

The following incentives are available to certain qualifying industries and corporations:

Free zones

Companies operating in Free Zones or under the Law of International Services are tax-exempt on profit derived from sales to foreign countries, for the next 10 years after the companies have been approved by the Ministry of Economy and Commerce. Income tax will be exempt for 10 to 20 years, municipal income tax for 10 years.

Export and draw-back activities

Some incentives such as exemption from importation taxes, income tax and VAT for industrial and commercial outfits established under the incentive to exportation and draw-back incentive law exist.

Free-trade zone and tourist zone

Incentives including exemption from importation, income tax and VAT exist for industrial and commercial entities established within the country's free-trade zone. Likewise, companies established in the Bay Islands under the Free Trade Tourist Zone of the the Bay Islands.

Investment in renewable energy sources

Ten years of exemption of importation, twelve year in income tax, Ten years income and value-added taxes exist by way of the Incentives for development of renewable energy projects, law.

B. DETERMINATION OF TAXABLE INCOME

The net taxable income of a corporation or partnership is determined by subtracting all allowable deductions from gross taxable income. Generally, expenditures and/or losses are deductible provided they are incurred in gaining or producing taxable income, or preserving the source of income. Special rules apply in respect of certain expenditures.

ACCOUNTING STANDARDS

In general, the Professional Accounting Standards approved by Technical Rulings aim at converging local accounting standards with International Financial Reporting Standards (IFRS) issued by the IASB (International Accounting Standards Board).

DEPRECIATION

A tax deduction is available in respect of fixed assets used in the business. Generally, only the straight-line method is allowed, although other methods may be used if agreed by the tax authorities. Maximum depreciation rates are set and include the following:

Assets	Rate
Buildings and construction	2.5% to 3.33%
Furniture and equipment	10% to 20%
Vehicles	20% to 33.33%
Computers (including software)	10% to 20%
Tools	33%

STOCKS / INVENTORY

In general, the following four methods may be used for valuation of inventories:

1) Production cost;
2) First-in, first-out system (FIFO);
3) Weighted average; and,
4) Historic cost of goods.

Other methods are allowed upon prior authorisation from the Tax Office.

DIVIDENDS

Dividends paid to domiciled or resident legal entities are subject to tax at the rate of 10%. Dividends paid from Honduran sources to persons or companies not domiciled in Honduras are also subject to tax at the rate of 10%. Dividend distributions that were already subject to the 10% withholding tax are not subject to such withholding tax when the dividends received by companies are redistributed. Dividends received by holding companies that have already been subject to the 10% withholding tax are not subject to such withholding tax when the dividends are redistributed.

INTEREST INCOME

Banks will withhold 10% income tax on interest income. Loans given by local companies to its stockholders, related parties, headquarters, or residents/companies located in tax havens are subject to a 10% withholding tax.

INTEREST EXPENSE

Constitutes a non-deductible expense, interest paid on shareholder loans and loans made to a company by the owners, spouses, relatives, associates, partners or parent company. This rule does not apply where the interest is paid to a financial institution. There are no thin capitalization rules in Honduras.

PROVISIONS

Provisions for contingent liabilities, such as severance pay, are not deductible for tax purposes. However, payments of such liabilities are deductible expenses.

LOSSES

Losses incurred in any given year can be taken as a valid deduction only for the current year. There is no carry forward of losses. Companies engaged in agriculture, manufacturing, mining and tourism may carry forward net operating losses for three years. However, certain restrictions apply. Net operating losses may not be carried back.

FOREIGN SOURCE INCOME

As from 1 January 2017 the Honduran corporate tax system is based on the territoriality principle. Companies,

whether or not resident in Honduras are subject to tax only on Honduran-source income. Companies domiciled abroad that have agents or representatives in Honduras are taxed in the same manner as residents on their income derived from activities undertaken in Honduras.

C. FOREIGN TAX RELIEF

Because of the territoriality principle of the Honduran tax system (see above, under 'Foreign Source Income'), Honduras does not provide double taxation relief measures for taxes paid abroad.

D. CORPORATE GROUPS

Honduran law does not allow the filing of consolidated income tax returns or provide any other tax relief to consolidated groups of companies.

E. RELATED PARTY TRANSACTIONS

The Law on the Regulation of Transfer Pricing (Ley de regulación de precios de transferencia, LRPT), entered into force on 1 January 2014, provides guidelines for the valuation of transactions between related parties at arm's length. According to the LRPT, the transfer pricing rules apply to any transaction carried out between a Honduran resident (individual or legal person) and its non-resident related parties or entities operating under a special tax regime.

According to the RLRPT, the transfer pricing rules apply to any transaction carried out between a Honduran resident (individual or legal person) and its related parties or entities operating under a special tax regime. Thus, the RLRPT do not limit the application of the transfer pricing rules to cross-border transactions between related parties.

Companies and individuals with related or associated parties within the country, are not obliged to submit a transfer pricing study. However, individuals and companies related or associated with individuals or companies, subject to a special tax regime, must submit such study. If a difference is detected, this would not be deductible for income tax purposes and a 15% or 30% tax would be paid on the difference.

F. WITHHOLDING TAX

Royalties, Leasing of Movable and Immovable Property, Public Entertainment Shows, Mining Royalties, Fees and Commissions, Videos and Films, Salaries, Services and fees paid to foreign corporations for work done in Honduras are subject to a 25% income tax withholding rate. Dividends, interest, commissions, air, sea and land transport, reinsurance, branch remittance tax, other fees paid to foreign recipients are subject to a 10% withholding tax.

G. EXCHANGE CONTROL

No restrictions are imposed on foreign-trade operations or foreign currency transactions.

H. PERSONAL TAX

Individuals residing in the country and receiving income from labour under a dependency relationship are subject to a progressive tax rate as shown below:

Taxable Annual Income (HNL)

From	To	Marginal Rate On Excess
0.01	152,557.15	0%
152,557.16	232,622.61	15%
232,622.62	540,982.82	20%
over	540,982.82	25%

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Honduras has a Central American Free Trade Agreement (CAFTA-DR) with the USA, Central American and the Dominican Republic. Honduras does not have double tax treaties in force.

HONG KONG

MEMBER FIRM

City	Name	Contact Information
Hong Kong	David Cho	+852 2806 3822 davidcho@pkf-hk.com

BASIC FACTS

Full name:	Hong Kong
Capital:	N/A. Hong Kong is a Special Administrative Region of the People's Republic of China
Main language:	Chinese (Cantonese)
Population:	7.43 million (2018 estimate)
Monetary unit:	Hong Kong Dollar (HKD)
Internet domain:	.hk
Int. dialling code:	+852

KEY TAX POINTS

- Profits tax is charged on any person (including a corporation, partnership or individual) carrying on a trade, business or profession in Hong Kong. Income derived from outside Hong Kong is exempt (subject to rules deeming certain receipts to be derived from Hong Kong) regardless of residence status.
- Property tax is charged at 15% on the net assessable value of any land or buildings in Hong Kong.
- Transfer pricing regime is being enacted and will take effect from 2018. Mandatory transfer pricing documentation will also be required based on the three-tiered structure recommended by the OECD.
- Dividends received by a Hong Kong corporate, whether from a domestic or overseas company, are not subject to tax and dividend payments made by Hong Kong resident companies are not subject to withholding tax.
- There is no VAT or sales tax.
- There is no capital gains tax, and capital gains are not subject to personal or corporate income tax.
- There is no inheritance tax. 'Estate Duty' was abolished with effect from 2006.

A. TAXES PAYABLE

PROFITS TAX

Profits tax shall be charged on every person (including corporations, partnerships and individuals) carrying on a trade, business or profession in Hong Kong. Income derived outside Hong Kong is generally exempt from tax. No distinction is made between residents and non-residents.

TAX YEAR

The tax year covers a period of 12 months commencing on 1 April and ending on 31 March of the following year. Profits earned by a person during an accounting year ending within the tax year will be deemed to be their profits for that tax year.

TAX RATES

The profits tax rates for 2017/18 (year ended 31 March 2018) are as follows:

- Corporations = 16.5%
- Persons other than corporations = 15.0%

A two-tiered profits tax rate regime will start to apply from the year of assessment 2018/19 and onwards,

under which the first HKD 2 million of profits derived by corporations or unincorporated businesses will be subject to a 50% reduction in profits tax rates (i.e. 8.25% for corporations and 7.5% for persons other than corporations). However, each group of connected entities may only nominate one entity in the group to benefit from the lower tax rates.

DEEMED TRADING RECEIPTS

The following income of a non-resident person is deemed to be receipts from a trade, profession or business carried on in Hong Kong:

1) Royalties receivable from the exhibition or use in Hong Kong of cinematograph or television film or tape, any sound recording or any advertising material connected with such film, tape or recording;
2) Royalties receivable for the use of, or right to use in Hong Kong a patent, design, trademark, copyright, formula or other property of a similar nature;
3) Royalties receivable for the use of, or right to use outside Hong Kong a patent design, trademark, copyright, formula or other property of a similar nature if the payee of such royalties has claimed a tax deduction in Hong Kong; and
4) Sums received or accrued in respect of the hire, rental or similar charges for the use of movable property in Hong Kong.

The assessable profits for cases (1) to (3) above are equal to 30% of the sum receivable by the non-resident person if the Inland Revenue Department ("IRD") is satisfied that no person carrying on a trade, profession or business in Hong Kong has, at any time, wholly or partly-owned the relevant intellectual property or the royalty recipient is not an associate of the royalty payee. If the above condition is not satisfied, the assessable profits will be the full amount receivable by the non-resident person.

BRANCH PROFITS TAX

There is no distinction between branch profits tax and corporation profits tax. Branch profits of foreign corporations are also taxed at the flat rate of 16.5% on assessable profits for the year of assessment 2017/18.

OTHER TAXES

Other important taxes imposed include the following:

PROPERTY TAX

Property tax is charged at a standard rate of 15% on the net assessable value of any land or buildings in Hong Kong. The net assessable value is the rent payable to the owner of the land or building after deducting the following amounts:

a) Unpaid rent;
b) Government rates paid by the owner; and
c) 20% of the assessable value after deduction of (a) and (b) above.

Any building occupied by the owner as their residence is exempted from tax.

ESTATE DUTY

The Hong Kong Government abolished Estate Duty as from 11 February 2006 pursuant to the Revenue (Abolition of Estate Duty) Ordinance 2005. No Estate Duty will be imposed on the value of an individual's Hong Kong property passing on death.

STAMP DUTY

Stamp Duty applies only to the following categories of transactions:

a) Contract notes on Hong Kong shares and marketable securities;
b) Assignment of immovable property;
c) Leases and assignment of leases of Hong Kong property; and
d) Insurance of bearer instruments.

Provided certain requirements are met, taxpayers may apply with the IRD for exemption from the stamp duty for the transfer of shares and immovable properties within a corporate group.

Transactions in Hong Kong Shares and Marketable Securities

Transactions in Hong Kong shares or marketable securities will attract an ad valorem duty of HKD 2 per HKD 1,000 payable equally by the buyer and the seller. Stamp duty is waived for the transfer of shares or units of all Exchange Traded Funds.

Transactions in Assignment of Immovable Property

Stamp Duty on assignment of immovable property is sub-divided into three categories as follows:

1. AD VALOREM STAMP DUTY (AVD)

The AVD rate for residential property transactions executed on or after 5 November 2016 is levied at a flat rate of 15% on the sales consideration or value of the properties (whichever is higher), unless specifically exempted or provided otherwise. The major exemption is where the residential property buyer is a Hong Kong permanent resident who acts on his/her own behalf and does not own any other residential property in Hong Kong at the time of acquisition. In such case, the AVD is levied at lower rates which vary from HKD 100 to 4.25% on the sales consideration or value of the properties (whichever is higher), depending on the sales consideration of the relevant properties.

The AVD for transactions of immovable properties other than residential properties is computed at rates which vary from 1.5% to 8.5% on the sales consideration or value of the properties (whichever is higher), depending on the sales consideration of the relevant properties.

2. SPECIAL STAMP DUTY (SSD)

Residential properties acquired, either by an individual or a company (regardless of where it is incorporated), and resold within 36 months, will be subject to SSD. The applicable SSD rates vary from 10% to 20% on the sales consideration or value of the properties (whichever is higher), depending on the holding period of the relevant properties.

3. BUYER'S STAMP DUTY (BSD)

Unless specifically exempted, BSD is payable on residential property transactions, except where the purchaser or the transferee is a Hong Kong permanent resident acquiring the property on his/her own behalf. BSD is charged at 15% on the sales consideration or the value of the properties (whichever is the higher), if applicable.

CAPITAL GAINS

There is no capital gains tax in Hong Kong and capital gains are not subject to corporate or personal income tax.

SALES TAX / VALUE ADDED TAX

There is neither sales tax nor value added tax in Hong Kong.

FRINGE BENEFITS TAX

There is no fringe benefits tax in Hong Kong.

LOCAL TAXES

There are no local taxes in Hong Kong.

B. DETERMINATION OF TAXABLE INCOME

Generally, in arriving at profits assessable to tax, deductions are allowed for revenue expenditure to the extent that they are incurred in the production of chargeable profits in the basis period. Special rules apply in respect of the following categories of expenditure.

CAPITAL ALLOWANCES

Capital allowances are available to a taxpayer who incurs qualifying capital expenditure on specified assets used in the production of chargeable profits. Capital allowances can be classified into industrial building allowance, commercial building allowance, depreciation allowance for plant and machinery and refurbishment allowance as summarised below:

1. INDUSTRIAL BUILDING ALLOWANCE

An initial allowance of 20% is granted in the year of purchase for capital expenditure incurred on the construction of an industrial building or structure occupied for the purposes of a qualifying trade. An additional allowance of 4% of the capital expenditure (on a straight-line basis) is given annually.

2. COMMERCIAL BUILDING ALLOWANCE

A building or structure used for the purposes of a trade, profession or business other than an industrial building or used as stock in trade can qualify for a commercial building allowance. An annual allowance of 4% of the capital expenditure incurred on the construction of the building is provided.

3. DEPRECIATION ALLOWANCE ON PLANT AND MACHINERY

Depreciation allowance on plant and machinery is in the form of an initial allowance and an annual allowance. An initial allowance of 60% is granted in the year of purchase for capital expenditure incurred in acquiring the plant and machinery. The annual allowance is based on the reducing value of each class of plant and machinery (the 'pool').

A pool is made up of all items of plant or machinery carrying the same rate of depreciation. It is only necessary for the assets to be or to have been owned and used in the production of chargeable profits to qualify for the deduction. The annual allowance is equal to the reducing value of the pool multiplied by the appropriate depreciation rate, currently at 10%, 20% or 30% per annum.

4. EXPENDITURE ON PRESCRIBED FIXED ASSETS

Capital expenditure incurred on certain prescribed fixed assets in any year of assessment is allowed to be fully written-off in the year it is incurred. 'Prescribed fixed assets' include computer hardware and software and certain defined plant and machinery used specifically and directly for any manufacturing process.

5. EXPENDITURE OF PRESCRIBED ENVIRONMENTAL PROTECTION FACILITIES

Capital expenditure incurred on certain prescribed environmental protection facilities is entitled to a preferential tax deduction. Expenditure incurred on environmental protection machinery is allowed to be fully written-off in the year it is incurred whereas those on environmental protection installation is allowed to be deducted equally in five years of assessment.

6. CAPITAL EXPENDITURE ON INTELLECTUAL PROPERTY

Capital expenditure incurred in registration of a trademark or design or patent (collectively referred to as “intellectual property (IP)”) or incurred in the acquisition of patent rights and rights to any know-how (collectively referred to as “properties”) qualify as a tax deduction in the year it is incurred if the IP and properties are used in the production of assessable profits irrespective of whether they are used in Hong Kong.

Capital expenditure incurred in the acquisition of copyrights, registered designs or registered trademarks (collectively referred to as "specified IP rights”). The capital expenditure incurred on the purchase of specified IP rights is to be deducted equally over five years (or over the remaining years of protection) if certain conditions are met.

7. REFURBISHMENT ALLOWANCE

Taxpayers are eligible to claim deduction on refurbishment expenditure equally over a five-year period.

INVENTORY

All trading stock should be valued at the lower of cost or market value. Accepted valuation methods include FIFO and average cost but not LIFO, base stock method or replacement value. The term 'market value' would normally mean realisable value.

CAPITAL GAINS AND LOSSES

Capital gains and losses are not taxable or deductible in arriving at the assessable profits.

DIVIDENDS

Dividend income, whether from Hong Kong or overseas, is not taxable. Dividends paid to either a resident or non-resident of Hong Kong are not subject to any withholding tax.

INTEREST DEDUCTIONS

Only interest expenses falling within specific categories and incurred in the production of a taxpayer's chargeable profits are tax deductible. In addition, deductibility of interest expenses is subject to certain additional anti-avoidance provisions.

LOSSES

Losses incurred can be carried forward indefinitely for set-off against any future assessable profits of the same entity. However, there are anti-avoidance provisions in the Inland Revenue Ordinance ("IRO") that restrict the use of tax losses where a change in shareholding was undertaken solely or predominantly for the purpose of utilising the losses to obtain a tax benefit. Losses cannot be carried back.

OFFSHORE INCOME

Generally, income derived from or arising outside Hong Kong is exempt from tax under the territorial taxation system.

TAX INCENTIVES

a) The low tax rates and territorial basis of taxation adopted by Hong Kong are in themselves major incentives to foreign investors.

b) A two-tiered profits tax rate regime will be introduced for the year of assessment 2018/19 and onwards. The first HKD 2 million of profits derived by corporations or unincorporated businesses will be subject to a 50% reduction in profits tax rates. For connected entities, only one entity in the group can elect to benefit from the lower tax rates.

c) Income derived from the sale of certain financial instruments, including investments in eligible private companies incorporated offshore, earned by non-residents or special purpose vehicles established to hold offshore investments is exempt from profits tax (subject to other specific conditions). It is expected that legislation will be enacted in 2018 to extend the exemption to eligible Hong Kong privately offered open-ended fund companies for investments in certain financial assets.

d) Interest income derived from deposits placed in Hong Kong with authorised financial institutions by any person carrying on business in Hong Kong is exempt from profits tax.

e) Scientific research expenditure, including payments to an approved research institute and payments for technical education, qualify as allowable deductions.

f) It is expected that legislation will be enacted in 2018 to allow enterprises to enjoy a 300% tax deduction for the first HKD 2 million qualifying R&D expenditure, and a 200% tax deduction for the remainder.

g) Profits derived by a captive insurer from the business of insuring offshore risks will be entitled to a 50% reduction in profits tax rate.

h) Profits derived from qualified debt instruments with a maturity period of at least three years will also be entitled to a 50% reduction in profits tax rate and full exemption will be granted to certain qualified debt instruments having a maturity period of seven years or more.

i) Profits derived from specified qualifying treasury activities carried on by a qualifying corporate treasury centre with a non-Hong Kong associated corporation will be entitled to a 50% reduction in profits tax rate.

C. CORPORATE GROUPS

Companies of the same group are assessed to profits tax separately. There is no group tax relief in Hong Kong.

D. RELATED PARTY TRANSACTIONS

Before 2017, the IRO did not contain any specific transfer pricing rules addressing non-arm's length transactions between associated enterprises. The IRD has been relying on a number of anti-avoidance provisions stipulated in the IRO, non-legally binding Departmental Interpretation and Practice Notes as well as case law to deal with transfer pricing issues.

For example, profits on royalties and licence fees received by a related non-resident person from its Hong Kong associate may be deemed to be trading receipts in Hong Kong and therefore wholly chargeable to profits tax. Furthermore, a non-resident person who does not carry on business in Hong Kong can be assessed to Hong Kong profits tax if he/she carries on his/her business with a closely connected resident person and the business is so arranged that the resident person earns either no profit or less than the ordinary profit which might be expected.

At present, the Hong Kong government is enacting laws to codify a formal transfer pricing regime into the IRO. Pursuant to the proposed transfer pricing rules under the Inland Revenue (Amendment) (No. 6) Bill 2017 ("the Bill") gazetted on 29 December 2017, the IRD is empowered to adjust the profits or losses of an enterprise where the actual provision made or imposed between associated persons (associated in terms of management, control and capital) departs from the arm's length provision and has created a Hong Kong tax advantage. According to the Bill, the transfer pricing rules shall apply to all Hong Kong enterprises including a permanent establishment maintained by non-Hong Kong resident persons, covering both cross-border and domestic transactions which involve tangible assets, financial arrangements, intangible assets and services.

The Bill also introduces mandatory TP documentation requirements in Hong Kong based on the three-tiered documentation structure recommended by the OECD, which consists of the local file, the master file and the Country-by-Country ("CbC") report. For each accounting period beginning on or after 1 April 2018, all enterprises carrying on a trade or business in Hong Kong which engage in transactions with associated enterprises will be required to prepare the master file and local file unless they fall within one of the exemptions based on the business size or the related party transaction volume. And for each accounting period beginning on or after 1 January 2018, the Hong Kong ultimate parent entity of a multinational enterprise group with annual consolidated revenue of EUR 750 million (or HKD 6.8 billion) or above ("Reportable Group") should file the CbC report. The contents of the CbC report should follow the recommendations of the OECD. Other Hong Kong entity within the Reportable Group is also required to make a notification for determining the obligation for filing a CbC report unless another Hong Kong entity has already made the notification.

E. WITHHOLDING TAXES

Royalties and licence fees paid to non-residents for the use of certain intellectual properties in Hong Kong and payments to non-resident entertainers or sportsmen for their performance at commercial occasions or events in Hong Kong are subject to profits tax on a withholding basis based on the assessable profits. There are no withholding taxes levied on dividends and interest.

F. FOREIGN TAX CREDIT

Hong Kong has concluded double taxation agreements with many countries/territories. Where there is an applicable double taxation agreement, foreign income tax paid may be credited against the Hong Kong tax levied on the same profits, subject to a ceiling of the amount of the Hong Kong tax payable. Under the local legislation, Hong Kong also allows deduction (i.e. not tax credit) of foreign tax paid on a turnover basis in respect of the same income chargeable to tax in Hong Kong.

G. EXCHANGE CONTROL

There are no exchange controls in Hong Kong.

H. PERSONAL TAX

SALARIES TAX

Salaries tax is charged on individuals in respect of all income arising in or derived from Hong Kong in relation to any office, employment, pension or payments for services rendered in Hong Kong. The tax charge is calculated at the lower of:

a) 15% of chargeable income after allowable deductions; or,

b) The applicable progressive rates on net chargeable income after the deduction of charitable donations and personal allowances. The progressive salaries tax rates for the years of assessment 2017/18 and 2018/19 are as follows:

Net Chargeable Income (HKD)		Progressive Tax Rate for 2017/18	Net Chargeable Income (HKD)		Progressive Tax Rate for 2018/19
First	45,000	2%	First	50,000	2%
Next	45,000	7%	Next	50,000	6%
Next	45,000	12%	Next	50,000	10%
Remainder		17%	Next	50,000	14%
			Remainder		17%

NOTES: Net chargeable income = Taxable income – Allowable deductions – Personal allowances Salaries tax payable = Net chargeable income × Progressive tax rates

	Personal Allowances	2016/17 (HKD)	2018/19 (HKD)
1.	Basic allowance	132,000	132,000
2.	Married person	264,000	264,000
3.	Child (each): First to ninth child:		
	- Year of birth	200,000	240,000
	- Other years	100,000	120,000
4.	Dependent parent/grandparent:		
	(a) Aged 55 to 59: - basic	23,000	25,000
	- additional (for dependent living with taxpayer)	23,000	25,000
	(b) Aged 60 or above: - basic	46,000	50,000
	- additional (for dependent living with taxpayer)	46,000	50,000
5.	Dependent brother/sister[1]	37,500	37,500
6.	Single parent	132,000	132,000
7.	Disabled dependent	75,000	75,000
8.	Personal disability allowance	N/A	75,000
Maximum amount of additional deductions:			
1.	Self-education expenses	100,000	100,000
2.	Home loan interest [2]	100,000	100,000
3.	Elderly residential care expenses	92,000	100,000
4.	Contribution to recognised retirement schemes	18,000	18,000
5.	Donations to charitable organisation	35% of income	35% of income

NOTES:

1 For whom no child allowance is being claimed.

2 The deduction for home loan interest is for 20 years of assessment.

OTHER INCOME TAXES

Under the Hong Kong tax system, various sources of income are taxed under separate categories i.e. business income is subject to profits tax, rental income is subject to property tax and employment income is subject to salaries tax.

Sometimes, it may be advantageous for an individual to elect to pay tax under 'personal assessment' if he/she has expenses which may be non-deductible against a particular source of income (e.g. mortgage interest payments or allowable tax losses which cannot be completely absorbed by his/her business profits). Under personal assessment, all his/her assessable sources of income are aggregated in a single assessment. Applicants must be permanent or temporary residents of Hong Kong. An election for personal assessment must be made within a stipulated time limit.

I. TREATY WITHHOLDING TAX RATES

The Hong Kong Government recognises that there are merits in concluding double taxation agreements with its trading partners, particularly in aviation and shipping industries. Hong Kong therefore has reached different limited double taxation relief arrangements with many countries: Bangladesh, Belgium, Canada, Croatia, Denmark, Estonia, Ethiopia, Fiji, Finland, Germany, Iceland, Israel, Jordan, Kenya, the Republic of Korea,

Kuwait, the Lao People's Democratic Republic, Macao Special Administrative Region, Mainland China, Maldives, Mauritius, Mexico, the Netherlands, New Zealand, Norway, the Russian Federation, Seychelles, Singapore, Sri Lanka, Sweden, Switzerland, the United Kingdom and the United States of America in order to avoid double taxation of airline and/or shipping income.

Apart from the limited double taxation agreements applicable to airline and shipping income, the Hong Kong Government also concluded comprehensive double taxation agreements with many countries/territories. The following table summarizes the reduced withholding tax rates of treaty countries/territories for the payments of dividend, interest and royalty, provided certain requirements are met:

	Date of signing	Effective year	Dividend (%)	Interest (%)	Royalty (%)
Non-treaty countries[25]:	–	–	–	–	4.95[1]
Treaty countries:					
Austria	25.05.2010	2012/13	0/10[2]	–	3
Belarus	16.01.2017	2018/19	0/5[3]	5	3/5[4]
Belgium	10.12.2003	2004/05	0/5/15[5]	10	5
Brunei	20.03.2010	2011/12	–	5/10[6]	5
Canada	11.11.2012	2014/15	5/15[7]	10	10
China (People's Rep.)	21.08.2006	2007/08	5/10[8]	10	5/7[9]
Czech Republic	06.06.2011	2013/14	5	–	10
France	21.10.2010	2012/13	10	10	10
Guernsey	22.04.2013	2014/15	–	–	4
Hungary	12.05.2010	2012/13	5/10[8]	5	5
India	19.03.2018	Pending	5	10	10
Indonesia	23.03.2010	2013/14	5/10[8]	10	5
Ireland	22.06.2010	2012/13	–	10	3
Italy	14.01.2013	2016/17	10	12.5	15
Japan	09.11.2010	2012/13	5/10[8]	10	5
Jersey	22.02.2012	2014/15	–	–	4
Korea	08.07.2014	2017/18	10/15[10]	10	10
Kuwait	13.05.2010	2014/15	0/5[11]	5	5
Latvia	13.04.2016	2018/19	0/10[12]	0/10[13]	0/3[14]
Liechtenstein	12.08.2010	2012/13	–	–	3
Luxembourg	02.11.2007	2008/09	0/10[2]	–	3
Malaysia	25.04.2012	2013/14	5/10[8]	10	8
Malta	08.11.2011	2013/14	–	–	3
Mexico	18.06.2012	2014/15	–	4.9/10[15]	10
Netherlands	22.03.2010	2012/13	0/10[2]	–	3
New Zealand	01.12.2010	2012/13	0/5/15[16]	10	5
Pakistan	17.02.2017	2018/19	10	10	10
Portugal	22.03.2011	2013/14	5/10[8]	10	5
Qatar	13.05.2013	2014/15	–	–	5
Romania	18.11.2015	Income derived on or after 1/1/2017	0/3/5[17]	3	3
Russia	18.01.2016	2017/18	0/5/10[18]	–	3
Saudi Arabia	24.08.2017	Pending	5	–	5/8[19]
South Africa	16.10.2014	2016/17	5/10[8]	10	5
Spain	01.04.2011	2013/14	0/10[2]	5	5
Switzerland	04.10.2011	2013/14	0/10[2]	–	3

Thailand	07.09.2005	2006/07	10	10/15[20]	5/10/15[21]
United Arab Emirates	11.12.2014	2016/17	0/5	5	5
United Kingdom	21.06.2010	2011/12	0/15[22]	Domestic rate[23]	3
Vietnam	16.12.2008	2010/11	10	10	7/10[24]

Notes:

1 If the royalty income is derived from an associate of the non-resident person, the withholding tax rate will be 16.5% on the whole amount of royalty payable to the non-resident person. But the IRD will still apply the reduced withholding tax rate if it is satisfied that no person carrying on a trade, profession or business in Hong Kong has at any time wholly or partly owned the relevant intellectual property.

2 0% applies if the beneficial owner is a company which holds / controls directly or indirectly at least 10% of the capital or voting power of the company paying the dividend or holds directly at least 25% of the capital of the company paying the dividend (applies to Spain only); and 10% of dividend in all other cases.

3 0% applies if the dividend is derived and beneficially owned by (a) the Hong Kong Government (b) the Hong Kong Monetary Authority (c) the Exchange Fund or (d) a financial institution wholly or mainly owned by the Hong Kong Government; and 5% applies in all other cases.

4 3% applies to royalty payments for the use of or the right to use aircraft; and 5% applies to all other cases.

5 0% applies if the beneficial owner is a company which holds directly at least 25% of the capital of the company paying the dividend for an uninterrupted period of at least 12 months; and 5% applies if the beneficial owner is a company which holds directly at least 10% of the capital of the company paying the dividend; and 15% of dividend in all other cases.

6 5% applies to interest payments to any bank or financial institutions; and 10% of interest payments in all other cases.

7 5% applies if the beneficial owner is a company which holds / controls directly or indirectly at least 10% of the capital or voting power of the company paying the dividend; and 15% of dividend in all other cases.

8 5% applies if the beneficial owner is a company which holds / controls directly or indirectly at least 10% of the capital or voting power of the company paying the dividend (applies to Hungary, Portugal, Malaysia, Japan and South Africa) or holds directly at least 25% of the capital of the company paying the dividend (applies to Indonesia and Mainland China); and 10% of dividend in all other cases.

9 5% applies to royalty payments to an aircraft and ship leasing business; and 7% applies in all other cases.

10 10% applies if the beneficial owner is a company which holds directly at least 25% of the capital of the company paying the dividend; and 15% of dividend in all other cases.

11 0% applies if the beneficial owner is the Hong Kong Government or any of its institutions or other entity wholly-owned directly by the Hong Kong Government; and 5% of dividend in all other cases.

12 0% applies if the dividend is paid to (a) the Hong Kong Government, (b) the Hong Kong Monetary Authority, (c) the Exchange Fund, (d) any entity wholly or mainly owned by the Hong Kong Government or (e) a beneficial owner which is a company (other than a partnership); and 10% of dividend applies in all other cases.

13 0% applies if the beneficial owner is a company (other than a partnership); and 10% of interest applies in all other cases.

14 0% applies to royalty payments for the use of or the right to use, industrial, commercial or scientific equipment or for information concerning industrial, commercial or scientific experience if the beneficial owner is a company (other than a partnership); and 3% applies to all other cases.

15 4.9% applies to interest payments to any bank; and 10% of interest payments in all other cases.

16 0% if (a) the beneficial owner is a company that holds directly or indirectly at least 50% of the payer's voting power, and meets specified requirements or (b) the dividend is paid to the Hong Kong Government, the Hong Kong Monetary Authority or any institution wholly or mainly owned by the Hong Kong Government, 5% applies if the beneficial owner is a company which holds directly at least 10% of the payer's voting power; and 15% of dividend in all other cases.

17 0% applies if the dividend is derived and beneficially owned by (a) the Hong Kong Government (b) the

Hong Kong Monetary Authority (c) the Exchange Fund or (d) a financial institution wholly or mainly owned by the Hong Kong Government. 3% applies if the beneficial owner of the dividends is a company (other than partnership) which holds directly at least 15% of the payer's capital and 5% applies in all other cases.

18 0% applies if the dividend is paid to (a) the Hong Kong Government (b) the Hong Kong Monetary Authority (c) the Exchange Fund or (d) any entity wholly or mainly owned by the Hong Kong Government. 5% applies if the beneficial owner of the dividends is a company (other than partnership) which holds directly at least 15% of the payer's capital and 10% applies in all other cases.

19 5% applies to royalty payments for the use of or the right to use, industrial, commercial or scientific equipment; and 8% applies to all other cases.

20 10% applies if the interest is beneficially owned by (a) any financial institution or insurance company, or (b) a resident of Hong Kong and is paid with respect to indebtedness arising as a consequence of a sale on credit by a resident of Hong Kong of any equipment, merchandise or services, except where the sale was between persons not dealing with each other at arm's length, and 15% applies in all other cases.

21 5% applies to royalty payments for the use of, or the rights to use, any copyright of literary, artistic or scientific work; 10% applies to royalty payments for the use of, or the rights to use, any patent, trademark, design or model, plan, secret formula or process; and 15% applies in all other cases.

22 15% applies if, other than the beneficial owner of the dividends is a pension scheme, dividends are paid out of income (including gains) derived directly or indirectly from immovable property by an investment vehicle which distributes most of this income annually and whose income from such immovable property is exempted from tax; and 0% applies in all other cases.

23 0% applies if (a) the interest is beneficially owned by specified persons which include the Hong Kong Government, an individual, a listed company, a pension scheme and a financial institution which is unrelated to and dealing wholly independently with the payer or (b) the interest is paid by the Hong Kong Government, by a bank in the ordinary course of its banking business, or on a quoted Eurobond.

24 7% applies to royalty payments for the use of, or the rights to use, any patent, design or model, plan, secret formula or process; and 10% applies to royalty payments in all other cases.

25 Withholding taxes are generally not levied, except on royalties.

HUNGARY

MEMBER FIRM

City	Name	Contact Information
Budapest	Zsolt Selenyi	+36 1 391 4220 selenyi.zsolt@pkf.hu

BASIC FACTS

Full name:	Republic of Hungary
Capital:	Budapest
Main languages:	Hungarian
Population:	9.7 million (2018 estimate)
Monetary unit:	Hungarian Forint (HUF)
Internet domain:	.hu
Int. dialling code:	+36

KEY TAX POINTS

- Companies resident in Hungary are taxed on their worldwide income. A company is resident in Hungary if it is incorporated or has its place of management there. Non-residents carrying on business through a branch or permanent establishment are taxed on income of the branch or establishment.

- A new, single corporate income tax rate of 9% entered into force as of 1 January 2017.
- Capital gains of companies are treated as income.
- Local taxes include a local business tax at a maximum rate of 2%.
- There is a range of tax incentives for investment, including special incentives for small and medium-sized companies.
- Transfer pricing rules allow adjustment of taxable profits in respect of transactions between related parties.
- VAT at 27% applies to the supply of goods and services, subject to reduced rates or exemptions for certain supplies.
- Individuals resident in Hungary are taxed on their worldwide income. Non-residents are taxed only on Hungarian-sourced income.

A. TAXES PAYABLE

COMPANY TAX

Hungarian resident companies are liable to corporate income tax on all sources of income wherever arising and whether or not remitted to Hungary. A company is resident in Hungary if it is incorporated or has its place of management in Hungary. Branch offices are liable to corporate tax based on their local activity. Generally, the fiscal and accounting years are both required to end on 31 December. However, companies are entitled to use a different fiscal year if their course of business makes it reasonable.

Tax is charged on the higher of the taxable profit for the year and the 'expected profit' at a rate of 9%. The expected profit is 2% of the total revenue.

Resident companies are required to make advance payments of corporate tax. The advance payments are based on the preceding year's tax results. Most taxpayers must make payments up to at least 90% of their annual estimated tax liability by the 20th day of the last month of the tax year. Legal entities generally file their tax return and pay the taxes by 31 May, except where the fiscal year differs from the calendar year.

CAPITAL GAINS TAX

Capital gains of companies are treated as ordinary income and taxed accordingly. A participation exemption scheme exempts the disposal of 'reported participations' from corporate income tax. The reported participation scheme can be applied regardless of the rate of participation in the capital of the relevant company, except for controlled foreign companies. The exemption only applies to participations announced to the tax authority within 75 days and held for at least one year.

BRANCH PROFITS TAX

Based on the Act of Hungarian Branch Offices and Commercial Representative Offices of Foreign Registered Companies, branch offices receive the same treatment as domestic companies.

VALUE ADDED TAX (VAT)

The general rate of VAT is 27%. A discount rate of 18% is applicable to milk, dairy products, bread and other bakery products. Pharmaceuticals, books, newspapers, district heating, internet services, certain types of meat, catering services and certain newly built residential properties are taxed at 5%. Financial and investment services are tax-exempt.

The Ministry for National Economy has published a draft proposal to amend the Invoicing Decree (No. 23/2014) that is currently in place with respect to live invoice data reporting. The planned go live date is 1 July 2018 and the requirement will apply to all domestic B2B (business to business) invoices on which at least HUF100,000 (approx. EUR 320) value added tax (VAT) is charged. Failure to meet the new obligation may result in a penalty up to HUF 500,000(approx. EUR 1,700) per invoice.

LOCAL TAXES

Local authorities are permitted to levy the following taxes on individuals and businesses in accordance with a framework law. These taxes are deductible expenses in the computation of the taxable base:

LOCAL BUSINESS TAX

Economic activity may be taxed at up to 2% of net sales revenue less the cost of goods sold, the cost of mediated services, sub-contractors' expenses, material costs and the cost of R&D. There are certain limitations on the deductions. For temporary activities, a lump sum up to HUF 5,000 per day can be levied.

BUILDING TAX

The owner of a building may have to pay up to HUF 1,100 per m² of the surface area or 3.6% of the market value.

LAND TAX

The owner of land not built on may be taxed at up to HUF 200 per m² or 3% of the market value of the land.

COMMUNAL TAX OF PRIVATE PERSONS

The owner of a building or land, as well as the tenant of a flat not owned by a private person, may be subject to this tax. The upper limit of the tax is HUF 17,000 per real estate or rental right.

B. DETERMINATION OF TAXABLE INCOME

Profits include all income and capital gains. The taxable basis is the accounting profit adjusted by prescribed items. Generally, expenses incurred wholly and exclusively for business purposes are deductible. The accounting profit is adjusted in accordance with the rules of the corporate income tax legislation, the most important of which are listed below.

DEPRECIATION

For tax purposes, the straight-line method is normally adopted. Assets should have depreciation time apportioned.

Asset	Annual Rate of Depreciation (%)
Industrial structures	2
Agricultural structures	3, 5, 10, 15
Motor vehicles	20
Computer equipment	33
Generally used computer equipment (computers used by the taxpayer)	50

Assets costing less than HUF 100,000 may be fully written off in the year of purchase. In the case of leased assets, the lessor is allowed to claim depreciation of 5% for buildings and 30% for machinery and equipment. Any depreciation rate can be applied to intellectual property between the rate calculated based on the useful lifetime and 50%.

INVENTORY

Inventories are generally valued at the lower of cost and market value. Cost may be determined on the basis of FIFO or average cost method.

CAPITAL GAINS AND LOSSES

See discussion above.

DIVIDENDS

Dividends received from non-CFC companies are not subject to corporate income tax. Only 50% of the profit derived from certain royalties is taxable.

INTEREST DEDUCTIONS

Interest paid by a company is treated as an ordinary business expense unless it falls under the provision of thin capitalisation. The proportional amount of interest on loans is not deductible for tax purposes if the amount of the total loan exceeds three times the borrower's own equity, i.e. a debt-to-equity ratio of 3:1. The aggregate debt amount is taken into account on a net basis. Also, any transfer pricing adjustments applied have to be taken into consideration (e.g. interest-free debt). Interest on bank loans is fully deductible.

LOSSES

Losses can be carried forward for 5 tax years, and can only be used up to 50% of the tax base for any particular year. Losses may not be carried back against profits of previous years. No distinction is made between trading and capital losses.

FOREIGN SOURCE INCOME

Hungarian authorities levy taxes on resident companies on all profits arising from foreign sources in the same way as income from Hungarian sources.

TAX INCENTIVES

Tax incentives for innovative investments (developments) are granted by the Hungarian Government at the request of the taxpayer. These incentives are granted for to companies that meet the requirements set out in law. The value of the incentive is determined by the Ministry of National Economy. The minimum value of the investment must be at least:

- HUF 3 billion;
- HUF 1 billion in certain regions determined by the Government;
- HUF 6 billion or HUF 3 billion for investment serving job creation which results in product diversification and/or new process innovation;
- HUF 500 million for investment made by small and medium enterprises;
- HUF 100 million in the case of research and development, environment-protecting investments, film and video production;
- Job creation (there is no minimum value);
- HUF 100 million in 'free entrepreneurial zones' designated by the Government;
- HUF 100 million in the case of energy efficiency projects.

The incentives are available for the year when the investment is made and in the following twelve years.

TAX CREDITS ON DONATIONS

A tax saving is available for companies on donations given to film productions, performing arts and certain sport clubs and associations (football, handball, basketball, hockey and water polo). This can be achieved through a tax credit or a tax base decrease.

TAX INCENTIVES FOR INVESTORS IN "START-UPS"

Pre-tax profit may be decreased by three times the cost of shareholdings acquired in "start-up" companies determined by the act up to HUF 20 million per tax year. The tax incentive can be applied in four equal instalments, in the tax year of acquisition of shares and in the subsequent three tax years.

TAX INCENTIVES FOR MONUMENTS

The maintenance costs related to monuments are deductible from the tax base for up to 50 % of the pre-tax profit.

In case of renovation 200% of the incurred costs are deductible from the tax base in addition to the amortization costs. The tax relief can be split among related companies, but the sum cannot exceed EUR 50 million in case of maintenance and EUR 100 million in case of renovation. This tax incentive can be used in the tax year when finishing the investment and in the subsequent five tax years.

OTHER TAX INCENTIVES

- Micro, small and medium-sized companies may deduct investment expenses incurred for putting business assets into use of up to the amount of pre-tax profits if: (i) the company qualifies as a micro, small or medium size company at the end of the tax year and (ii) the owners of the company are exclusively private persons throughout the whole tax year.
- Small and medium sized companies may reduce their tax liability by the interest paid on loans granted by financial institutions for purchasing tangible assets.
- A reserve for investments is available up to 50% of pre-tax profit, not exceeding HUF 500 million per tax year. Amounts classified as investment reserve are tax-exempt, but can only be used for investment purposes in the four tax years following the creation of the reserve.
- Taxpayers may decrease their corporate income tax base with regard to investments related to electric charging stations and rental homes built by employers for their employees.

C. FOREIGN TAX RELIEF

Domestic law provides unilateral relief in the form of credits for foreign taxes paid. The credit is calculated separately for each item and for each source country. It is limited to 90% of foreign tax paid and cannot

exceed Hungarian tax on the same income.

In addition, there are international treaties for the avoidance of double taxation.

D. CORPORATE GROUPS

All taxable entities that have a registered seat or permanent establishment in Hungary and belong to the same corporate group can choose VAT grouping. The members of the group will be recognised as a single taxable person and they will file one consolidated VAT return.

There are no group taxation provisions for corporate income tax purposes.

E. RELATED PARTY TRANSACTIONS

Transfer pricing rules allow the tax authorities to adjust taxable profits where transactions between related parties are not at arm's length. Transfer pricing documentation must be prepared if there are controlled transactions with related parties.

F. WITHHOLDING TAX

There is no withholding tax on dividends, royalties and interest paid to non-resident companies.

G. EXCHANGE CONTROL

There is no exchange control in Hungary.

H. PERSONAL TAX

Resident individuals are taxed on their worldwide income, although special rules apply to foreign nationals residing in Hungary only for employment purposes. Non-residents are taxed only on their income from Hungarian sources. Individuals with Hungarian citizenship are deemed to be Hungarian residents. If residency cannot be determined by citizenship, rules of permanent residence and regular place of actual residence must be used.

A flat rate of 15% applies to all income of private individuals, including both the consolidated tax base and separately taxed income (i.e. interest, dividends, etc.). Fringe benefits are treated as taxable income. There is a 17.7% personal income tax on fringe benefits (a 23.01% healthcare contribution or social contribution tax is payable as well). Benefits specified in the Act include local travel passes, hot meal vouchers, meals provided at the workplace etc.

A certain range of fringe benefits are taxed at a rate of 17.7% and only 16.52% healthcare contribution is payable on them. These fringe benefits include certain vacation contributions and cash benefits up to HUF 100,000 per annum.

There is a family allowance scheme available: HUF 66,670 per child is deductible from the monthly consolidated tax base if the employee has one child, HUF 116,670 per child if the employee has two children, and HUF 220,000 per child is deductible if the employee has at least three children, subject to certain conditions. The unused family personal income tax allowance can be deducted from social security contributions.

Resident expatriates are taxed on 100% of their remuneration. A social security contribution exemption is available for secondments under 2 years. Social security contributions are paid by the employee at a rate of 18.5%. Employers pay 19.5% social contribution tax on gross income of their employees.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

There is no withholding tax under domestic law on dividends, interest and royalties and no tax is withheld on such payments to non-resident companies, even where a treaty allows such tax.

	Dividends (%)	Interest (%)	Royalties (%)
Domestic rates:			
Corporations	0	0	0
Individuals	15	15	15
Treaty countries[1]:			
Albania	5/10	0	5

Armenia	5/10	10	5
Australia	15	10	10
Austria	10	0	0
Azerbaijan	8	8	8
Bahrein	0/5	0	0
Belarus	5/15	5	5
Belgium	10	15	0
Bosnia and Herzegovina	10	0	10
Brazil	15	10/15	15/25
Bulgaria	10	10	10
Canada	5/10/15	10	0/10
China	10	10	10
Croatia	5/10	0	0
Cyprus	5/15	10	0
Czech Republic	5/15	0	10
Denmark	0/15	0	0
Estonia	5/15	10	5/10
Egypt	15/20	15	15
Finland	5/15	0	5
France	5/15	0	0
Georgia	0/5	0	0
Germany	5/15	0	0
Greece	10	10	10
Hong Kong	5/10	5	5
Iceland	5/10	0	10
India	10	10	10
Indonesia	15	15	15
Ireland	5/15	0	0
Israel	5/15	0	0
Italy	10	0	0
Japan	10	10	0/10
Kazakhstan	5/15	10	10
Kosovo	0/5	0	0
Kuwait	0	0	10
Latvia	5/10	10	5/10

Liechtenstein	0/10	0	0
Lithuania	5/15	10	5/10
Luxembourg	5/15	0	0
Macedonia	5/15	0	0
Malaysia	10	15	15
Malta	5/15	10	10
Mexico	5/15	10	10
Moldova	5/15	10	0
Mongolia	5/15	10	5
Montenegro	5/15	10	10
Morocco	12	10	10
Netherlands	5/15	0	0
Norway	10	0	0
Pakistan	15/20	15	15
Philippines	15/20	15	15
Poland	10	10	10
Portugal	15/10	10	10
Qatar	0/5	0	5
Romania	5/15	15	10
Russia	10	0	0
San Marino	0/5/15	0	0
Saudi Arabia	5	0	5/8
Serbia	5/15	10	10
Slovakia	5/15	0	10
Slovenia	5/15	5	5
Singapore	5/10	5	5
South Africa	5/15	0	0
South Korea	5/10	0	0
Spain	5/15	0	0
Sweden	5/15	0	0
Switzerland	10	10	0
Taiwan	10	10	10
Thailand	15/20	10/25	15
Tunisia	10/12	12	12
Turkey	10/15	10	10

Ukraine	5/15	10	5
United Arab Emirates	0	0	0
United Kingdom	0/10/15	0	0
United States	5/15	0	0
Uruguay	15	15	10/15
Uzbekistan	10	10	10
Vietnam	10	10	10

INDIA

MEMBER FIRM

City	Name	Contact Information
National/Chennai	S. Hariharan	+91 89 399 83123 hari@pkfindia.in
National/Chennai	Sudha Ashok	+91 8056028505 sudha.a@pkfindia.in
Bangalore	M. Seethalakshmi	+91 99 726 88008 seethalakshmi@pkfindia.in
New Delhi	S. Manigandan	+91 99 999 46374 manigandan@pkfindia.in
Hyderabad	Prasana Kumar	+91 91 766 62077 prasana@pkfindia.in
Mumbai	R. Suriyanarayanan	+91 98 210 11692 rsn@pkfindia.in

BASIC FACTS

Full name:	Republic of India
Capital:	New Delhi
Main languages:	Hindi, English
Population:	1.35 billion (2018 estimate)
Monetary unit:	Indian Rupee (INR)
Internet domain:	.in
Int. dialling code:	+91

KEY TAX POINTS

- Companies resident in India are subject to income tax on their worldwide income and capital gains. Non-resident companies are subject to income tax on their income from Indian sources.
- Some long term capital gains are taxed at a special rate.
- A dividend distribution tax is payable in respect of dividends declared, distributed or paid. Dividends received from domestic companies are exempt from tax in the shareholder's hands where the payer has paid dividend distribution tax, except in certain cases where dividend income exceeds INR 1 million.

- Transfer pricing rules provide for income from or expense or interest arising from international transactions among associated enterprises to be computed at an arm's length basis.
- Advance Rulings may be obtained on questions of law or fact.
- There is also a mechanism of unilateral and bilateral Advance Pricing Agreements (APA mechanism) for transfer pricing transactions.
- The profits of small businesses or professions may be subject to presumptive taxation; income is deemed to be a percentage of gross receipts.
- Existing central & state indirect taxes on goods and services were replaced with new Goods and Services Tax with effect from 1 July 2017.
- There are no inheritance tax, wealth tax and gift taxes.

A. TAXES PAYABLE

The following are the major taxes are applicable:

1. Income Tax/ Corporate tax – A direct tax levy on the Income;
2. Goods and Services Tax – An Indirect Tax levy on transaction of sale of goods and services, being a combined levy by central and state governments;
3. Securities Transaction tax on dealing in securities through recognized stock exchanges;
4. Commodities Transaction tax on dealing in commodities through recognized commodities exchanges.

INCOME TAX

The Indian tax year is a financial year from 1 April to 31 March. The amount of tax payable by Companies is computed after reckoning income tax at prescribed rates and surcharge (SC) computed on income tax.

The aggregate of income tax and SC, wherever applicable, is further increased by 4% Education and Health Cess (EHC). All tax rates mentioned hereinafter in this Tax Guide are net effective rates, inclusive of SC & EHC specified above.

COMPANY TAX

RESIDENTIAL STATUS

The scope of taxable income varies depending upon the residential status of the company. The following companies are resident in India:

a) Company incorporated in India;

b) Any other company where Place of effective management is in India.

Non-resident companies are those which are not resident companies.

Resident companies are subject to income tax on all sources of income and capital gains wherever arising. Foreign companies are subject to income tax only on their income from Indian sources. Company tax is levied as follows for the FY 2018-19:

	Rate: if net income does not exceed INR 10 million	Rate: if net income is in the range of INR 10 million – 100 million	Rate: if net income exceeds INR 100 million
Domestic companies with a turnover of less than 250 crores	26.00%	27.82%	29.12%
Domestic companies other than covered above	31.20%	33.384%	34.944%
Foreign companies	41.60%	42.432%	43. 680%

In order to provide relief to newly setup domestic companies engaged solely in the business of manufacture or production of any article or thing, a new section 115BA has been inserted, which provides an option to domestic companies to pay tax at 25% for any previous year relevant to the assessment year beginning on or after 1 April 2017, provided following conditions are met:

1. The company has been setup and registered on or after 1 March 2016;
2. The company is engaged in the business of manufacture or production of any article or thing and is not engaged in any other business;
3. The company while computing its total income has not claimed any benefit under section 10AA, benefit of accelerated depreciation, benefit of additional depreciation, investment allowance, expenditure on scientific research and any deduction in respect of certain income under Part-C of Chapter-VI-A other than the provisions of section 80JJAA; and
4. The option is furnished in the prescribed manner before the due date of furnishing of income.

SURCHARGE

Surcharge is applicable at 7% for domestic companies and 2% for foreign companies if the net income exceeds INR 10 million and 12% for domestic companies and 5% for foreign companies if the net income exceeds INR 100 million. However, there are marginal relief provisions for border line cases transitioning into a higher tax slab.

The following income of foreign companies is taxed at the following specified rates on a gross basis and not at the regular tax rate.

Income	Rate: if net income does not exceed INR 10 million	Rate: if net income is in the range of INR 10 million – 100 million	Rate: if net income exceeds INR 100 million
Royalties and fees for technical services (subject to certain conditions) received pursuant to an agreement, if such agreement is made after 31 March 1976*	10.40%	10.608%	10.92%
Interest income received by a foreign company or a non-resident non corporate assessee from Government or an Indian concern on money borrowed or debts incurred by Government or the Indian Concern in foreign currency	20.80%	21.216%	21.84%
Interest Income from an infrastructure debt fund referred to in clause (47) of Sec 10	5.20%	5.304%	5.461%
Interest income from units of Mutual Funds purchased in foreign currency	20.80%	21.216%	21.84%
Income from Global Depository Receipts (GDRs)	10.40%	10.61%	10.92%
Income of offshore funds (overseas company) under section 115AB	10.40%	10.61%	10.92%
Payment by way of interest by an Indian specified company or a business trust to a foreign company on foreign currency approved loans or long term infrastructure bonds from outside India or by way of issue of rupee denominated bonds, as referred to in sec 194LC	5.20%	5.304%	5.461%
Any income received by a non-resident or a foreign company from a business trust with effect from 1 October 2014	5.20%	5.304%	5.461%

Income of Foreign Institutional Investors (FIIs) in listed securities:			
- Short term capital gains in respect of transactions chargeable to Securities Transaction Tax	15.60%	15.912%	16.381%
- Long term capital gains in excess of Rs. 1 lakh in respect of transactions chargeable to Securities Transaction Tax	10.40%	10.608%	10.92%
- Short-term capital gains in cases other than the one mentioned above	31.2%	31.824%	32.76%
- Long-term capital gains other than those subjected to Securities Transaction Tax (without indexation)	10.40%	10.608%	10.92%
- Interest income of a rupee denominated bond of an Indian company or Government security which is payable after 31 May 2013 but before 1 June 2015, received by a foreign institutional Investor or a qualified foreign investor as referred to in section 194 LD	5.20%	5.304%	5.46%
- Any Income from securities (Dividends & Interest – except dividend under section 115O)	20.80%	21.216%	21.84%

* The definition of 'royalty' includes the transfer of all or any right for use (or right to use) computer software (including granting of license) irrespective of the medium through which such right is transferred. Furthermore, royalty includes any consideration in respect of any right, property or information, whether or not:

a) The possession or control of such right, property or information is with the payer;

b) Such right, property or information is used directly by the payer;

c) Location of such right, property or information is in India.

Royalty also includes any consideration for the use of any process, where the process includes transmission by satellite (including up-linking, amplification and conversion for down linking of any signal), cable, and optic fibre or by any other similar technology, whether or not such process is secret.

CAPITAL GAINS TAX

Gains arising from transfer of a long-term capital asset, i.e. assets held for a period of more than three years (one year in case of shares/securities of companies listed on a recognized stock exchange in India or a unit of an equity oriented fund or a unit of business trust and two years in case of unlisted shares and immovable property) are regarded as long-term capital gains. Long-term capital gains are computed by deducting the cost of the capital asset and expenses of transfer (adjusted for inflation as per the prescribed factors) from the sale value of the asset.

Gains arising from the transfer of capital assets held for a period of less than three years (one year in the case of shares, securities of companies listed on a recognized stock exchange in India or a unit of an equity oriented fund or a unit of business trust and two years in case of unlisted shares and immovable property) are regarded as short-term capital gains.

With effect from 1 April 2018, exemption on long-term capital gains arising from the sale of equity shares, units of equity-oriented funds on a recognized stock exchange (chargeable to STT (Securities Transaction Tax)) stands withdrawn. Such long-term capital gain in excess of INR 100,000 shall be subject to tax at 10%. Similarly, any mutual fund distributing dividend on equity oriented fund shall pay DDT (Dividend Distribution Tax) at the rate of 10%.

Long-term capital gains on the sale of other assets are taxed separately at the following rates:

Particulars	Rates					
	Income does not exceed INR 10 million		Income exceeds INR 10 million but does not exceed INR 100 m		Income exceeds INR 100 million	
Long-term capital gains:	**For foreign companies**	**For Indian companies**	**For foreign companies**	**For Indian companies**	**For foreign companies**	**For Indian companies**
For listed securities or units or zero coupon bonds (Without STT)	*10.40% without indexation or 20.80% with indexation whichever is lower.	10.40% without indexation or 20.80% with indexation whichever is lower	10.61% without indexation or 21.22% with indexation whichever is lower	11.13% without indexation or 22.26% with indexation whichever is lower	10.92% without indexation or 21.84% with indexation whichever is lower	11.65% without indexation or 23.30% with indexation whichever is lower
For unlisted securities (in case of residents)	NA	10.40% without indexation or 20.80% with indexation whichever is lower	NA	11.13% without indexation or 22.26% with indexation whichever is lower	NA	11.65% without indexation or 23.30% with indexation whichever is lower
For unlisted securities (in case of non-residents)	10.40% without indexation or foreign exchange conversion benefit	NA	10.608% without indexation or foreign exchange conversion benefit	NA	10.92% without indexation or foreign exchange conversion benefit	NA
Short-term capital gains:	**For foreign companies**	**For Indian companies**	**For foreign companies**	**For Indian companies**	**For foreign companies**	**For Indian companies**
For listed securities or units or zero coupon bonds (subject to securities transaction tax)	**15.60%	15.60%	15.912%	16.69%	16.377%	17.468%
For others	41.60%	31.20%	42.428%	33.384%	43.68%	34.944%

*If the transfer takes place after 10 July 2014, the above concessional rate of 10% in the absence of indexation benefit, will not be available in case of long-term capital gains which arise on transfer of units of debt oriented mutual fund.

Long-term capital losses can only be set off against long-term capital gains. Short-term capital losses can be set off against any capital gain. Capital losses can be carried forward for a period of eight years for set off against capital gains of the same type in subsequent years. There are no provisions for carrying back losses. Capital gains are taxable in India even on account of indirect transfers of assets. Non-resident Indians (NRIs) earning long-term, capital gains on specified assets acquired in convertible foreign exchange are taxed at 11.642% (if SC is applicable) or 10.40% and on other assets at 23.284% (if SC is applicable) or 20.8%. Any other income from investments is taxed at 23.932% (if SC is applicable) or 20.6%.

INCOME FROM OTHER SOURCES

When the consideration received by a company (in which the public are not substantially interested) from a resident person, for issue of shares exceeding the face value of such shares (share premium), the difference between the consideration and the fair market value of such shares shall be chargeable to tax under "income from other sources" as per sec 56(2)(viib). For this purpose, the fair market value shall be the higher of the value:

a) As may be determined in accordance with the method given in rule 11 UA; or,

b) As may be substantiated by the company to the satisfaction of the Assessing Officer.

MINIMUM ALTERNATE TAX (MAT)

In the case of companies, if the tax payable on their taxable income for any assessment year is less than *18.5% of their 'book profit', tax payable on the total income shall be as given below, for FY 2018-19 of such book profits. MAT is also applicable to foreign companies.

	If book profit doesn't exceed INR 10 million	If book profit is in the range of INR 10 million – 100 million	If book profit exceeds INR 100 million
Domestic company	19.240%	20.587%	21.549%
Foreign Company	19.240%	19.625%	20.202%

*If the company is located in International Financial Service Centres, then applicable MAT will 9%.

For the purpose of computing book profits, income charged under presumptive basis should be excluded. The MAT paid could be carried forward and set off against normal tax (in excess of MAT for that year) of future years for up to 15 years. With effect from FY 2011-2012, carried forward MAT shall also apply to a limited liability partnership which has been converted from a private company or unlisted public company.

'Book profit' means net profit as per the profit and loss account as adjusted (increased or reduced) by certain specified items, which includes income tax paid or payable and the provisions made for unascertained liabilities, amounts carried to any reserves, provision for diminution in the value of assets, losses brought forward or unabsorbed depreciation, deferred tax, interest on tax, SC, EC, income exempt from tax, non-taxable profits from export of goods and computer software. However, the following are included within book profits, despite being exempted from normal income tax:

a) Profits of undertakings located in free trade zones, software and hardware technology parks;

b) Long-term capital gains arising from the transfer of listed equity shares/units. MAT is also applicable in respect of SEZ units as well as developers.

The income of FPIs from capital gains arising out of securities, other than short-term capital gains, royalty or fees for technical services is excluded from computation of book profits effective 1 April 2015.

TONNAGE TAX FOR SHIPPING INDUSTRY

The tonnage tax scheme for eligible shipping companies provides for a tonnage-based presumptive tax. Indian shipping companies now have the option to pay taxes on tonnage income in place of normal taxable income. There is a lock-in period of 10 years. If a company opts out, it is debarred from re-entry for 10 years. Tonnage income is to be taxed at the normal corporate tax rate. Tax is payable even if there is a loss in a year. Tonnage income is separately calculated for each qualifying ship by multiplying the number of days in the previous year with the daily tonnage income as per specified slab rates.

DIVIDEND DISTRIBUTION TAX

A company distributing dividends to its shareholders is liable to pay dividend distribution tax grossed up at 15% along with surcharge at 12% and cess at 4% totaling 20.5553% on dividend declared. To remove the cascading effect of DDT, section 115-O(1A) provides a relief when a holding company declares/distributes/pays a dividend (whether interim or otherwise) to its shareholder(s). The amount chargeable to tax shall be reduced by the amount of dividend, if any, received during the financial year from its subsidiary:

a) Where such subsidiary is a domestic company, the subsidiary has paid the tax which is payable under this section on such dividend; or

b) Where such subsidiary is a foreign company, the tax is payable by the domestic company under section 115BBD on such dividend.

The same amount of dividend should not be taken into account for reduction more than once. However, income distributed by a specified company or mutual fund to its unit holders is taxable at differential rates as follows:

Rates of DDT for Mutual Funds

Particulars	Basic Rate	Effective Rate (Incl. SC at 12% & Cess)
(1) Distribution by MF under an Infrastructure Debt fund scheme to a non-resident	5.00	5.824
(2) To an individual or HUF excluding (1) above (Debt oriented fund & money market fund)	25.00	29.12
(3) To any other Person excluding (1) a (2) above (Debt oriented fund & money market fund)	30.00	34.944
(4) Income distributed to any person by an equity oriented fund	10	11.648

With effect from 1 October 2014, 'Dividend Distribution Tax' and 'Income Distribution Tax' to be levied on Gross Amount instead of amount paid net of taxes. The dividend is not taxable in the hands of the recipient due to the applicability of DDT, hence various rates applicable in the treaty for taxing dividend is redundant.

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DIVIDENDS FROM FOREIGN COMPANIES

An Indian company receiving dividend from a foreign company on holding of 26% or more of equity is liable to tax at 15% with surcharge at 7% (income exceeding 10 million) or at 12% (income exceeding 100 million) and education cess at 4%, inclusive of surcharge.

BRANCH PROFITS TAX

Profits of a branch office of a foreign company in India are taxed in India on income received and/or accrued in India (net of allowable expenses) at the rate applicable to Foreign Companies as given below for the FY 2018-19.

If net income does not exceed INR 10m	42.00%
If net income exceeds INR 10 million but does not exceed INR 100 million	42.432%
If net income exceeds INR 100 million	43.68%

Under section 285, every person having a liaison office in India will have to file a statement pertaining to the liaison office to the Income tax authority within such time and format as prescribed. There are special provisions relating to conversion of Indian branch of a foreign bank into a subsidiary Indian company under section 115JG in the Income Tax Act.

ADVANCE RULINGS

In order to determine the tax liability in India in advance, and thereby avoid litigation and uncertainty in tax matters, a mechanism of 'Advance Rulings' is available to non-residents in relation to Indian transactions. Indian residents can also seek advance rulings on transactions undertaken or proposed to be undertaken with non-residents.

For this purpose, an 'Authority for Advance Rulings' (AAR) has been constituted which is headed by a retired judge of the Supreme Court of India. The advance ruling is binding on the applicant and on the tax authorities. Application can be made to the AAR seeking a ruling on any question of fact or law on payment of a prescribed fee. The ruling is generally delivered within six months of making the application and is made in writing giving reasons for the decision of the AAR. A similar mechanism is available to non-residents under Excise, Customs, service tax and sales tax laws.

The Authority for Advance Ruling has been empowered to determine an arrangement which is proposed to be undertaken by any person (whether resident or non-resident) is an impermissible avoidance arrangement as referred to in Chapter X-A or not. A resident (falling within any such class or category of persons as the Central Government notifies) can approach the Advance Ruling authority in relation to its tax liability arising out of a transaction which is undertaken (or is proposed to be undertaken) by it.

GOODS AND SERVICE TAX

The 122nd Constitutional Amendment has amended various Articles in the Constitution of India to provide power both to the Central Government and State Governments to levy tax on supplies which will include manufacture and sale. The GST Act was introduced with effect from 1 July 2017.

The GST Act provides for levy of Central Goods & Service Tax on Intra-state/Inter-State supplies of goods or services. The State GST Act provides for levy of State GST on intra-State supplies of goods or services. The Integrated GST Act provides for levy of IGST on Inter-State supply of goods and services. Thus, in short, CGST, SGST will be levied on intra-State supplies of goods or services whereas IGST will be levied on inter-State supplies of goods and services. Each State Government will enact statute for levy on supplies of goods and services. UTGST is applicable in case of Union territories which do not have legislature. They do not have SGST. Delhi and Puducherry have their own legislature. Hence they have their own SGST. The GST Act is extended to Jammu and Kashmir with effect from 8 July 2017. Area up to 200 nautical miles inside sea is “India” for the purpose of GST.

It is a blanket indirect tax that will subsume several indirect state and federal taxes such as value added tax (VAT) and excise duty, and different state taxes, central surcharges, entertainment tax, luxury tax and a slew of related levies by local bodies.

GST is based on the VAT concept of allowing input tax credit of tax paid on inputs, input services and capital goods, for payment of output tax. This will avoid a cascading effect of taxes.

In addition, GST Compensation Cess will be payable on pan masala, tobacco products, coal, aerated waters, motor cars etc.

Basic customs duty, Social Welfare charge and IGST will be payable on import of goods. In respect of certain items like LPG, Kerosene, Naphtha, Butane/Propane etc., there shall be Countervailing Duty (CVD) in lieu of IGST.

In case of a supply within State/Union Territory, CGST will be 50% of IGST Rates and SGST/UTGST for supply within the State or Union Territory will be 50% of IGST rates.

Rates of Tax under GST

Goods	Services
0%	0%
0.25%	-
3%	-
5%	5%
12%	12%
18%	18%
28%	28%

EQUALIZATION LEVY

Considering the potential of new digital economy and the rapidly evolving nature of business operations, it is found essential to address the challenges in terms of taxation of digital transactions. In order to address such challenges, a new Chapter titled "Equalization Levy" was introduced in the Finance Act 2016 to provide for an equalization levy of 6 % of the amount of consideration for specified services received or receivable by a non-resident not having a permanent establishment ('PE') in India, from a resident in India who carries out a business or profession, or from a non-resident having a permanent establishment in India.

Furthermore, in order to reduce the burden of small players in the digital domain, it was also provided that no such levy shall be made if the aggregate amount of consideration for specified services received or receivable by a non-resident from a person resident in India or from a non-resident having a permanent establishment in India does not exceed INR 0.10 million in any financial year.

CUSTOMS DUTY

Customs duty is payable on goods imported into India. The normal rate of import Duty is:

Particulars	Rate
Basic Customs Duty	7.5%
Social Welfare Surcharge (In lieu of Customs Cess in the form of Education Cess & Secondary & Higher Education Cess)	10%
IGST	18%

The Tariff rate may vary depending upon the products. In addition Additional Customs duty shall be levied on certain items like Petroleum products.

CENTRAL EXCISE DUTY:

Central Excise duty will continue on petroleum products, i.e. petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel. Apart from this there shall be Special Additional duty and Road and infrastructure Cess on Petroleum products. These products are out of the scope of GST at present.

SALES TAX & STATE LEVY:

Sales Tax has been subsumed in GST with effect from 1 July 2017. Alcoholic beverages, i.e. on manufacture thereof or sale/supply of alcoholic- beverages would be subject to levy of state excise duties and Value Added Tax (VAT) when sold.

SECURITIES TRANSACTION TAX

Securities transaction tax (STT) is applicable to the purchase or sale of equity shares, derivatives, units of equity-oriented funds through a recognized stock exchange or the sale of a unit of an equity-oriented fund or to a mutual fund. STT is also applicable on the sale of unlisted equity shares under an offer for sale to the public included in an initial public offer (IPO) and where such shares are subsequently listed on a recognized stock exchange.

STT will also be applicable on the transactions in units of a business trust, on the same line as are applicable to transactions in equity shares in a company. STT is to be collected by the Recognized Stock Exchange for taxable securities in that stock exchange; a prescribed person for the sale of units in a mutual fund and a lead merchant banker for an initial public offer. The transaction value is determined as follows:

a) Options - aggregate of strike price and option premium;

b) Futures - traded price;

c) Other securities - purchase/sale price.

STT is to be collected by the Recognized Stock Exchange for taxable securities, the mutual funds in the case of sale of units to the mutual funds, and paid to the Government. STT paid is allowable as a deduction in the computation of taxable income under the head profits or gains from a business or profession. STT Rates applicable are given below:

Product	Transaction	STT rate	Basis for charge
Equity - Delivery	Purchase	0.10%	Turnover
	Sale	0.10%	Turnover
Equity – Intraday	Purchase	Nil	-
	Sale	0.025%	Turnover
Futures	Purchase	Nil	-
	Sale	0.010%	Turnover (Lot*Lot size*Price)
Options	Purchase	0.13%	Settlement price on exercise
	Sale	0.17%	Premium

COMMODITIES TRANSACTION TAX

Commodities transaction tax (CTT) is levied on taxable commodities transactions entered into in a recognized association. Salient features of this are given below:

a) Taxable commodities transaction means a transaction of sale of commodity derivatives in respect of commodities (other than agricultural commodities) traded in recognized association;

b) Commodities transaction tax shall be payable by the seller at the rate of 0.01% of the value of the transaction (i.e. at the price at which commodity derivative is traded);

c) Every recognized association shall collect the commodities transaction tax from the seller who enters into taxable commodities transaction in that recognized association;

d) The assessee will deposit commodities transaction tax within 7 days immediately after the end of the month in which such tax is collected. For non-payment or short payment or payment after due date, interest would be charged at the rate of 1% per month (or part thereof).

In order to mobilize growth of International Financial Services Centers (IFSC), the Budget 2016, amended that no Securities Transaction Tax (STT) and Commodities Transaction Tax (CTT) shall be levied on transactions of securities carried out through recognized stock exchange located in IFSC where the consideration for such transaction is paid or payable in foreign currency.

LOCAL TAXES

STAMP DUTY

Stamp Duty is payable at the prescribed rates on instruments recording certain transactions, including transfers of immovable property and shares. Generally, Stamp Duty is levied by the respective states as per the state Act. In the absence of such a state enactment, the provisions of the central Act (i.e. Indian Stamp Act 1899) apply.

LAND AND PROPERTY TAX

Land and Property Tax is levied by each state separately.

B. DETERMINATION OF TAXABLE INCOME

A company is considered to be resident in India if it is incorporated in India. However, the concept Place of effective management (POEM) introduced in the Finance Act, 2016 will play an important role in determining whether the company is resident in India or not. Indian companies are taxable in India on their worldwide income, irrespective of its source and origin. Foreign companies are taxed only on income which arises from operations carried out in India or income deemed to have arisen in India. The Central Board of Direct Taxes (CBDT) has issued a set of draft guidelines for determining the POEM of companies for taxation purposes. Since residence is to be determined each year, POEM would also be determined on a year to year basis.

In the case of non-resident taxpayers engaged in certain businesses, income is assessed on a presumptive (deemed income) basis as follows:

Nature	Business income as a percentage of gross receipts
Shipping (b)	7.5%
Exploration of mineral oil (b) (c)	10%
Operations of aircraft (b)	5%
Turnkey power projects (b) (c)	10%

(a) To give relief to small taxpayers from the tedious job of maintenance of books of account and from getting the accounts audited, the Income Tax Act has framed the presumptive taxation scheme for business income under sections 44AD if the gross receipts of the taxpayer do not exceed INR 20 million, for specified professionals section 44ADA if the gross receipts of the taxpayer do not exceed INR 5 million and section 44AE if the assessee doesn't own more than 10 leasing goods carriages;

(b) All deductions/expenses (including depreciation) shall be deemed to have been allowed;

(c) The taxpayer can claim lower profits if he keeps and maintains specified books of accounts and obtains a Tax Audit Report;

(d) Applicable to Individuals, Hindu Undivided Families and Firm - excludes LLP, tax payer availing deduction under Section 10AA or Chapter VI-A(C) of the Act;

(e) Specifically excludes person carrying on specified profession, person earning commission or brokerage income and person carrying on any agency business.

DEDUCTIONS AND ALLOWANCES

In computing business income, expenditure from which tax is to be deducted but not done would be allowable only to the extent of 70% and the balance 30% would be allowed in the year of remittance of tax deduction. Several deductions are allowed while computing business income which includes the following.

CAPITAL ALLOWANCES

Certain expenditure qualifies for weighted deduction of 150%. For instance, capital expenditure on research and development (other than land) qualifies for full tax write off and in certain cases, is eligible for a 150% deduction subject to fulfilment of prescribed conditions. Expenditure incurred on merger/demerger of an undertaking is allowed as a deduction in five equal instalments beginning with the year in which the merger/ demerger takes place.

DEPRECIATION

Depreciation allowance is available as per the following rates depending on the nature of the asset and classification into specified blocks:

Buildings (depending upon its nature)	5%, 10%
Buildings i Purely temporary erections such as wooden structures; ii ii. Buildings acquired on or after the 1st day of September, 2002 for installing machinery and plant forming part of water supply project or water treatment system and which is put to use for the purpose of business of providing infrastructure facilities	40%
Furniture and fixtures	10%
Plant and machinery	15%, 30%, 40%
Plant and machinery: i. Air pollution control equipment ii. water pollution control equipment iii. solid waste control & recycling equipment iv. Machinery and plant, acquired and installed on or after the 1st day of September, 2002 in a water supply project or a water treatment system and which is put to use for the purpose of business of providing infrastructure facility v. Wooden parts used in artificial silk manufacturing machinery vi. Cinematograph films - bulbs of studio lights vii. Match factories - Wooden match frames viii. Salt works - Salt pans, reservoirs and condensers, etc., made of earthy, sandy or clayey material or any other similar material ix. Mines & quarries: Tubs, winding ropes, haulage ropes, sand stowing pipes, safety lamps x. Books, being annual publications for profession xi. Books owned by assessees carrying on business in running lending libraries etc.	40%
Intangible assets (patents, trademarks know- how, licenses, copyrights, etc.)	25%
Ships	20%

Additional depreciation of 20% on the cost of new plant and machinery (other than ships or aircraft) is allowable only in the year of commissioning for manufacture. Assets used for fewer than 180 days in the year of acquisition are entitled to half of the normal depreciation allowance (including additional/ enhanced depreciation). Depreciation not set off against current year income can be carried forward for set off against

any future income for an unlimited period.

With effect from 1 April 2016, if an asset is acquired and put to use for the purposes of business for a period of less than 180 days in that previous year, and the deduction under sub-section (1) of section 32 in respect of such asset is restricted to 50% of the amount calculated for the previous year, the balance 50% shall be allowed in the immediately succeeding previous year.

INVESTMENT ALLOWANCE

To encourage the growth of Manufacturing in backward areas of certain states, a deduction of 15% on the cost of new assets purchased after 1 April 2015 till 31 March 2020, shall be allowed as deduction in the year of Installation.

STOCK / INVENTORY

The valuation of closing stock is normally done on the basis of cost or market value, whichever is lower. The accepted valuation methods include FIFO and weighted average cost method. The valuation basis is to be consistently followed.

INTEREST DEDUCTIONS

Interest paid on borrowings used for business purposes is tax deductible. For new businesses, interest incurred prior to commencement of commercial production is to be capitalized. Interest paid on amounts borrowed for investment in securities is allowed as a deduction from interest income. However an interest barrier rule has been introduced from financial year 2017-18 onwards. If an Indian company pays interest exceeding INR 10 million to a non-resident lender, being an associated enterprise, the excess interest as computed below shall not be allowed as deduction.

Excess Interest = Total Interest expenditure in excess of 30% of EBITDA or the actual amount of interest paid to associated enterprise, whichever is lower.

EXPENDITURE INCURRED FOR EXEMPT INCOME

Expenditure incurred in earning income that is exempt from income tax is not allowed as a deduction.

LOSSES

The table given below highlights the rule of carry-forward of losses in brief:

Type of loss to be carried forward to subsequent years	Profit against which carried forward loss can be set off in subsequent years	Number of years loss can be carried forward
House property loss	Income from House property	8 years
Speculation loss	Speculation profits	4 years
Non-speculation business loss		
- Loss due to unabsorbed depreciation, capital expenditure on scientific	Any income not being salary income	No time limit
- Loss from a specified business under section 35AD	Income from a specified business under section 35AD	No time limit
- Other remaining business loss	Any income under the head Capital Gains	8 years
Short-term Capital Loss	Any income under the head Capital Gains	8 years
Long-term Capital Loss	Long-term Capital Gains	8 years

There are no provisions for carrying losses back.

CORPORATE RESTRUCTURING & MERGER

Specific provisions have been made in the Income Tax Act 1961 (the Act) in relation to corporate mergers / amalgamations. Corporate restructuring is tax neutral subject to the fulfilment of certain conditions.

DEMERGER

Under the Act, 'demerger' means any transfer by a demerged company of one or more undertakings to another company (resulting company) pursuant to a scheme of arrangement under Sections 391 and 394 of

the Companies Act. With effect from 1 April 2000, the transfer of shares in a scheme of demerger has been made tax neutral, subject to fulfilment of certain conditions.

SLUMP SALE

The Act defines 'slump sale' to mean the transfer of one or more undertakings as a result of the sale for a lump sum consideration without values being assigned to the individual assets and liabilities. Profits or gains arising from slump sales are taxable as long-term capital gains if the undertaking is owned and held by the assessee for more than 36 months prior to the date of transfer. Otherwise, they are taxable as short-term capital gains. Net worth of the undertaking so transferred shall be deemed to be the cost of acquisition and no indexation benefit is allowed for slump sales.

BUYBACK

Buyback refers to the purchase of own shares by a company from its shareholders in lieu of consideration. Consideration received by a shareholder from the company for purchase of its own shares is taxable as a long-term capital gain, if shares were held for more than 12 months prior to transfer to the company. Indexation benefit is available for long-term capital gains. Otherwise, they are taxable as short-term capital gains in the year in which the shares are purchased by the company.

Income arising to a shareholder in respect of buy back of unlisted shares by the company will be exempt from tax. This exemption is available only in those cases where additional income tax is payable on distributed income under section 115QA by the company opting for buy back of unlisted shares.

FOREIGN SOURCED INCOME

Profits derived by a foreign branch of an Indian enterprise are taxable in India. However, credit is allowed for foreign taxes paid by the branch in India either under the tax treaties or under the Act.

BUSINESS TRUSTS

The real estate investment trust (REIT) and Infrastructure investment trust (Invit) are together referred as Business Trusts. The trusts would raise capital by issuing units (to be listed on a recognized stock exchange) and also raise debt directly from resident and nonresident investors. The final regulations have been notified by SEBI recently. The taxation regime for these Business Trusts, applicable provides the manner, in which the income in the hands of such trusts is to be taxed and the taxability of the income distributed by them to the unit holders.

INCENTIVES

FOREIGN DIRECT INVESTMENT POLICY

Remarkable changes in the policy relating to FDI have been announced by the government in 2016. The highlights of the policy are:

- FDI caps in various sectors have been enhanced. (Appendix – I);
- Subject to the provisions of the FDI policy, foreign investment in `manufacturing' sector is under automatic route. Further, a manufacturer is permitted to sell its products manufactured in India through wholesale and/ or retail, including through e-commerce without Government approval;
- Approval of the Government will be a prerequisite for investment by swap of shares for sector under Government approval route. No approval of the Government is required for investment in automatic route sectors by way of swap of shares.

FIPB approval would not be required in case of mergers and acquisitions taking place in sectors under automatic route.

TAX HOLIDAY FOR ECONOMIC ZONES

A tax holiday is available in respect of profits derived from exports by a 100% export oriented undertaking, or an undertaking located in a free trade zone, export processing zone, SEZ, software technology park, etc.

In the case of new units located in a SEZ commencing activities on or after 1 April 2006, the tax incentives available under sec 10 AA are as follows:

First five years	100% of profits
6th to 10th year	50% of profits
11th to 15th year	50% of profits or amount transferred to credit of SEZ Re-Investment Allowance reserve whichever is lower

PROFITS OF INDUSTRIAL UNDERTAKINGS

A tax holiday for a specified number of years is available in respect of either the entire or part of the profits derived by an industrial undertaking located in a backward state or district or an industrial undertaking engaged, inter alia, in any of the following activities:

(a) Infrastructure facility;

(b) Industrial parks;

(c) Generation or distribution of power;

(d) Power transmission;

(e) Renovation of existing network for transmission of power;

(f) Gas distribution network;

(g) Hospitals in rural area;

(h) Hotels and convention centers in specified area;

(i) Undertaking establishments in the North Eastern State carrying on specified business;

(j) Undertakings deriving profits from operating and maintaining hospitals in places other than urban agglomerations.

INCOME FROM SALE OF CRUDE OIL

Exemption can be availed under section 10(48), by a foreign company in respect of income received on account of sale of crude oil to any person in India. Income should be received in Indian currency in India pursuant to an agreement entered into by the Central Government or approved by the Central Government. The foreign company should not be engaged in any other activity in India. The scope of section 10(48) has been enlarged. to include income on account of sale of any other goods or rendering of services as notified by the central government. The aforementioned exemption is also extended to any income arising to a foreign company through storage of crude oil in a facility in India and sale therefrom to any person resident in India (Sec 10(48A)) is pursuant to an agreement or an arrangement entered into by the Central Government or approved by the Central Government. The aforementioned exemption is also extended to any income arising to a foreign company through sale from leftover stock of crude oil, from the facility in India after the expiry of the agreement or an arrangement entered into by the Central Government or approved by the Central Government.

GENERAL ANTI-AVOIDANCE RULES (GAAR)

General Anti Avoidance rules have been inserted with effect from 1 April 2014. The provisions relating to GAAR are contained in Chapter X-A (Section 95 to 102). The procedural provisions relating to the mechanism for invocation of GAAR and passing of the assessment order in consequence thereof are contained in section 144BA. The provision of chapter X-A and section 144BA will come into force with effect from 1 April 2017.

In an environment of moderate rates of tax, aggressive tax planning by corporates, and use of opaque low tax jurisdictions for residence as well as for sourcing of capital, it is necessary that the correct tax base be subject to tax. GAAR has been introduced to codify the doctrine of 'substance over form'. Under GAAR, the real intention of the parties and effect of transactions and purpose of an arrangement is taken into account for determining the tax consequences, irrespective of the legal structure that has been superimposed to camouflage the real intent and purpose.

The main features of the GAAR regime are:

(1) An arrangement whose main purpose is to obtain a tax benefit can be declared as an 'impermissible tax-avoidance arrangement', if it satisfies at least one of the following four tests:

  (a) It creates rights and obligations which are not normally created between parties dealing at arm's length;

  (b) It results in abuse or misuse of provisions of tax laws;

  (c) It lacks commercial substance;

(d) It is carried out in a manner which is normally not employed for bona fide purpose;

(2) An arrangement will be deemed to lack commercial substance if it involves:

(a) Round trip financing (i.e. transactions where funds are transferred among the parties to the arrangement);

(b) An accommodating party;

(c) Elements that have effect of offsetting or cancelling each other;

(d) A transaction which disguises the value, location, source, ownership, or control of fund;

(e) A location which serves no other substantial commercial purpose, except obtaining tax benefit;

(3) Approving Panel: The approving panel shall consist of a chairperson who is or has been a Judge of a High Court, one member of the Indian Revenue service not below the rank of Chief Commissioner of Income Tax and one member who shall be an academic or scholar having special knowledge of matters such as direct taxes, business accounts and international trade practices;

(4) Status of direction of approving panel: The direction issued by the approving panel shall be binding on the assessee as well as the income tax authority:

(5) Definition of 'associated person and connected person': As per the amendment there will be only one inclusive provision defining the expression 'connected person' under section 102.

ADVANCE PRICING AGREEMENTS APA

The concept of Advanced Pricing Agreement (APA) was introduced in India through the Finance Act 2012. The international transactions are complex and involve more than one country. The sole objective of the APA is to bring tax certainty in international transactions and overcome the issues due to transfer pricing between related parties. By related parties, we mean to say that one party is a holding, subsidiary or an associate company of another party.

APA may be unilateral, bilateral or multilateral arrangements.

C. FOREIGN TAX RELIEF

UNILATERAL TAX CREDIT WHERE THERE IS NO TAX TREATY

Where a resident of India has paid tax in any country with which India does not have a tax treaty, credit is available in India for such tax payments.

TAX CREDIT UNDER TAX TREATIES

India has entered into tax treaties (DTTs) with several partner countries. Under the applicable tax treaty, Indian residents paying taxes in other countries can claim a credit in India for foreign tax payments. The Finance Act 2012 states that provision of DTTs will not be applicable if General Anti Avoidance Rules (GAAR) are invoked.

As per the amendment to section 90 and 90A of the Finance Act 2012, any term which is defined neither in the Act, nor in the DTT, can be assigned a meaning by the Central Government through a Notification. The meaning assigned is generally in line with the intent and objective as understood during the course of negotiations leading to the formalization of the treaty. This meaning assigned through the Notification shall be effective from the date of coming into force of the DTT.

Earlier, a Tax Residency Certificate (TRC) issued by the partner country was considered sufficient proof for accepting the status of residence for applying DTTs. With effect from 1 April 2013, submission of a TRC is considered a necessary but not sufficient condition, as the assessee shall also provide prescribed documents and information for availing DTT benefits referred under section 90 and 90A of the IT Act.

D. CORPORATE GROUPS

There are no provisions in India for consolidation of accounts for tax purposes or provisions for group taxation.

E. RELATED PARTY TRANSACTIONS AND TRANSFER PRICING

Related party transactions with non-residents are required to be reported separately and the tax authorities are given power to consider whether transactions are at an arm's length. Where prices paid for the purchase of goods or services are excessive or unreasonable, the assessing officer can disallow a portion of the expenditure which he considers excessive. A detailed set of transfer pricing regulations are provided in

the Indian domestic tax laws for computing income from international transactions between associated enterprises on an 'arm's length basis'.

In order to justify the price of international transactions, an arm's length price has to be determined using the most appropriate method. Where more than one price is determined, the arm's length price shall be the arithmetic mean of such prices. Earlier, in determining the arm's length price, no adjustment was required to be made in assessment. The Government has notified rules facilitating the use of range whereunder the pricing is within the range of 35th percentile to 65th percentile with a minimum of six comparables would get accepted as ALP. Multiple year data also are permitted to be used.

With respect to assessees who do not fulfill the requirements for applicability of justification through the range of profits as above, tolerance limit has been notified. This is 1% of wholesale trading and 3% for all other cases.

If a person enters into a transaction (given below) where one of the parties to a transaction is a 'person located in a notified jurisdictional area', then:

a) All the parties to the transaction shall be deemed to be associated enterprises; and,

b) The transaction shall be deemed to be an international transaction.

The Central Government of India has the authority to notify any country or territory outside India as a 'notified jurisdictional area', having regard to the lack of effective exchange of information by it with India. On account of being notified there are tax consequences in India with respect to certain transactions. Cyprus has been notified under this category in 2013. It covers any transaction in the nature of a purchase, sale or lease of tangible or intangible property or provision of service or lending or borrowing money or any other transaction having a bearing on the profits, income, losses or assets of the assessee, including a mutual agreement or arrangement for allocation or apportionment of, or any contribution to, any cost or expense incurred or to be incurred in connection with a benefit, service or facility provided or to be provided by or to the assessee.

A person located in a notified jurisdictional area shall include:

a) An individual who is resident of the notified jurisdictional area;

b) A person (not being an individual) which is established in the notified jurisdictional area;

c) A permanent establishment (including a fixed place of business through which the business of an enterprise is wholly or partly carried on) of a person in the notified jurisdictional area.

Sec 92 B has been amended to clarify that the resident status of the unrelated person with whom an enterprise enters into a transaction, does not determine whether the transaction carried out will be classified as an international transaction or not. As long as the transaction is influenced by a prior agreement between the unrelated person and an associate of the enterprise, it shall be classified as an international transaction between two associated enterprises.

Advance pricing agreement (APA) scheme under section 92CC has been amended with effect from 1 October 2014 to provide a roll back mechanism under prescribed conditions on a case-to-case basis. As per the amendment, APA for determining the ALP, for an international transaction can now be rolled back for period not exceeding four previous years, preceding the period for which the APA applies.

Transfer pricing provisions have been extended to a few specified domestic transactions between related parties engaged in the business entitled to the benefit of tax holidays.

SAFE HARBOUR TRANSFER PRICE FOR INTERNATIONAL TRANSACTIONS

Safe harbor transfer price for international transactions: The Tax Authorities shall accept the transfer price declared by the assesse for the following eligible international transactions as per the ceilings and subject to the circumstances stated below:

S no	Eligible International Transaction	Circumstances
1.	Provision of software development services	The operating profit margin declared by the eligible assessee from the eligible international transaction in relation to operating expense incurred is: (i) not less than 17%, where the value of international transaction does not exceed a sum of one hundred crore rupees; or (ii) not less than 18%, where the value of international transaction exceeds a sum of one hundred crore rupees but does not exceed a sum of two hundred crore rupees.
2.	Provision of information technology enabled services	The operating profit margin declared by the eligible assessee from the eligible international transaction in relation to operating expense is: (i) not less than 17%, where the aggregate value of such transactions entered into during the previous year does not exceed a sum of one hundred crore rupees; or (ii) not less than 18%, where the aggregate value of such transactions entered into during the previous year exceeds a sum of one hundred crore rupees but does not exceed a sum of two hundred crore rupees.
3.	Provision of knowledge process outsourcing services.	The value of international transaction does not exceed a sum of two hundred crore rupees and the operating profit margin declared by the eligible assessee from the eligible international transaction in relation to operating expense is: (i) not less than 24%. and the Employee Cost in relation to the Operating Expense is at least sixty per cent. (ii) not less than 21%. and the Employee Cost in relation to the Operating Expense is forty per cent. or more but less than sixty per cent. or (iii) not less than 18% and the Employee Cost in relation to the Operating Expense does not exceed forty per cent.
4.	Advancing of intra-group loans where the amount of loan is denominated in Indian Rupees (INR).	The interest rate declared in relation to the eligible international transaction is not less than the one-year marginal cost of funds lending rate of State Bank of India as on 1st April of the relevant previous year plus: (i) 175 basis points, where the associated enterprise has CRISIL credit rating between AAA to A or its equivalent; (ii) 325 basis points, where the associated enterprise has CRISIL credit rating of BBB-, BBB or BBB+ or its equivalent; (iii) 475 basis points, where the associated enterprise has CRISIL credit rating between BB to B or its equivalent; (iv) 625 basis points, where the associated enterprise has CRISIL credit rating between C to D or its equivalent; or (v) 425 basis points, where credit rating of the associated enterprise is not available and the amount of loan advanced to the associated enterprise including loans to all associated enterprises in Indian Rupees does not exceed a sum of one hundred crore rupees in the aggregate as on 31st March of the relevant previous year

5.	Advancing of intra-group loans where the amount of loan is denominated in foreign currency.	The interest rate declared in relation to the eligible international transaction is not less than the six-month London Inter-Bank Offer Rate of the relevant foreign currency as on 30th September of the relevant previous year plus, - (i) 150 basis points, where the associated enterprise has CRISIL credit rating between AAA to A or its equivalent; (ii) 300 basis points, where the associated enterprise has CRISIL credit rating of BBB-, BBB or BBB+ or its equivalent; (iii) 450 basis points, where the associated enterprise has CRISIL credit rating between BB to B or its equivalent; (iv) 600 basis points, where the associated enterprise has CRISIL credit rating between C to D or its equivalent; or (v) 400 basis points, where credit rating of the associated enterprise is not available and the amount of loan advanced to the associated enterprise including loans to all associated enterprises does not exceed a sum equivalent to one hundred crore Indian rupees in the aggregate as on 31st March of the relevant previous year.
6.	Providing corporate guarantee	The commission or fee declared in relation to the eligible international transaction is at the rate not less than 1% per annum on the amount guaranteed.
7.	Provision of contract research and development services wholly or partly relating to software development	The operating profit margin declared by the eligible assessee from the eligible international transaction in relation to operating expense incurred is not less than 24%, where the value of the international transaction does not exceed a sum of two hundred crore rupees.
8.	Provision of contract research and development services wholly or partly relating to generic pharmaceutical drugs	The operating profit margin declared by the eligible assessee from the eligible international transaction in relation to operating expense incurred is not less than 24%, where the value of the international transaction does not exceed a sum of two hundred crore rupees.
9.	Manufacture and export of core auto components.	The operating profit margin declared by the eligible assessee from the eligible international transaction in relation to operating expense is not less than 12%.
10.	Manufacture and export of non-core auto components	The operating profit margin declared by the eligible assessee from the eligible international transaction in relation to operating expense is not less than 8.5%.
11.	Receipt of low value-adding intra-group	The entire value of the international transaction, including a mark-up not exceeding 5%, does not exceed a sum of ten crore rupees: **Provided** that the method of cost pooling, the exclusion of shareholder costs and duplicate costs from the cost pool and the reasonableness of the allocation keys used for allocation of costs to the assessee by the overseas associated enterprise, is certified by an accountant.

F. WITHHOLDING TAX

Tax at the prescribed rates is required to be deducted at source from payments of rent (for use of land, building, machinery, plant, equipment, furniture or fittings), salary, professional fees, fees for technical services, royalty, interest, commission, etc. to residents. Tax is also required to be deducted from payments to non-residents, in respect of interest or any other sum chargeable under the Act. With retrospective effect from 1 April 1962, tax will be deductible whether the deductor is a resident or non-resident and tax will be deductible even if a non-resident does not have any place of business, residence, business connection or any other presence in India. The rates are the same as those listed in Section A.

From 1 June 2013, under section 194IA, any person responsible for paying (other than the person referred to

in 194LA) to a resident transferor any sum by way of consideration for transfer of immovable property (other than agricultural land in rural area in India) is liable to deduct tax at 1% if the amount of consideration is equal to or exceeds INR 5 million.

In case there is TDS default pertaining to any sum (other than salary) payable outside India or payable to a non-resident which is taxable in India, then expenditure will not be disallowed if TDS is deposited within the due date of submission of return of income under section 139(1). If TDS is deposited after this date expenditure will be deductible in the year in which TDS is deposited. In case of TDS default, 30% of expenditure will be disallowed not 100%.

Withholding tax provisions have been extended to trusts for the FY 2018-19.

G. EXCHANGE CONTROL

The foreign exchange regulations have been substantially liberalized in India, whereby no license is required for setting up an industry except in a few cases such as electronic aerospace and defense equipment, industrial explosives, hazardous chemicals, distillation and brewing of alcoholic drinks, cigars and cigarettes, items reserved for small-scale sector and industries/sectors reserved for the public sector.

India has one of the most liberal and transparent policies on Foreign Direct Investment (FDI) among the emerging economies. The FDI policy has been rationalized on an ongoing basis to avoid multiple layers of regulatory approvals to facilitate foreign investment. FDI can be divided into two broad categories:

1) FDI under Automatic Approval route;
2) FDI with prior approval of the Government.

Under the automatic approval route, no government approval is required if the FDI is within the notified sectoral caps. In such situations, only intimation needs to be given to the Reserve Bank of India within 30 days of making the investment. However, if the FDI is above the prescribed sectoral cap, the approval of government through the Foreign Investment Promotion Board (FIPB) is required. FDI is allowed under the automatic route in almost all activities/sectors except the following, which require FIPB approval:

a) Activities/items that require an Industrial License (except for some cases);
b) Proposals in which the foreign collaborator has an existing financial/technical collaboration in India in the same field;
c) All proposals falling outside notified sectoral policy/caps.

In certain cases, such as distillation and brewing of alcohol, industrial explosives and manufacture of hazardous chemicals, FDI is permitted without FIPB approval subject to obtaining an industrial license from the appropriate authority. However, FDI is prohibited in the following cases:

a) Gambling and betting;
b) Lottery business;
c) Atomic energy;
d) Business of chit fund;
e) Nidhi company;
f) Trading in Transferable Development Rights (TDRs);
g) Manufacture of cigars, cherrots, cigarillos and cigarettes, of tobacco or of tobacco substitutes;
h) Retail trading (except in single brand retail (51% allowed in multi-brand retail in some states);
i) Agricultural or plantation activities or agriculture (excluding floriculture, horticulture, development of seeds, animal husbandry, etc. and plantations, other than tea plantations);
j) Housing and real estate business (except development of townships, construction of residential and commercial premises, roads or bridges to the extent specified by FEMA).

H. PERSONAL TAX

Individuals are taxed on their income based on income slabs on a progressive basis at 5%, 20% and 30%.

RESIDENTIAL STATUS

The scope of taxable income varies depending upon the residential status of the individual. Resident taxpayers are classified into two categories:

a) Ordinarily resident; or,

b) Not ordinarily resident.

The residential status of individual taxpayers depends upon the number of days spent in India, i.e. an individual is resident in India if he spends:

a) At least 182 days in India during the tax year; or

b) 60 days in India during the year and at least 365 days in the preceding four years.

Non-resident taxpayers pay tax only on Indian-sourced income. Income of a non-resident shall be deemed to accrue or arise in India under Section 9(1)(v) (relating to interest paid outside India), Section 9(1)(vi) (relating to royalties paid outside India) or Section 9(1)(vii) (relating to fees for technical services paid outside India) and shall be included in total income regardless of whether:

a) The non-resident has a place of residence, place of business or business connection in India;

b) The non-resident has rendered services in India.

The assessment year is the period of 12 months from 1 April to 31 March. Income earned in the period of 12 months or less immediately preceding the assessment year is taxed in the assessment year.

DETERMINATION OF TAXES

The Individual income is calculated under following heads:

1. Salary;
2. House property;
3. Business/ Profession;
4. Capital gains;
5. Other sources.

In certain cases, income is taxed on a presumptive basis, wherein the income under each head is computed separately and aggregated to arrive at the gross total income, after allowing permissible deductions under each head. For Resident Senior Citizens (men or women who are 60 years or more at any time during the previous year but not more than 80 years on the last day of the previous year).

Income	Tax rates
Up to 300,000	Nil
300,001 - 500,000	5% of (total income minus INR 300,000)
500,001 - 1,000,000	INR 10,000 plus 20% of (total income minus INR 500,000)
1,000,001 - 10,000,000	INR 110,000 plus 30% of (total income minus INR 1,000,000)
Above 10,000,000*	INR 2,810,000 plus 30% of (total income minus INR 10,000,000)

For Resident Super Senior Citizens (men or women who are 80 years or more at any time during the previous year).

Income	Tax rates
Up to 500,000	Nil
500,001 - 1,000,000	20% of (total income minus INR 500,000)
1,000,001 - 10,000,000	INR 100,000 plus 30% of (total income minus INR 1,000,000)
Above 10,000,000*	2,800,000 plus 30% of (total income minus INR 10,000,000)

For any other resident individual (below the age of 60 years) and any non-resident individual

Income	Tax rates
Up to 250,000	Nil
250,001 - 500,000	5% of (total income minus INR 250,000)
500,001 - 1,000,000	INR 12,500 plus 20% of (total income minus INR 500,000)
1,000,001 - 10,000,000	INR 112,500 plus 30% of (total income minus INR 1,000,000)

Above 10,000,000*	INR 2,812,500 plus 30% of (total income minus INR 10,000,000)

* For the financial year 2018-19, the surcharge is 12% of the income tax if net income exceeds INR 10 million. It is subject to marginal relief (in the case of a person having net income exceeding INR 10 million, the amount payable, as income tax and surcharge shall not exceed the total amount payable as income tax on total income of INR 10 million by more than the amount of income that exceeds INR 10 million).

The tax computed above is increased by SC wherever applicable and is further increased by 4% Education and Health Cess.

A resident individual (who has net income of INR 350,000 or less) is eligible for a rebate under section 87A. It is deductible from income tax before calculating education cess. The amount of rebate is 100% of income tax or Rs. 2,500, whichever is less.

Tax payable by an individual who has claimed a deduction under sections 10AA, 80H to 80RRB cannot be less than alternate minimum tax which is 22.123% (i.e. 18.5% + SC if total income exceeds INR 10 million + EHC) of adjusted total income. Adjusted total income is to be calculated according to the provisions of sec. 115JC to 115JF of the Income Tax Act. Alternate minimum tax is not applicable if adjusted total income does not exceed INR 2,000,000.

If provisions of alternate minimum tax are applicable, the individual assessed will have to obtain a report in Form no. 29C from a Chartered Accountant.

Associations of persons are taxed at the rate applicable to the individual members if shares are determinant. Otherwise taxed at 30% (maximum marginal rate). If a non-resident is a member, then it is taxed at 40%.

CERTAIN RECEIPTS TREATED AS GIFTS

Any sum of money or property, the aggregate value of which exceeds INR 50,000, received without consideration by an individual on or after 1 October 2009, is taxable except for amounts received:

(a) From relatives;

(b) On the occasion of marriage;

(c) Under a will/inheritance;

(d) In contemplation of death of the payer;

(e) From any local authority;

(f) From any fund or foundation or university or other educational institution or hospital or other medical institution or other prescribed institutions;

(g) From trusts or institutions registered with the Indian revenue authorities.

In respect of movable property, value shall be the fair market value as on the date of the receipt in accordance with the method prescribed. In respect of immovable property, value shall be the Stamp Duty value.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Dividends are exempt from withholding tax if the payer has paid dividend distribution tax (see also higher under the chapter A. Taxes payable – Dividend distribution tax).

Country	Interest	Royalty	Fee for Technical Services
Albania	10%[Note1]	10%	10%
Armenia	10% [Note1]	10%	10%
Australia	15%	10%/15% [Note 2]	10%/15% [Note 2]
Austria	10% [Note1]	10%	10%
Bangladesh	10% [Note1]	10%	No separate provision
Belarus	10% [Note1]	15%	15%
Belgium	15% (10% if loan is granted by a bank)	10%	10%
Botswana	10% [Note1]	10%	10%

Brazil	15% [Note1]	a) 25% for use of trademark; b) 15% for others	15%
Bulgaria	15% [Note1]	a) 15% of royalty relating to literary, artistic, scientific works other than films or tapes used for radio or television broadcasting; b) 20%, in other cases	20%
Canada	15% [Note1]	10%-15%	10%-15%
China	10% [Note1]	10%	10%
Columbia	10% [Note1]	10%	10%
Croatia	10% [Note1]	10%	10%
Cyprus	10% [Note1]	15%	15%/10%
Czech Republic [Note5]	10% [Note1]	10%	10%
Denmark	a) 10% if loan is granted by bank; b) 15% for others [Note1]	20%	20%
Estonia	10% [Note1]	10%	10%
Ethiopia	10% [Note1]	10%	10%
Finland	10% [Note1]	10%	10%
Fiji	10% [Note 1]	10%	10%
France	10% [Note1]	10%	10%
Georgia	10% [Note1]	10%	10%
Germany	10% [Note1]	10%	10%
Hungary	10% [Note1]	10%	10%
Iceland	10% [Note1]	10%	10%
Indonesia	10% [Note1]	15%	No separate provision
Ireland	10% [Note1]	10%	10%
Israel	10% [Note1]	10%	10%
Italy	15% [Note1]	20%	20%
Japan	10% [Note1]	10%	10%
Jordan	10% [Note1]	20%	20%
Kazakhstan	10% [Note1]	10%	10%
Kenya	15% [Note1]	20%	17.5%
Korea (South)	a) 10%, if interest is paid to a bank; b) 15%, for others [Note1]	15%	15%
Kuwait	10%	10%	10%
Kyrgyz Republic	10% [Note1]	15%	15%
Latvia	10% [Note1]	10%	10%
Lithuania	10% [Note1]	10%	10%
Luxembourg	10% [Note1]	10%	10%
Malaysia	10% [Note1]	10%	10%
Malta	10% [Note1]	10%	10%
Mauritius	No rates specified	15%	No separate provisions

Mexico	10% [Note1]	10%	10%
Mongolia	15% [Note1]	15%	15%
Montenegro	10% [Note1]	10%	10%
Morocco	10% [Note1]	10%	10%
Mozambique	10% [Note1]	10%	No separate provision
Myanmar	10% [Note1]	10%	No separate provision
Namibia	10% [Note1]	10%	10%
Nepal	10% [Note1]	15%	No separate provision
Netherlands	10% [Note1]	10%	10%
New Zealand	10% [Note1]	10%	10%
Norway	10% [Note1]	10%	10%
Oman	10% [Note1]	15%	15%
Philippines	a) 10%, if interest is received by a financial institution or insurance company; b) 15% in other cases [Note1]	15% if it is payable in pursuance of any collaboration agreement approved by the Government of India	No separate provision
Poland	10% [Note1]	15%	15%
Portuguese Republic	10%	10%	10%
Qatar	10% [Note1]	10%	10%
Romania	10% [Note1]	10%	10%
Russian Federation	10% [Note1]	10%	10%
Saudi Arabia	10% [Note1]	10%	No separate provision
Serbia	10% [Note1]	10%	10%
Singapore	a) 10%, if loan is granted by a bank or similar institute including an insurance company; b) 15%, in all other cases	10%	10%
Slovenia	10%	10%	10%
South Africa	10% [Note1]	10%	10%
Spain	15% [Note1]	10%/20% [Note 3]	20% [Note 3]
Sri Lanka	10% [Note1]	10%	10%
Sudan	10%[Note1]	10%	10%
Sweden	10% [Note1]	10%	10%
Switzerland	10%[Note1]	10%	10%
Syria	10%[Note1]	10%	No separate provision
Tajikistan	10%[Note1]	10%	No separate provision
Tanzania	10%	10%	No separate provision
Thailand	a) 10%, if it is received by a financial institutions or insurance company; b) 25% for others [Note1]	15%	No separate provision
Trinidad and Tobago	10% [Note1]	10%	10%

Turkey	a) 10% if loan is granted by a bank, etc.; b) 15% in other cases [Note1]	15%	15%
Turkmenistan	10% [Note1]	10%	10%
Uganda	10%[Note1]	10%	10%
Ukraine	10% [Note1]	10%	10%
United Arab Emirates	a) 5% if loan is granted by a bank/similar financial institute; b) 12.5%, in other cases	10%	No separate provision
United Kingdom	a) 10%, if interest is paid to a bank; b) 15%, in other cases [Note1]	10%/15%[Note 2]	10%/15%[Note 2]
United States	a) 10% if loan is granted by a bank/similar institute including insurance company; b) 15% for others	10%/15%[Note 2]	10%/15%[Note 2]
Uruguay	10% [Note1]	10%	10%
Uzbekistan	10% [Note1]	10%	10%
Vietnam	10% [Note1]	10%	10%
Zambia	10% [Note1]	10%	10%

Note: Treaty with Hong Kong is yet to be notified, Mutual agreement procedure amended with Singapore.

*If the beneficial owner is a company (other than a partnership) which holds directly at least 10 per cent of the capital of the company paying the dividends.

**5% if beneficial owner of shares is a company and it holds at least 10% of shares of the company paying the dividends.

*** if the beneficial owner is a company that, for an uninterrupted period of two fiscal years prior to the payment of the dividend, owns directly at least 25 per cent of the capital stock of the company paying the dividends.

****5% if recipient company owns at least 25% share in the company paying the dividend.

1 Dividend/interest earned by the Government and certain specified institutions, inter-alia, Reserve Bank of India is exempt from taxation in the country of source (subject to certain condition).

2 Royalties and fees for technical services would be taxable in the country of source at the rates prescribed for different categories of royalties and fees for technical services. These rates shall be subject to various conditions and nature of services/royalty for which payment is made. For detailed conditions refer to relevant Double Tax Treaties.

3 Royalties and fees for technical services would be taxable in the country of source at the following rates:

(a) 10% in case of royalties relating to the payments for the use of, or the right to use, industrial, commercial or scientific equipment;

(b) 20% in case of fees for technical services and other royalties.

4 (a) 15% of the gross amount of the dividends where those dividends are paid out of income (including gains) derived directly or indirectly from immovable property within the meaning of Article 6 by an investment vehicle which distributes most of this income annually and whose income from such immovable property is exempted from tax;

(b) 10% of the gross amount of the dividends, in all other cases.

5 The DTT signed with Government of the Czech Republic on 27 January 1986 is applicable also to the residents of the Slovak Republic.

INDONESIA

MEMBER FIRM

City	Name	Contact Information
Jakarta	Paul Hadiwinata	+62 21 3144003 jkt-office@pkfhadiwinata.com

BASIC FACTS

Full name:	Republic of Indonesia
Capital:	Jakarta
Main languages:	Indonesian
Population:	266 million (2018 estimate)
Monetary unit:	Indonesian Rupiah (IDR)
Internet domain:	.id
Int. dialling code:	+62

KEY TAX POINTS

- Companies resident in Indonesia are subject to income tax on their worldwide income including capital gains. A permanent establishment of a foreign company is subject to tax in Indonesia on its worldwide income.
- Branch profits are taxed at the same rate as corporate profits. A 20% withholding branch profit tax is also payable on after tax income in addition to the corporate tax.
- Indonesian individuals are taxed on their worldwide income.
- Non-resident companies are subject to tax on income, including capital gains, derived from Indonesia.
- VAT is levied at a standard rate of 10% on taxable supplies of goods and most services.
- There is a sales tax on the transfer or importation of luxury goods, at rates between 10% and 125%.
- Stamp duties apply to the transfer of land, and certain documents are subject to Stamp Duty.
- Double tax relief credits are generally available to Indonesian residents in respect of overseas tax paid on foreign-sourced income, up to a maximum of the Indonesian tax payable on the income concerned.
- Generally, residents are subject to a creditable withholding tax of 15% on payments received from fellow Indonesian residents, although dividends are exempt under certain circumstances. Payments to non-residents are generally subject to a final withholding tax of 20%.

A. TAXES PAYABLE

COMPANY TAX

A company will be considered taxable in Indonesia if it has a presence and conducts business in that country. Resolution of this question depends on whether the entity has a 'permanent establishment' in Indonesia. This term is widely defined to include a place of management, branch, representative office, office building, agent, factory or workshop, construction or mining site. Where such a presence exists the permanent establishment is taxable on its worldwide income. Where similar businesses to that carried on by the permanent establishment are conducted in Indonesia, care must be taken to ensure that the 'force of attraction' principle does not result in that business income being taxed at the level of the permanent establishment.

Company tax is payable by monthly instalments. The collection of tax from interest, royalties, rentals and dividends, professional service fees, technical and management service fees, installation service fees, repair and maintenance service fees is by way of withholding tax. Where the recipient is a tax resident of Indonesia, the tax withheld is taken into account in determining the company's final tax liability (except for tax on interest from banks, space rentals, and construction services which are treated as a final tax). Where the recipient is not a resident, the tax withheld represents a final tax.

Under the Income Tax Law No. 36 Year 2008, which applies from 1 January 2009, corporations were taxed

at a single rate of 28%, which was reduced to 25% from 2010 onwards. Corporations with an annual gross income of up to IDR 50 billion are entitled to a tax discount of 50% of the standard rate on taxable income derived from the portion of gross income up to IDR 4.8 billion. As for public companies, corporate tax deduction at 5% will be granted when meeting the following requirements:

(1) Minimum listing requirement is 40%;

(2) The minimum public ownership is 300 parties where each party holds less than 5% of the paid-in shares; and,

(3) The above two conditions must be fulfilled for at least six months (183 days) in a tax year.

CAPITAL GAINS TAX

Capital gains and losses are mainly included as ordinary income and taxed accordingly, except for transactions in stock on the Indonesian stock market and on private property. The gain/loss is ignored and tax is instead charged on the transaction value as follows:

Stock	0.1% of transaction value	Final tax, except for founder shares sold by founder = 0.5% of transaction value
Private property: Land and building	2.5% of transfer value	Final tax for individuals, foundations and corporations

BRANCH PROFITS TAX

Branch profits are taxed at the same rate as corporate profits. However, a withholding branch profits tax of maximum 20%, subject to protection under a double tax treaty, is also payable on after-tax income in addition to the corporate tax. This additional tax is payable irrespective of whether the profits are remitted. Refer to 'Withholding Taxes' below for variations in the above rate. An exemption from withholding tax may be granted to a permanent establishment which reinvests its net profit in Indonesia.

SALES TAX ON LUXURY GOODS

Under VAT Law No. 42 Year 2009, effected 1 April 2010, the tariff of sales tax on luxury goods is set at a minimum 10% and a maximum up to 200%, imposed on imported or domestically produced items. Currently, the rates of sales tax on luxury goods applied are between 10% up to 125%. However, exports - even if classified as luxury goods - are taxed at a zero per cent tariff.

The tax is collected at the manufacturer/import level. Payment of the sales tax is required by the 15th day of the following month and returns need to be submitted by the 20th day of the following month.

Luxury items subject to sales tax	**Tax Rate (%)**
Luxury houses and town houses non-strata title with selling price of IDR 20 billion and above	20
Apartments, condominiums, towns houses strata title and the likes with selling price of IDR 10 billion and above	20
Air balloons and unpowered aircrafts	40
Bullets of fire arms and other types fire arms, except for nation's use	40
Luxury cruisers, ferries and yachts, except for nation and commercial's use	75
Aircrafts and helicopters, except for nation and commercial's use	50
Firearms, revolvers, pistols, except for nation's use	50
Motor vehicles with the capacity of 10 to 15 passengers	10
Motor vehicles of 1500 cc to 2500 cc with the capacity of fewer than 10 passengers	20
Sedan or station wagon with the cylinder up to 1500 cc	30
2-wheel drive motor vehicles other than sedan and station wagon with the cylinder of 2500 cc to 3000 cc	40
4-wheel drive motor vehicles, sedan and station wagon, with the cylinder of 1500 cc to 3000 cc	40
Special purpose vehicles for golf	50
Motorcycles with the cylinder capacity of 250 cc to 500 cc	60
Special purpose vehicles to be used in the snow, beach, mountains and the like	60

Sedan and station wagon with the capacity of more than 3000 cc	125
Diesel sedan and station wagon with the capacity of more than 2500 cc	125
Motorcycles with the capacity cylinder of more than 500 cc	125
Caravan trailer and semi-trailer for housing and camping	125

VALUE ADDED TAX (VAT)

VAT at the general rate of 10% is imposed on importers, manufacturers, wholesalers and retailers and on the provision of most services. While the VAT laws permit amendments to the rates for individual items, currently the products with a rate other than 10% are cigarettes and used cars. Services such as package deliveries and travel agents are taxed at 1%, while factoring is imposed at 5% on the fees received. Exports of taxable goods are effectively excluded from VAT by being subject to the tax at a nil rate. Under VAT Law No. 42 Year 2009, which took effect from 1 April 2010, the export of services is subject to 0% VAT. However the Ministry of Finance (MoF) Regulation further defines that the zero-rated VAT is only applicable to the following services:

- Sub-contracting services with certain requirements: The buyer or recipient of taxable service is outside the Customs area and is a non-resident taxpayer and does not have a permanent establishment as specified in Income Tax Law;
- Specification and material are provided by the buyer or the recipient of the taxable service;
- Materials are defined as raw materials, work in process and/or supporting material to be further processed into finished taxable goods;
- Ownership of finished goods is in the hands of the buyer or the recipient of the taxable service;
- The sub-contracting entrepreneur delivers the products by request from the buyer or the recipient of the taxable service to outside the Customs area;

(2) Construction services including construction planning, construction work and construction supervision located outside the Customs area;

(3) Repair and maintenance services which are attached to services of movable goods utilised outside the customs area.

VAT is payable by the end of the following month of the relevant transaction prior to the submission deadline of the monthly tax return. In the case of certain services rendered by non-residents of Indonesia such as the use of intangible taxable goods and/or offshore services, the recipient of these services has an obligation, by way of self-assessment, to pay and report import VAT by the 15th of the following month.

Goods excluded from VAT:

- Basic necessities;
- Mining taken from natural resources;
- Food served in hotels and restaurants, including food and drinks provided by catering services;
- Money, gold and securities.

Services excluded from VAT:

- Medical, social and religious services;
- Postal and account transfer services;
- Banking, insurance and non-banking financial leasing;
- Educational services;
- Finance leasing;
- Art and entertainment services;
- Radio and television broadcasting services, other than advertisements;
- Public transportation services, i.e. land, sea and domestic air transportation (effective 1 April 2010);
- Manpower and recruitment services;
- Hotel and boarding house services;
- Services provided by the government relating to public administration and formality requirements;
- Parking services (effective 1 April 2010);
- Public telephone (by coin) services (effective 1 April 2010);
- Food and catering services (effective 1 April 2010).

FRINGE BENEFITS TAX (FBT) / BENEFITS IN KIND

Benefits in kind received by employees, including discounted or free housing, are not taxable to the employee nor deductible to the provider/employer. However, company cars and cellular phones provided to the employee are deductible at 50% of the acquisition cost by way of depreciating those assets over their useful lives (8 years and 4 years), while cellular phone refill vouchers and repair expenses can be claimed as a deduction at 50%.

However, a full deduction applies to food and drinks provided to employees in the workplace and employee benefits required for job performance such as protective clothing and uniforms, transportation costs to and from the place of work, accommodation for ship crews and the like, and also for housing provided in remote areas approved by the Minister of Finance.

LOCAL TAXES

Provincial tax is charged mostly at 10%, i.e. hotel and restaurant services, parking services.

STAMP DUTY ON LAND RIGHT TRANSFER

Effective from 1 January, 2011, Stamp Duty on building and/or land right transfer is charged under the provincial government at 5% of the transfer cost.

OTHER TAXES

DOCUMENTARY STAMP TAX

Stamp Duty is of a nominal amount of IDR 6,000 or IDR 3,000. The types of documents upon which Stamp Duty is payable include:

- Letters of agreement, prepared for the purpose of evidencing acts, facts or conditions of a civil nature;
- Notarial deeds;
- All documents bearing a sum of money including letters of promise to pay, securities or cheques.

LAND AND BUILDING TAX

Land and building tax is payable annually on land, buildings and permanent structures, although the effective rates are typically 0.5% of the value of the property.

IMPORT DUTIES

Import duties are due at the following rates:

Group	Goods	Rate (%)
Automobiles	Passenger and commercial vehicles	5 - 50
Automobiles parts		0 - 10
Vessels	Ship, boats, and floating structure	0 - 5
Electronic goods		0 – 12.5
Footwear		5 – 25
Beverages, ethyl alcohol and alcoholic drinks	Ethyl alcohol, beer, wine, spirits, and other beverages.	5 – 150
Essential oils and resinoids	Odoriferous substances	5 – 150
Agricultural products	Animal and vegetable products	0 – 25
Textile, textile products and accessories	Bags, harnesses, apparels, and clothing accessories, etc.	5 – 15
Other	Chemicals, pharmaceutical products, rubber, etc.	0 – 25

B. DETERMINATION OF TAXABLE INCOME

Taxable income is calculated under normal accounting principles adjusted for specific tax rules. A deduction is allowed for all outgoings and expenses incurred for obtaining, collecting and maintaining taxable income.

Deductions are not allowed in relation to the following items:

- Benefits in kind such as free housing (see also 'Fringe benefits tax/benefits in kind' above);

- Income tax payments (including penalties);
- Capital expenditure (see 'Depreciation' below);
- Private expenses;
- Non-business gifts, aid and donations, except 'zakat' (Islamic alms) and other compulsory religious donations approved by the government;
- Profit distributions;
- Employers' contributions for life, health, and accident insurance and contributions to non- approved pension funds unless the contributions are treated as taxable income of employees;
- Provisions (except for financial institutions);
- Dividends;
- Expenses related to income which are taxed at a final rate, i.e. interest on loans related to time deposits;
- Expenses related to income which are exempt from tax, i.e. interest on loans used to buy shares where dividends to be received are not subject to income tax;
- Salaries or compensation received by a partnership or firm as members where their participation is not divided into shares.

INVESTMENT INCENTIVES

Taxpayers investing in certain business sectors and/or in certain areas/locations may be entitled to taxation incentives in the form of:

- A reduction in net income up to a maximum of 30% (5% per year for six years) from the total investment realised;
- Accelerated depreciation and amortisation;
- Tax loss compensations for a longer period but not exceeding 10 years;
- A reduction in withholding taxes on dividends to 10% unless a lower rate applies under the relevant tax treaty.

DEPRECIATION

Where fixed assets (either tangible or intangible) have a beneficial life of greater than one year, tax relief for the cost of acquisition is available through depreciation. The following depreciation rates are applicable:

Beneficial Life	Straight-line method (%)	Declining-balance method (%)
A. Non-building:		
1 – 4 years	25	50
4 – 8 years	12.5	25
8 – 16 years	6.25	12.5
16 – 20 years	5	10
B. Building:		
Permanent	5	-
Non-permanent	10	-

Note: Depreciation of property is taken into account commencing the month, instead of the year, that the property is acquired which means that the first year depreciation is accounted for on a pro rata basis, while the net book value is depreciated accordingly over its remaining beneficial years, unless it is retired or sold within its beneficial life.

STOCK / INVENTORY

Taxpayers may value inventory using either the 'first-in, first-out' (FIFO) or Average Cost methods. Whichever method is selected, it must be consistently applied.

CAPITAL GAINS AND LOSSES

Gains and losses on capital items are taxable in Indonesia without special treatment being afforded to such items, except for gains and losses on sales of share certificates of listed companies and on sales of land and buildings as previously mentioned.

DIVIDENDS

An exemption exists under particular circumstances for dividends received by companies incorporated in Indonesia where the payer is also an Indonesian company. In the absence of a double tax treaty, withholding tax at 20% is levied on dividend payments to non-residents. Reference should be made to the section on withholding tax and the individual treaties.

INTEREST DEDUCTIONS

While the Minister of Finance is empowered to prescribe required debt equity ratios for foreign companies, no limit has been set to date. Due to the existence of this power, however, caution should be exercised to ensure debt is not considered equity, with the result that the related interest and borrowing costs are disallowed.

LOSSES

While loss carry backs are not permitted, losses may be carried forward for up to 5 years. The period over which losses are able to be carried forward can be extended by decree from the Minister of Finance.

C. FOREIGN TAX RELIEF

Where an Indonesian resident has foreign branches (or earns other foreign-source income), the income of those branches will be taxable in Indonesia. Where such income has been subject to foreign tax, tax credits will be granted, subject to a maximum of the Indonesian tax payable on the income concerned.

D. CORPORATE GROUPS

The consolidation of returns is not allowed.

E. RELATED PARTY TRANSACTIONS

The revenue authorities will disallow a deduction for excessive/non-arm's length transactions between related parties.

F. WITHHOLDING TAX

Generally, residents are subject to a creditable withholding tax of 15% with any balance being payable or refundable, while non-residents are subject to a final withholding tax of 20%. Withholding taxes are collected when the taxable transaction takes place or payment becomes due. The rates of withholding tax are as follows:

	Residents[1] (%)	Non-residents[1] (%)
Dividends[2]	15	20
Interest	15	20
Royalties	15	20
Prizes and awards	15	20
Rental and other income related to the use of property, other than land/space rental	2	20
Technical, management, consulting, and other services	2	20

NOTES:

(1) All percentage rates are on gross amounts unless otherwise noted.

(2) Withholding tax on dividends paid to Indonesian corporate shareholders will be exempt only if the following conditions are met:

(i) The dividend is sourced from retained earnings;

(ii) The recipient holds 25% share or more in the payer.

(3) A 100% withholding tax is imposed, in addition to the applicable tax rate, on individuals and corporations, other than non-tax residents, who do not possess a tax identification number (NPWP).

Note: Effective 1 January 2009, dividends distributed to an individual resident taxpayer are subject to final tax at a maximum rate of 10%.

FINAL WITHHOLDING TAXES

The following transactions are subject to a final withholding tax. These taxes apply to residents and permanent establishments of non-residents.

• Sale of listed shares[1]	0.1% of the gross proceeds
• Additional tax on sale of listed Founder shares; by a founder shareholder[1]	0.5% of the IPO price
• Sale of land or buildings[1]	5% of the sales value (final tax for individuals, foundations and corporations). An extra 5% stamp duty for the land and/or building acquisition rights is payable by the purchaser
• Interest or discount on Government CDs and savings deposits and interest or discount on bonds[2]	20% (except for banks and certain approved pension and mutual funds; and loan interest on simple houses)
• Asset revaluation approved by the Tax Office	10% of the difference between the book value and the revalued amount of the assets (unless current year tax losses, which will firstly be applied against the revaluation difference)
• Prizes from lotteries	25% of gross proceeds
• Land and/or building rental (include service charge)	10% of gross proceeds

NOTES:

1 These rates also apply to non-residents (subject to the application of a double tax treaty).

2 No withholding tax is payable in respect of savings, deposits or Government CDs with a principal amount up to IDR 7,500,000.

By the issuance of Government Regulation No. 51 dated 20 July 2008, Construction Services are subject to final tax with the following tax rates:

(a) 2% on construction services provided by qualified small enterprises;

(b) 4% on construction services provided by non-qualified enterprises;

(c) 3% on construction services provided by enterprises other than those mentioned in (a) and (b) above;

(d) 4% on construction planning and supervisory services provided by qualified enterprises; and,

(e) 6% on construction planning and supervisory services provided by non-qualified enterprises.

(Note that the above Government Regulation is effective as of 1 January 2008.)

GOVERNMENT REGULATION NO. 46 YEAR 2013 REGARDING 1% FINAL TAX

On 12 June 2013, Government Regulation No. 46 Year 2013 ('GR-46') has been issued and effected from 1 July 2013. GR-46 stipulates that individual and corporate taxpayers, except permanent establishments, with annual income up to IDR 4.8 billion are subject to final tax at 1%. GR-46 is intended for small and medium enterprises (SMEs), including individual businesses with small I medium range trading and services activities (other than professional services, such as: lawyers, accountants, translators, insurance agents, etc.). Specific criteria of the SME's applicable for 1% final tax are stipulated under the minister of finance regulation and the director general of taxes regulation.

GR-46 is not applicable to construction services, the income of which is subject to final tax under the Government Regulation No. 51 Year 2008 as latest amended by the Government Regulation No. 40 Year 2009. The following incomes are excluded from GR-46 final tax application. However, they are subject to

normal income tax rates:

(1) Employment income.

(2) Capital income, such as: interest, dividends, royalties, non-business – related capital gains, etc.

(3) Other income, such as: debt forgiveness and/or gifts.

Under GR-46 final tax regime, tax losses cannot be carried forward and incurred from other non-final income.

WITHHOLDING TAX - ARTICLE 22

Article 22 income tax is typically applicable to the following:

(1) The import of goods. A creditable withholding tax of 2.5% for importers with an import license or 7.5% imposed if the importer does not possess the appropriate import license;

(2) The sale of goods to the government requiring payment from the State Treasury, the State Budget General Directorate, or certain state owned companies. The tax rate applied for these transactions is 1.5% of its selling price; and,

(3) The sale/purchase of steel, cars, cement and paper products. The tax rates are: purchase of steel: 0.30%; automotive products: 0.45%; cement: 0.25%; and paper products: 0.10% of its selling price.

(4) The sale/purchase of high value luxury goods is subject to 5% tax.

An additional 100% withholding tax is imposed on individuals or corporations, other than non-tax residents, who do not possess a NPWP.

G. EXCHANGE CONTROL

While the importation of capital is relatively uninhibited, foreign investment must be approved. Similarly, foreign currency can be transferred essentially free of control although minor reporting requirements do exist. Importantly, repatriation of capital, other than resulting from the sale of existing shares to Indonesians, is prohibited for the period the investor enjoys any tax holiday.

H. PERSONAL TAX

Residents of Indonesia are taxed on their worldwide income. Non-residents are only taxed on income derived from Indonesia. An individual will be a resident of Indonesia if they are present in Indonesia for more than 183 days or reside in Indonesia during a fiscal year and intend to stay in Indonesia. Certain double tax treaties modify the above rules. Individual taxable income is progressively taxed at the following rates:

Taxable Income (IDR)	(IDR)
0 – 50,000,000	0 + 5% on excess
50,000,001 – 250,000,000	2,500,000 + 15% on excess
250,000,001 – 500,000,000	32,500,000 + 25% on excess
Above 500,000,000	95,000,000 + 30% on excess

An additional 20% tax is imposed on individuals, other than non-tax residents, who do not possess an NPWP.

ALLOWABLE DEDUCTIONS

In determining the annual taxable income of an individual, the following may be deducted from gross income:

	(IDR)
Occupational support: 5% of gross income, up to maximum of	6,000,000
Pension: 5% of gross income, up to maximum of	2,400,000
Non-taxable income (effective 1 January 2016): - For the taxpayer	54,000,000
- Additional for a married taxpayer	4.500,000
- Additional for each lineal family member related by blood	4,500,000 each

A married female employee is only allowed non-taxable income for herself if she has a certificate from the local authorities that her husband does not work. Non-resident individuals are subject to a final tax of 20%

where the payments represent compensation for work performed in Indonesia regardless of where they are paid. Lump sum pension payments and severance pay on individual residents are subject to final tax on the gross amount at the following rates:

Lump Sum Pensions Payments	
Taxable Income	**(IDR)**
0 – 50,000,000	exempt/non-taxable income
Above 50,000,000	5%

Severance pay	
Taxable Income	**(IDR)**
0 – 50,000,000	exempt/non-taxable income
50,000,001 – 100,000,000	5%
100,000,001 – 500,000,000	2,500,000 + 15% on excess
Above 500,000,000	62,500,000 + 25% on excess

However, pension payments made to non-resident individuals are taxed under Article 26 of the Income Tax Law at a rate of 20% on the gross amount. Where home leave or education costs are reimbursed, the amount of the reimbursement is taxable in full at the level of the employee. Note that food and beverages provided at the workplace by an employer to its employees are not subject to tax but deductible for the employer.

SOCIAL SECURITY

Under the government regulations, employers are required to register themselves and their employees for a social security program managed by the social security agency, the so-called BPJS (formerly known as Jamsostek). While the employers must pay a certain portion of the premium contributions, the employees' contributions are normally collected through payroll deductions from their gross regular salaries/wages. Currently, the BPJS premium contributions consist of BPJS Employment Insurance and BPJS Health Insurance as follows:

Description	Borne by employer	Borne by employee
BPJS Employment Insurance		
- Working accident coverage	0.24% up to 1.74%	-
- Death insurance	0.3%	-
- Old age savings	3.7%	2%
BPJS Health Insurance		
- Health care *	4%	1%
BPJS Pension		
- Pension **	2%	1%

* Maximum calculation base is IDR 8,000,000/month

** Maximum calculation base for year 2015 is IDR 7,000,000/month subject to yearly adjustment based on yearly growth of GDP

Note that the requirement of participating in BPJS social security applies to all employees, including expatriates who have been working in Indonesia for more than six months.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Withholding taxes are levied on corporations and individuals, residents and non-residents as follows:

	Dividends%		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Non-treaty countries				
Companies	20	20	20	20
Individuals	20	--	20	20
Treaty countries:				
Algeria	15	15	15	15
Armenia	15	10[1]	10	10
Australia	15	15	10	10/15[10]
Austria	15	10[2]	10	10
Bangladesh	15	10[3]	10	10
Belgium	15	10[1]	10	10
Brunei	15	15	15	15
Bulgaria	15	15	10	10
Canada	15	10[1]	10	10
China	10	10	10	10
Croatia	10	10	10	10
Czech Republic	15	10[4]	12.5	12.5
Denmark	20	10[2]	10	15
Egypt	15	15	15	15
Finland	15	10[1]	10	10/15[11]
France	15	10[2]	10/15[9]	10
Germany	15	10[2]	10	7.5/10/15[12]
Hong Kong	10	5[1]	10	5
Hungary	15	15	15	15
India	10	10	10	10
Iran	7	7	10	12
Italy	15	10[1]	10	10/15[13]
Japan	15	10[5]	10	10
Jordan	10	10	10	10
Korea (South)	15	10[1]	10	15
Korea (North)	10	10	10	10
Kuwait	10	10	5	20
Laos	15	10[3]	10	10
Luxembourg	15	10[1]	10	12.5
Malaysia	10	10	10	10

Mexico	10	10	10	10
Mongolia	10	10	10	10
Morocco	10	10	10	10
Netherlands	10	10	10	10
New Zealand	15	15	10	15
Norway	15	15	10	10/15[14]
Pakistan	15	10[2]	15	15
Papua New Guinea	15	15	10	10
Philippines	20	15[1]	15	15
Poland	15	10[4]	10	15
Portugal	10	10	10	10
Qatar	10	10	10	5
Romania	15	12.5[1]	12.5	12.5/15[15]
Russia	15	15	15	15
Seychelles	10	10	10	10
Singapore	15	10[2]	10	15
Slovak Republic	10	10	10	10/15[16]
South Africa	15	10[3]	10	10
Spain	15	10[1]	10	10
Sri Lanka	15	15	15	15
Sudan	10	10	15	10
Suriname	15	15	15	15
Sweden	15	10[1]	10	10/15[17]
Switzerland	15	10[1]	10	10
Syria	10	10	10	15/20[18]
Taiwan	10	10	10	10
Thailand	15 /20[6]	15/20[6]	15	15
Tunisia	12	12	12	15
Turkey	15	10[1]	10	10
Ukraine	15	10[4]	10	10
United Arab Emirates	10	10	5	5
United Kingdom	15	10[7]	10	10/15[19]
United States	15	10[8]	10	10
Uzbekistan	10	10	10	10
Venezuela	15	10[3]	10	20
Vietnam	15	15	15	15

Notes:

1. The reduced 10% rate applies if the beneficial owner is a company which holds directly at least 25% of the equity capital of the paying company.

2. The reduced 10% rate applies if the recipient is a company (other than a partnership) which holds directly at least 25% of the capital of the paying company.
3. The reduced 10% rate applies if the beneficial owner is a company which holds (directly) at least 10% of the capital of the paying company.
4. The reduced 10% rate applies if the beneficial owner is a company which holds directly at least 20% of the capital of the paying company.
5. The reduced 10% rate applies if the beneficial owner is a company which owns at least 25% of the voting shares of the paying company during the period of 12 months immediately before the end of the accounting period for which the distribution of profits takes place.
6. 15% if the paying company engages in an industrial undertaking and 20% in other cases.
7. The reduced 10% rate applies if the beneficial owner is a company which controls, directly or indirectly, at least 15% of the voting power of the paying company.
8. The reduced 10% rate applies if the beneficial owner is a company that owns directly at least 25% of the voting stock of the paying company.
9. The reduced 10% rate applies if interest is paid by a bank, a financial institution or by an enterprise the activities of which are mainly carried on in the fields of agriculture, plantation, forestry, fishery, mining, manufacturing, industries, transportation, low cost housing projects, tourism and infrastructure and for interest paid to a bank or to another enterprise.
10. The reduced 10% rate applies to royalties for (i) the use of, or the right to use, any industrial, commercial or scientific equipment (ii) the supply of scientific, technical, industrial or commercial knowledge or information (iii) the supply of any assistance that is ancillary and subsidiary to, and is furnished as a means of enabling the initial application of any such equipment mentioned in (i) or any such knowledge or information mentioned in (ii). The 10% rate also applies to total or partial forbearance in respect of the use or supply of any property or right considered as royalties in the treaty. The 15% rate applies in all other cases.
11. The 10% rate applies to royalties for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films, and films or tapes for television or radio broadcasting.
12. The 10% rate applies to royalties for the use of, or the right to use, industrial, commercial, or scientific equipment, or for information concerning industrial, commercial or scientific experience. The 7.5% rate applies to fees for technical services. The 15% rate applies in all other cases.
13. The 10% rate applies to royalties in respect of payments of any kind received as a consideration for the use of, or the right to use industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience. The 15% rate applies in all other cases.
14. The 15% rate applies to royalties for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films or films or tapes for radio or television broadcasting. The 10% rate applies to royalties for any patent, trade mark, design or model, plan, secret formula or process, and for the use of or the right to use, industrial, commercial or scientific equipment or for information concerning industrial, commercial or scientific experience.
15. The 12.5% rate applies to royalties for the use of, or the right to use, any patent, trademark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience, or for the use of, or the right to use, industrial, commercial or scientific equipment, cinematograph films or tapes for television or broadcasting. The 15% rate applies to royalties for the use of, or the right to use, any copyright of literary, artistic or scientific work.
16. The reduced 10% rate applies to royalties for the use of, or the right to use any copyright of motion picture films or films or video for use in connection with television or tapes for use in connection with radio broadcasting or total or partial forbearance in respect of the use or supply or any property or right considered as royalties in the treaty.
17. The 10% rate applies to royalties for the use of, or the right to use, industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience. The 15% rate applies to royalties for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films and films or tapes for radio or television broadcasting, any patent, trade mark, design or model, plan, secret formula or process.
18. The 15% rate applies to royalties for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films, or tapes for television or radio broadcasting. The 20% rate

applies to royalties for the use, or the right to use, any patent, trade mark, design or model, plan, or any industrial or scientific equipment, or for information concerning industrial or scientific experience.

19. The 10% rate applies to royalties for the use of, or the right to use, any industrial, commercial or scientific equipment. The 15% rate applies to royalties for the use of, or the right to use, any copyright of literary, artistic or scientific work, including cinematograph films, and films or tapes for radio or television broadcasting, or any patent, know-how, trade mark, design or model, plan, secret formula or process.

IRAQ

MEMBER FIRM

City	Name	Contact Information
Erbil	Mohammed Khattab	+964 750 8829 873 mkhattab@pkfiraq.com

I

BASIC FACTS

Full name:	Republic of Iraq
Capital:	Baghdad
Main languages:	Arabic, Kurdish
Population:	38.83 million (2017 estimate)
Monetary unit:	Iraqi Dinar (IQD)
Internet domain:	.iq
Int. dialling code:	+964

KEY TAX POINTS

- Companies are broadly subject to a fixed corporation tax rate of 15%.
- Capital gains are treated as part of the ordinary income of companies and taxed at the appropriate corporation tax rate.
- There is no Value Added Tax (VAT) or Goods and Services Tax (GST) in Iraq.
- Related party transactions are required to be reported separately and should be made on a third party arm's length basis. Where prices paid for the purchase of goods or services are excessive or unreasonable, the Tax Authority can disallow a deduction for the excess portion.
- Resident and non-resident individuals are subject to personal tax at progressive tax rates up to 15%. Resident individuals can claim relevant exemptions whereas no exemptions are available to non-resident individuals.

A. TAXES PAYABLE

COMPANY TAX

An Iraqi resident company is liable to corporation tax on all its resources of income and capital gains whenever arising from the following operations:

- Trading activities;
- Manufacturing activities;
- Investments in securities and bonds;
- Interests; and,
- Rent of agricultural grounds.

Corporate tax rates are fixed for each financial year ending 31 December.

Tax rates

- Taxes on Limited Liability Companies:
  Limited Liability Companies are subject to a fixed tax rate of 15%.
- Tax on Private Shareholding Companies:
  Private Shareholding Companies are subject to a fixed tax rate of 15%.
- Tax on Mixed Shareholding Companies:
  Mixed Shareholding Companies are subject to a fixed tax rate of 15%.
- Contracts concluded with foreign oil companies which are contracted to work in Iraq or its branches or offices and the parties sub-contracting with it in the field of the production and extraction of oil and gas and their related industries are subject to 35% income tax on income realized inside of Iraq.

Tax returns must be filed by or before the 31st of May of the year of assessment. If the returned self-assessed position is not accepted by the tax authorities they will raise an assessment based on the information available to them and payment of the tax liability is due within 21 days from the assessment date. No quarterly payments are due during a tax year.

CAPITAL GAINS TAX

Capital gains made by companies are taxed at the appropriate corporation tax rate.

BRANCH PROFITS TAX

Foreign branches in Iraq are taxable at the corporation income tax ratios, after deduction of any overseas taxation.

VALUE ADDED TAX

There is no VAT in Iraq. However, special sales tax applies as follows:

- 10% on services rendered by hotels and restaurants;
- 20% on sales of mobile and internet charging cards;
- 5% on importation of vehicles of all kinds; and
- 100% on importation of cigarettes and alcoholic beverages.

PROPERTY, PLANT AND EQUIPMENT RENTAL

A 10% deduction can be made against the rental income from property, plant and equipment in respect of depreciation and maintenance expenses. The remainder (90%) is then subject to 10% income tax.

B. DETERMINATION OF TAXABLE INCOME

Any income incurred in Iraq is subject to income tax. Corporate taxable income is determined by ascertaining assessable gross income and reducing it by allowable deductions.

DEPRECIATION

Depreciation expense on machinery and equipment is deductible based on certain ratios whereas the depreciation on buildings and real estates is not deductible.

INVENTORY

All Inventory Items are valued at the lower of cost or net realisable value.

CAPITAL GAINS AND LOSSES

Capital gains and losses are included within the profit chargeable to corporation tax for the accounting period.

DIVIDENDS

Dividends paid to Iraqi companies are generally exempted from the corporation tax whereas the mentioned income was already taxed.

INTEREST DEDUCTIONS

The taxpayer generally may deduct business interests paid or incurred within the tax year. Interest must be directly related to the subject income.

LOSSES

Net operating losses may be carried forward for 5 years against the same taxable income, subject to a maximum deduction of 50% of taxable income in each year.

FOREIGN SOURCED INCOME

Iraqi corporations are taxed on worldwide income including any foreign branches income.

INCENTIVES

In certain cases, the investor might take the benefits of tax and customs exemption for five years, this period is extended to reach 10 years.

C. FOREIGN TAX RELIEF

An Iraqi corporation or a foreign corporation engaged in a business in Iraq, may elect to claim either a credit or a deduction for income tax paid to another country, if the taxes are connected with or related to its business, or if the income is also taxed by Iraq.

D. CORPORATE GROUPS

There is no provision in Iraq for consolidation of accounts for tax purposes or provisions for group taxation.

E. RELATED PARTY TRANSACTIONS

Related party transactions are required to be reported separately and the tax authorities are given power to consider whether transactions are at arm's length. Where prices paid for the purchase of goods or services are excessive or unreasonable, the assessing officer can disallow a deduction for the excess portion.

F. WITHHOLDING TAX

If a resident Iraqi pays an amount to a non-Iraqi (non-resident), this income will be subject to 15% withholding tax if it relates to interest on debentures, mortgages, loans, deposits and advances, as well as annual allowances, pension salaries, or other annual payments. Please note that dividends are not subject to withholding tax.

G. EXCHANGE CONTROL

There are no exchange control rules in Iraq.

H. PERSONAL INCOME TAX

Resident Personal tax

- First IQD 250,000 is subject to 3% after deduction of exemptions.
- From IQD 250,000 to 500,000 is subject to 5% after deduction of exemptions.
- From IQD 500,000 to 1,000,000 is subject to 10%, after deduction of exemptions.
- Any amount exceeding IQD 1,000,000 is subject to 15%, after deduction of exemptions.

Non-resident Personal Tax

- First IQD 250,000 is subject to 3%, no exemptions are granted to the taxpayer.
- From IQD 250,000 to 500,000 is subject to 5%, no exemptions are granted to the taxpayer.
- From IQD 500,000 to 1,000,000 is subject to 10%, no exemptions are granted to the taxpayer.
- Any amount exceeding IQD 1,000,000 is subject to 15%, no exemptions are granted to the taxpayer.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

At present, there are no tax treaties in force in Iraq.

IRELAND

MEMBER FIRM

City	Name	Contact Information
Dublin	Donal O'Leary	+353 1 496 1444 d.oleary@pkf.ie
Newry	Feargal McCormack	+44 28 3026 1010 f.mccormack@pkffpm.com

BASIC FACTS

Full name:	Republic of Ireland
Capital:	Dublin
Main languages:	English, Irish
Population:	4.8 million (2018 estimate)
Monetary unit:	1 Euro (EUR) = 100 cents
Internet domain:	.ie
Int. dialling code:	+353

KEY TAX POINTS

- Irish corporation tax is payable by Irish resident companies on income and capital gains derived from all sources. Non-resident companies are taxed on Irish source income, on income or gains from a branch or agency in Ireland and also on certain other gains.
- All Irish incorporated companies are deemed resident in Ireland, subject to certain exceptions. However, a company not incorporated in Ireland may also be deemed Irish resident if its central management and control resides in Ireland.
- The rate of corporation tax applied to a trading income is 12.5%. Other income, such as rent or investment income, is taxed at 25%.
- Capital gains of companies are, broadly, taxed at 33%.
- There is a general anti-avoidance provision but there is no specific transfer pricing or controlled foreign companies' legislation.
- VAT applies to supplies of goods and services by taxable persons. The standard rate is 23%.
- Tax credits are generally available to Irish companies in respect of overseas taxes suffered on foreign income.
- Payments of dividends, interest, royalties and rent to non-residents are, in certain circumstances, subject to withholding tax at 20% (subject to the relevant double tax treaty).
- Individuals who are resident, ordinarily resident and domiciled in Ireland are subject to income tax on worldwide income and to capital gains tax on worldwide gains. Irish nationals who are resident but not ordinarily resident and individuals who are resident but not domiciled in Ireland, are taxed on a remittance basis in respect of overseas income and gains.

A. TAXES PAYABLE

COMPANY TAX

Irish corporation tax is payable by Irish tax resident companies on its worldwide income and capital gains from all sources. All Irish incorporated companies are deemed resident in Ireland, subject to certain exceptions. A company not incorporated in Ireland may also be deemed Irish resident if its place of central management and control is in Ireland. Non-Irish tax resident companies are chargeable to Irish corporation tax where they have a permanent establishment in Ireland.

From 1 January 2015, newly Irish incorporated companies will be deemed to be Irish tax resident (unless

under the terms of a double tax treaty the company is determined to be resident elsewhere). For companies incorporated before 1 January 2015, the new residency rules will not apply until after 31 December 2020. Companies incorporated in Ireland before 1 January 2015 which are managed and controlled in an EU Member State or in a country with which Ireland has a double tax treaty will be deemed to be Irish tax resident where that country has a place of incorporation test but not a central management and control test.

A 12.5% rate of corporation tax is applied to the trading income of companies, with a rate of 25% applying to other income such as rent or investment income. In addition, where a company has a permanent establishment (e.g. a branch/office in Ireland) the branch profits will be chargeable to corporation tax at 12.5%. Corporation tax is payable by reference to a company's accounting period. Non-Irish tax resident companies not trading in Ireland will be chargeable to income tax at 20% on any Irish source income (e.g. rental profits/interest income).

Where a company has a corporation tax liability of less than EUR 200,000 (i.e. "small company") in their previous accounting period, corporation tax is payable in two stages with the first payment due one month before the end of the accounting period. The amount payment will be 100% of the corporation tax liability for the preceding accounting period (or 90% of the corporation tax liability for the current accounting period). The balance of the corporation tax liability for the period is payable nine months after the end of the accounting period.

Large companies with a corporation tax liability of more than EUR 200,000 in their previous accounting period are obliged to pay corporation tax in three stages. The first instalment will be payable in the sixth month of the accounting period and the amount payable will be 50% of the corporation tax liability for the preceding accounting period (or 45% of the corporation tax liability for the current accounting period). The second instalment will be payable in the 11th month of the accounting period and the amount payable will bring the total preliminary tax paid to 90% of the corporation tax liability for the current accounting period. The balance of the corporation tax liability is payable nine months after the end of the accounting period.

Both small companies and large companies must submit a corporation tax return to the Inspector of Taxes by the 21st day of the ninth month following the accounting year end. Failure to do so will result in a statutory surcharge and restriction on the use of certain reliefs or allowances such as loss relief.

Country by Country Reporting

Finance Act 2015 introduced Country by Country Reporting for Irish parented multinational enterprises with consolidated annualized group revenue of EUR 750 million or more. The first report should be prepared for fiscal years commencing on or after 1 January 2016 and filed within 12 months of the year end. Failure to comply with this reporting requirement or the provision of an incorrect report will result in a penalty of EUR 19,045 and in some instances a further penalty of EUR 2,535 for each day that the report remains outstanding. This is in line with OECD recommendations and is the first of a number of recommendations that will be implemented by Ireland to comply with the standards and recommendations of the BEPS project.

CAPITAL GAINS TAX

The current rate of capital gains tax is 33%. Capital gains arising on disposals by Irish tax resident companies are calculated using capital gains tax principles, however, the tax liability arising is subject to corporation tax (with the exception of gains arising on disposals of development land which are subject to capital gains tax).

Non-Irish tax resident companies are chargeable on the sale of certain assets including:

a) Land and buildings in Ireland;

b) Minerals in Ireland or any rights to same;

c) Assets situated in Ireland which are used for the purpose of a trade carried on in Ireland through a branch;

d) Unquoted shares deriving their value or the greater part of their value from (a) or (b) above.

Capital losses on the sale of assets can be set against capital gains arising in the same accounting period and any excess can be carried forward and applied in subsequent accounting periods against future capital gains.

Participation Exemption

Where a holding company disposes of a subsidiary, provided certain conditions are satisfied, the disposal may be exempt from capital gains tax. In brief, the parent company must beneficially own 5% of the subsidiary's share capital, the profits of the subsidiary and the assets of the subsidiary available for distribution on wind up. In addition, both the parent and subsidiary must carry on a trade/be part of a trading group. The exemption will not apply where the subsidiary derives the greater part of its value from land and buildings in the State.

Relief on Disposals of Certain Land or Buildings

In order to stimulate activity in the property market, a relief from capital gains tax for land and buildings purchased in the European Economic Area between 7 December 2011 and 31 December 2014 where the property is held for 7 years or more was introduced. The relief applies to both residential and commercial property and to property held by individuals and corporates.

The relief applies by exempting the capital gain attributable to the first 7 years of ownership of the asset. Therefore, if a property is owned for 10 years and subsequently sold, only 3/10ths of any gain on the disposal is chargeable to capital gains tax. No relief is available where the asset is owned for less than 7 years (i.e. the full gain would be liable to capital gains tax).

The requisite holding period has been reduced from 7 years to 4 years in the Finance Act 2017. The measure has created a three-year period (i.e. years 4 to 7) in which the property can be sold and benefit from a full exemption whereas if held longer than 7 years, only proportionate relief is available. The new rule will only apply to disposals made on or after 1 January 2018.

Debt Write off

The base cost of an asset for capital gains tax purposes will be reduced where the asset was acquired with borrowings and an amount of the borrowings has been released or written off. If the release or write off occurs before the disposal the base cost is reduced accordingly. If the write off occurs after the disposal it will be treated as a capital gain in the year of write off.

VALUE ADDED TAX (VAT)

A company is obliged to register for VAT if its turnover from the sale of goods exceeds EUR 75,000 or if its turnover from the provision of services exceeds EUR 37,500. The threshold for VAT in Ireland for a trader with no establishment in Ireland is EUR Nil, subject to a number of exceptions. The current standard rate of VAT is 23%. There is a reduced rate of VAT of 13.5% applying in respect of the provision of immovable property and certain services. In addition, a second reduced rate of VAT of 9% applies mainly to tourism services. There is also a 0% rate of VAT that applies to certain goods/services.

VAT returns are generally made on a bi-monthly basis. However, a company which is constantly in a repayment position may obtain approval to make returns on a monthly basis. For smaller businesses, the frequency of filing VAT returns can also be reduced. VAT is not recoverable on non-business expenditure nor on certain other expenditure such as cars, petrol, hotel accommodation, meals. VAT on conference-related accommodation expenses are allowed if certain conditions are satisfied. In addition, a businesses is required to repay any VAT previously reclaimed in relation to supplier invoices which have not been paid within 6 months.

PAYROLL TAX

All employers are obliged under the Pay As You Earn (PAYE) system to deduct income tax, USC and Pay Related Social Insurance (PRSI) contributions from employees. The rate of employers PRSI is 10.75% on the full amount of the income.

RELEVANT CONTRACTS TAX (RCT)

RCT is a tax regime that applies to payments made by a principal contractor to a subcontractor under a relevant contract (this is a contract to carry out work in the construction, forestry or meat processing industry). RCT applies to both resident and non-resident contractors carrying out such operations in Ireland. RCT does not apply to professionals such as architects, surveyors etc.

RCT is a tax deduction system whereby a principal contractor deducts tax from payments to a subcontractor. The new system will have three RCT rates 0%, 20% and 35% depending on the subcontractor's compliance record. The rate of tax to be deducted will be confirmed by the Revenue Commissioners. There are severe penalties for not operating RCT correctly.

STAMP DUTY

The following are the main stamp duty rates applicable in respect of different types of property;

Residential Property

The following stamp duty rates apply to residential property:

Aggregate Consideration	Duty Rate
First EUR 1,000,000	1%
Excess over EUR 1,000,000	2%

Non-Residential Property

Non-Residential Property is any property other than residential property, stocks or marketable securities or policies of insurance. The rate of stamp duty applicable to non-residential property was previously 2%. As per the Finance Act 2017, this has been increased to 6% for instruments executed on or after 11 October 2017, subject to certain transitional provisions. In addition, there is also anti-avoidance legislation providing that stamp duty up to 6% can also apply to transfers of company shares where the shares derive their value from Irish property.

In recognition of current housing supply challenges in Ireland, there is also a stamp duty refund scheme for land purchased for the development of housing, which, in certain circumstances, can lead to a refund of two thirds of the stamp duty paid, thereby ensuring the rate of stamp duty rate remains at 2%.This is a temporary measure as it ceases for projects commencing after 31 December 2021.

Stocks and Marketable Securities

A transfer of stock or marketable securities of any company incorporated in the State is liable to stamp duty at 1% of the consideration paid. Where the transfer takes place electronically through the CREST system a 1% charge also arises. Stock or marketable securities where the amount or value of the consideration is EUR 1,000 or less are exempt from stamp duty. There is no stamp duty where property is transferred between associated companies, subject to certain conditions.

OTHER TAXES

These include Customs and Excise Duties and local taxes such as rates (i.e. Property Tax).

Local Property Tax (LPT)

Local Property Tax is chargeable on all residential properties in the State effective from 1 July 2013. The 2018 LPT liability will be calculated by reference to the market value of the property on the 1 May 2013 and the 2018 LPT rate.

Real Estate Investment Trusts (REITs)

REITs are listed companies which allow for individuals to invest in a diversified property portfolio. A REIT is an established internationally recognised model for property investment which is to be introduced in order to allow investors to access property investment in a risk diversified manner. Qualifying income and gains in a REIT will be exempt from corporation tax at the level of the REIT company. The REIT is required to distribute profits annually for taxation at investor level.

Section 110 Companies

There is a special regime in Ireland for companies set up to securitise certain assets. Provided certain conditions are met, such companies may conduct their activities on a tax neutral basis.

B. DETERMINATION OF TAXABLE INCOME

Taxable income is determined by ascertaining assessable income and then subtracting all allowable deductions. As a general rule, expenses incurred wholly and exclusively for the purpose of the business are deductible. However, specific rules apply in respect of certain categories.

DEPRECIATION

Book depreciation is disallowed. However, companies can claim capital allowances (i.e. tax depreciation) on expenditure relating to certain types of assets including plant and machinery, motor vehicles and qualifying industrial buildings.

Plant and Machinery

An allowance of 12.5% per annum can be claimed on a straight-line basis. The plant and machinery must be purchased (not leased) and any grants receivable are deducted from the expenditure before arriving at the amount eligible for the capital allowance.

Industrial Buildings Allowance

An annual allowance of 4% can be claimed on a straight-line basis. Industrial buildings generally refer to manufacturing facilities but also include hotels and certain other structures. The allowance is available in respect of the qualifying cost less any grants received.

Motor Vehicles

There is an allowance of 12.5% per annum on a straight-line basis in respect of motor vehicles. The maximum amount of qualifying expenditure in relation to a new motor car is EUR 24,000. There is no restriction for vans, trucks and other non-passenger vehicles. The capital allowances available on expenditure incurred on or after 1 July 2008 on private cars used for business purposes are based on the carbon emission level of the car.

Category	Car	Allowance granted on
A, B & C	Carbon dioxide emissions up to 155g/km	The specified amount that is EUR 24,000 no matter what the car cost.
D & E	Carbon dioxide emissions between 156g/km and 190g/km	1. Where the car cost is less than or equal to the specified amount that is EUR 24,000, 50% of that amount. 2. Where the cost is more than the specified amount that is EUR 24,000, 50% of the specified amount.
F & G	Carbon dioxide emissions 191g/km or more	Nil, that is, no capital allowances are available.

STOCK / INVENTORY

Stock and work in progress are valued at the lower of cost or market value on a FIFO basis. LIFO is not available.

DIVIDENDS

Dividends between Irish resident companies are exempt from corporation tax. Dividends paid by a company located in the EU or in a country with which Ireland has a double tax treaty to an Irish company will be chargeable to corporation tax at 12.5% to the extent that the dividend is paid out of “trading profits”. Withholding tax at the standard rate of income tax (20%) applies to dividends paid to individuals resident in Ireland and certain non-residents.

INTEREST DEDUCTIONS

Interest paid on borrowings for the purposes of a trade is deductible for tax purposes if certain conditions are met. Interest payments to certain foreign parent and associated companies may be treated as distributions and consequently not allowed as a deduction against Irish profits under particular circumstances.

A trading deduction for interest may also be disallowed on funds borrowed from a connected company where those funds are used to acquire assets from another connected company. Similar anti-avoidance measures exist for rental companies funding the acquisition of an asset from a group company by means of a connected party loan.

LOSSES

Trading losses can be carried forward indefinitely, even on a change of ownership of a company, provided no major change takes place in the nature or conduct of the trade. Losses incurred in a trade can be offset against other trading income in the same accounting period or the preceding accounting period. Trading losses can be offset against non-trading income on a’ value basis’ (i.e. taking account of the applicable corporation tax rate so that, for example, only half the amount of the losses subject to the 12.5% rate may be set off against income subject to the non-trading rate of 25%).

FOREIGN SOURCE INCOME

Foreign sourced income is normally liable to Irish corporation tax. There are no special rules relating to controlled foreign companies (“CFC legislation”).

TAX INCENTIVES

The following are some of the tax incentives available to companies:

Knowledge Development Box

Finance Act 2015 introduced the Knowledge Development Box, a tax relief that will result in an effective corporation tax rate of 6.25% on certain profits arising from qualifying assets for accounting periods commencing on or after 1 January 2016. A qualifying asset means an asset that is a computer program, an invention protected by a qualifying patent or IP for small companies and which is the result of research and development activities. Qualifying profits on which relief can be claimed are calculated using a formula included in the legislation in order to determine the income and expenditure attributable to the qualifying asset.

Research and Development Tax Credit

Where qualifying expenditure is incurred, an R&D credit of 25% of expenditure is incurred may be available. R&D for the purposes of the credit includes basic research, applied research or experimental development. These activities must seek to achieve scientific or technological advancement and involve the resolution of scientific or technological uncertainty.

A company which carries on a trade in Ireland, undertakes R&D activities in Ireland or within the EEA and incurs the expenditure shall be entitled to the credit. The credit can be used when the company commences to trade and has a corporation tax liability.

If the company does not have a corporation tax liability then it is possible to receive a refund of the Research & Development tax credit, up to certain limits, over a 33 month timeframe.

Companies in receipt of the R&D credit will have the option to use a portion of the credit to reward key employees who have been involved in the development of R&D, subject to a number of conditions. The credit will be a tax-free payment in the hands of the employee (although they will be taxed as normal on their other income). In the event of an incorrect claim the tax foregone will be recovered from the company and not the employee.

Employment and Investment Incentive Scheme (EIIS)

The EIIS is available to a substantial number of SMEs across different industry sectors. It should be noted, however, that companies engaged in a number of specific activities continue to be excluded. These include land dealing companies, those engaged in financial services, film production and the operation or management of hotels, and nursing homes, to name a few. Closely held professional services companies are also excluded from the EIIS.

The quantum of tax relief afforded will remain at the marginal income tax rate but only where certain employment targets (linked to increases in both employee numbers and emolument levels) or research and development targets have been achieved. The relief is therefore phased as an initial income tax relief at a rate of 30% with an additional 10% available only at the end of the 4-year holding period if the above mentioned targets are met. The relief is available up to 2020.

The maximum level of funding that a company can raise through the EIIS will be EUR 15 million and this is a lifetime limit. Similarly, the maximum amount which can be raised by a company in any one year has been increased to EUR 5 million. The maximum annual income tax relief for an individual remains at EUR 150,000. Changes have been introduced to ensure that the scheme is fully compliant with EU State Aid rules on risk capital.

Start-up Exemption

New companies incorporated after 14 October 2008 and commencing a new trade on 1 January 2009 and before 31 December 2018 will be exempt from corporation tax on income and chargeable gains for the first three years of trading. The exemption is subject to a liability threshold of EUR 480,000 and as such, no relief will be available where profits exceed EUR 480,000.

The relief is limited to the amount of employer's PRSI paid by a company in an accounting period subject to a maximum of EUR 5,000 per employee and an overall limit of EUR 40,000. Marginal relief will apply where corporation tax payable by a new company for a period is between EUR 40,000 and EUR 60,000. This relief will not apply where an existing trade is acquired. It will also cease to apply where part of a newly established trade is passed to a connected party. Companies carrying on excepted trades and close service companies will not qualify for this exemption.

C. FOREIGN TAX RELIEF

Irish resident companies can obtain a credit for foreign tax suffered in territories with which Ireland has a double tax treaty. There are currently treaties in place with 74 countries, of which 73 are in effect. The treaties cover direct taxes, which in the case of Ireland are income tax, corporation tax and capital gains tax.

Unilateral relief is also available in respect of overseas tax suffered under certain circumstances. This provides for relief against double tax on certain types of income and gains received from a country that we do not have a double taxation agreement with.

D. CORPORATE GROUPS

Provided certain conditions are satisfied the transfer of assets between a company and its effective 75% subsidiaries will not be chargeable to capital gains tax. Companies resident in an EU or EEA resident country may from part of the capital gains tax group.

Transfers of assets between a company and its 90% subsidiaries or between companies owned by a third company may qualify for stamp duty relief (associated companies relief). In order to satisfy the 90% shareholding test, one company must have in relation to the other 90% of the beneficial ownership of the shares, 90% beneficial entitlement to the profits and beneficial entitlement to 90% of the assets on wind up.

Where the conditions for corporate tax groups are satisfied, group members can transfer losses and also certain payments which would attract withholding tax.

E. RELATED PARTY TRANSACTIONS

Transfer Pricing regulations were introduced in Ireland and have effect from 2011. The transfer pricing legislation endorses the OECD Transfer Pricing Guidelines and the arm's length principle has been released which brings the Irish tax regime into line with OECD guidelines.

F. WITHHOLDING TAX

Payments of certain types of royalties and rents to non-residents are subject to withholding tax at 20%. Dividends, interest and royalties paid by Irish companies to residents of EU countries or countries with which Ireland has a double tax treaty are, subject to meeting certain conditions, exempted from withholding tax or liable at a reduced rate. Tax at 20% is deducted from payments made by Government and State Bodies in respect of most professional services.

G. EXCHANGE CONTROL

There are no exchange controls.

H. PERSONAL TAX

INCOME TAX

An individual is Irish tax resident for a year if either of the following two tests is satisfied:

- Present for more than 183 days in Ireland; or,
- Present for more than 280 days in total in that year and the preceding year. Presence in either year for fewer than 30 days is disregarded.

In the year of arrival, an election for residence can be made where there is an intention of continuing to reside in Ireland. At birth, a person acquires a domicile of origin and, subsequently, having acquired the age of majority, a person can acquire a domicile of choice if he/she settles in another country and makes it his/her permanent home. All individuals, resident and domiciled in Ireland must pay income tax on worldwide income and capital gains tax on worldwide gains, regardless of whether or not the income is remitted into the State. An individual loses ordinary residence status after having been non-resident for three consecutive tax years and regains it after being resident for three consecutive tax years.

The following is a summary of the basis of taxation for individuals in Ireland:

Resident	Ordinarily resident	Domiciled	Liable to Irish income tax on
Yes	Yes/No	Yes	Worldwide income
Yes	Yes/No	No	• Irish source income, • Foreign employment income to the extent duties of the employment as performed in Ireland, and Other foreign income (including UK investment income) to the extent that it is remitted into Ireland
No	Yes	Yes	Worldwide income with the exception of: • income from a trade, profession, employment all the duties of which are exercised outside Ireland, and other foreign income, provided that it does not exceed EUR 3,810
No	Yes	No	• Irish source income and foreign income to the extent it is remitted to Ireland. Income from the following sources is not liable to Irish income tax, even if remitted to Ireland: • income from a trade, profession, employment all the duties of which are exercised outside Ireland, and other foreign income, provided that it does not exceed EUR 3,810
No	No	Yes/No	Irish source income only

Income Tax Rates and Bands

The following is a summary of the Income Tax Rates and Bands in the 2017 and 2018 tax years;

Personal Circumstances	Tax Year 2017	Tax Year 2018
Single / Widowed without dependent children	EUR 33,800 @ 20% Balance @ 40%	EUR 34,550 @ 20% Balance @ 40%
Single / Widowed qualifying for One Parent Family Tax Credit	EUR 37,800 @ 20% Balance @ 40%	EUR 38,550 @ 20% Balance @ 40%
Married Couple - one spouse with income	EUR 42,800 @ 20% Balance @ 40%	EUR 43,550 @ 20% Balance @ 40%
Married Couple - both spouses with income	EUR 67,600 @ 20% Balance @ 40%	EUR 69,100 @ 20% Balance @ 40%

Single Person Child Carer Credit

This tax credit allows one individual, who is the child's principal carer to claim the new single person child carer credit.

Earned Income Tax Credit

The Earned Income Tax Credit of EUR 1,150 is available to individuals earning self-employed, trading or professional income. For company directors, the credit will apply to proprietary directors as their earnings are not taken into account for the purposes of the Employee PAYE Tax Credit. Where an individual has earned income which qualifies for Employee PAYE Tax Credit and Earned Income Tax Credit, the combined value of both tax credits cannot exceed EUR 1,650.

Foreign Earnings Deduction

The Foreign Earnings Deduction was introduced to aid companies seeking to expand into emerging markets. The deduction will apply for individuals who spend 30 days a year or more carrying out their duties of their

office or employment in developing markets for Ireland. The relief is available until 2020.

The relief applies by reducing the individuals employment income which is based on the number of qualifying days spent in the qualifying countries. The maximum deduction is EUR 35,000 i.e. the maximum income tax relief is EUR 35,000 x 40% = EUR 14,000.

The following countries qualify for the relief:

• Algeria	• Mexico
• Bahrain	• Nigeria
• Brazil	• Oman
• Chile	• Pakistan
• China	• Qatar
• Columbia	• Russia
• Democratic Republic of Congo	• Saudi Arabia
• Egypt	• Senegal
• Ghana	• Singapore
• India	• South Africa
• Indonesia	• South Korea
• Japan	• Tanzania
• Kenya	• Thailand
• Kuwait	• UAE
• Malaysia	• Vietnam

Special Assignment Relief Programme (SARP)

The SARP programme was introduced with the aim of attracting key talent to Ireland to create more jobs and facilitate the development and expansion of business in Ireland. The relief is available to employees coming to work in Ireland from abroad on the instruction of their employer. The employee must be Irish tax resident in the year of assessment in order to claim the relief.

The employee must perform all of their duties of employment in Ireland with a relevant employer and must also have relevant employment income of greater than EUR 75,000 per year. The relief is available until 2020. The following conditions must be met for relief to apply:

- Have worked with the employer for a minimum period of 6 months before being assigned;
- Not have been tax resident in Ireland for the 5 tax years immediately preceding the tax year in which he or she first arrives in Ireland for the purpose of performing those duties

A relevant employer means a company that is incorporated and tax resident in a country or jurisdiction with which Ireland has a double taxation treaty or a tax information exchange agreement. The relief works by reducing the employee's taxable income for the year of assessment by the specified amount.

The specified amount is calculated using the formula: (A – B) x 30%

A = is the amount of the relevant employee's income, profits or gains from his or her relevant employment in Ireland excluding any amount that is not assessed to tax in Ireland and after deducting any contribution or qualifying pension premium. Also excluded are expenses incurred in relation to the employment and amounts on which the employee is entitled to double tax relief for foreign tax.

B = Lower threshold - EUR 75,000

Start your own Business Relief

There is an exemption from income tax for two years for qualifying individuals who set up an unincorporated business. The relief applies up to maximum earnings of EUR 40,000 per year. A qualifying individual is an individual who has been continually unemployed or in receipt of social welfare for at least 12 months immediately prior to setting up the business. There are a number of conditions to be satisfied to avail of the relief. The scheme runs from 25 October 2013 to 31 December 2018.

UNIVERSAL SOCIAL CHARGE (USC)

The USC is a tax payable on gross income, including notional pay, after any relief for certain capital allowances, but before pension contributions. The following payments are generally exempt from USC:

- Individuals with income of less than EUR 13,000;
- Tax free element of a termination payment;
- Statutory redundancy;
- Social welfare payments;
- Deposit Interest already subject to DIRT.

The USC rates for 2017 and 2018 are as follows:

2017		2018	
Income Ranges	**Rate**	**Income Ranges**	**Rate**
First EUR 12,012	0.5%	First EUR 12,012	0.5%
EUR 12,013 to EUR 18,772	2.5%	EUR 12,013 to EUR 19,372	2%
EUR 18,773 to EUR 70,044	5%	EUR 19,373 to EUR 70,044	4.75%
EUR 70,045 to EUR 100,000	8%	EUR 70,045 to EUR 100,000	8%
Any PAYE income over EUR 100,000	8%	Any PAYE income over EUR 100,000	8%
Over EUR 100,000 (self- assessed income only)	11%	Over EUR 100,000 (self- assessed income only)	11%

Reduced Rates of USC will apply to the following:

- Individuals over 70 with income less than EUR 60,000;
- Individuals under 70 holding a full medical card, with income less than EUR 60,000.

2018	
Income Ranges	**Rate**
First EUR 12,012	0.5%
Income above EUR 12,012	2.5%

PROPERTY SURCHARGE

A property surcharge of 5% is imposed on investors with annual gross income over EUR 100,000. This will apply on the amount of income sheltered by property relief and area based capital allowances in a given year. If the gross income figure exceeds EUR 100,000, the person is liable to the surcharge. If not, then the surcharge does not apply. Where the gross income exceeds EUR 100,000, the surcharge applies at the rate of 5%. The surcharge will not apply to income sheltered by tax reliefs that are not property reliefs such as film relief or the new Employment and Investment Incentive. The various donations reliefs will not be subject to the surcharge.

CAPITAL GAINS TAX

Retirement Relief

A relief known as retirement relief, provides relief from capital gains tax on the gift/sale of chargeable business assets (including leased farmland) subject to certain conditions. The current Retirement Relief provisions are that an individual aged between 55 and 66 years can gift/sell unlimited business assets to a child or to any other person subject to a limit of EUR 750,000. An individual aged 66 years and over can gift/sell business assets to a child subject to a limit of EUR 3,000,000 or to any other person subject to a limit of EUR 500,000.

Entrepreneur Relief

Entrepreneur relief provides for a reduced rate of capital gains tax on the disposal of chargeable business assets. Where the conditions of the relief are satisfied a reduced capital gains tax rate of 10% from 1 January 2017 will apply to a lifetime limit of EUR 1,000,000 of gains.

DOMICILE LEVY

The purpose of this levy is to ensure that individuals with substantial ties to Ireland would make a contribution to the Exchequer, irrespective of their residence status. The levy is EUR 200,000 and applies from the tax year 2010 to every 'relevant individual'. In order to be a 'relevant individual' for a tax year the following conditions must be met:

- The worldwide income of the individual for the tax year is greater than EUR 1 million;
- The individual is domiciled in and is a citizen of Ireland in that tax year. Budget 2012 proposes to remove the "citizenship" condition for payment of the Domicile Levy. This will broaden the base for the levy;
- The individual's final Irish income tax liability is less than EUR 200,000; and,
- The market value of the Irish property owned by the individual on 31 December in the tax year exceeds EUR 5 million.

Irish income tax paid by an individual will be allowed as a credit against the levy. The levy is payable on a self-assessment basis on or before 31 October in the year following the valuation date, i.e. 31 December each year. Anti-avoidance provisions are included in the legislation to prevent transfers of Irish situate property for less than market value to spouses, minor children, discretionary trusts and other entities.

PENSIONS

Pension Contributions

There is tax relief available on contributions made by individuals to pensions. This is limited annually to a percentage of an individual's salary depending on age and is also restricted by an overall salary cap. This salary cap currently stands at EUR 115,000. Employers' contributions to employees' PRSAs are treated as a benefit-in-kind for USC purposes.

There is no liability to PRSI or USC on employer contributions into occupational schemes. Tax free pension lump sums are capped at EUR 200,000.

Maximum Allowable Pension Fund at Retirement

The Standard Fund Threshold in relation to an individual's pensions is EUR 2,000,000. Individuals who have pensions in excess of this can claim a Personal Fund Threshold up to a maximum of EUR 2,300,000.

Retirement Lump Sums

Tax free ex-gratia termination payments are available to individuals up to an amount calculated with reference to length of service and salary levels. The tax-free amount of these payments is capped at EUR 200,000.

Approved Retirement Funds

An annual imputed distribution applies to the value of assets in an Approved Retirement Fund (ARF) at 30 November each year. Where the assets of the fund are valued at EUR 2 million or less, the annual imputed distribution is 5% of the value of the assets in the fund at 30 November. ARFs with asset values in excess of EUR 2 million (or, where an individual owns more than one ARF, where the aggregate value of the assets in those ARFs exceeds EUR 2 million) the annual imputed distribution is 6% on the entire fund.

Personal Retirement Savings Accounts

"Vested" Personal Retirement Savings Accounts are Personal Retirement Savings Accounts (PRSAs) from which retirement benefits have commenced to be taken, usually in the form of the "tax-free" retirement lump sum. The annual imputed distribution provisions also apply to "vested" PRSAs, where the assets are retained in the PRSA rather than being transferred to an ARF.

CAPITAL ACQUISITIONS TAX

Where a person receives a gift/inheritance and the person making the gift/inheritance is Irish tax resident (or ordinarily resident), the person receiving the gift/inheritance is Irish tax resident or the property is situated in Ireland a charge to Irish CAT may arise. For Irish CAT purposes a non-domiciled individual is not treated as Irish tax resident unless he/she has been Irish tax resident for five consecutive years.

Depending on the relationship between the person making the gift/inheritance and the beneficiary, a certain level of benefits can pass to an individual before a charge to CAT will arise.

The level of benefits is known as a person's "Group Threshold" and is not specific to gifts made from person to person, rather it is utilised where a person receives gifts from a certain class of persons. All gifts or inheritances from each class since 5 December 1991 need to be included in the review.

The following are the Group Thresholds:

Group	Relationship to Disposer	Group Threshold
A	Son/Daughter	EUR 310,000
B	Parent*/Brother/Sister/Niece/Nephew/Grandchild	EUR 32,500
C	Relationship other than Group A or B	EUR 16,250

*In certain circumstances a parent taking an inheritance from a child can qualify for Group A threshold.

An individual is obliged to submit an Irish CAT return where they have utilised 80% of the threshold. Where a person receives a gift/inheritance in the period from 1 January to 31 August, any capital acquisitions tax payment and return due must be paid on or before 31 October of the same year. Where a person receives a gift/inheritance in the period from 1 September to 31 December, any capital acquisitions tax payment and return must be made to Revenue on or before 31 October of the following year.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	20	0	0/20	0/20
Individuals	0/20	--	0/20	0/20
Treaty countries:				
Albania	10	0/5[1]	7	7
Armenia	15	0/5[2]	0/5/10	5
Australia	0	0	10	10
Austria	0	0	0	0
Bahrain	0	0	0	0
Belarus	10	0/5[3]	5	5
Belgium	–/0[4]	–/0[4]	0/15	0
Bosnia and Herzegovina	0	0	0	0
Botswana	5	0[5]/5	7.5	5/7.5
Bulgaria	10	5[3]	5	10
Canada	15	5[6]	0/10	0/10
Chile	15	5[7]	5/15	5/10
China	10	5[8]	10	10
Croatia	10	5[9]	0	10
Cyprus	0	0	0	0
Czech Republic	15	5[8]	0	10
Denmark	0	0	0	0
Egypt	10	5[3]	10	10

Estonia	15	5[8]	10	0/5/10
Ethiopia	5	5	5	5
Finland	0	0	0	0
France	–/0	–/0[4]	0	0
Georgia	10	0/5[10]	0	0
Germany	15	5[2]	0	0
Greece	15	5[8]	5	5
Hong Kong	0	0	0/10	3
Hungary	15	5[2]	0	0
Iceland	15	5[3]	0	0/10
India	10	10	10	10
Israel	0	0	5/10	10
Italy	15	15	10	0
Japan	–/0	–/0[4]	10	10
Kazakhstan	15	0/5[11]	10	10
Korea	0	0	0	0
Kuwait	0	0	0	5
Latvia	15	5[8]	10	0/5/10
Lithuania	15	5[8]	10	5/10
Luxembourg	–/0	–/0[4]	0	0
Macedonia (FYR)	10	5[9]	0	0
Malaysia	10	10	10	8
Malta	15	5[9]	0	5
Mexico	10	5[12]	5/10	10
Moldova	10	5[13]	0/5	5
Montenegro	10	5[14]	10	5/10
Morocco	10	6[15]	0/10	10
Netherlands	15	0[16]	0	0
New Zealand	0	0	10	10
Norway	15	5[2]	0	0
Pakistan	10	5[3]	10	10
Panama	5	5	0/5	5
Poland	15	0[16]	0/10	0/10
Portugal	15	15	0/15	10
Qatar	0	0	0	5
Romania	3	3	0/3	0/3
Russia	10	10	0	0
Saudi Arabia	5	0[17]	0	5/8
Serbia	10	5[13]	0/10	5/10

Singapore	0	0	5	5
Slovak Republic	10	0[16]	0	0/10
Slovenia	15	5[3]	5	5
South Africa	10	5[2]	0	0
Spain	0	0	0	5/8/10
Sweden	0	0	0	0
Switzerland	15	0[18]	0	0
Thailand	10	10	10/15	5/10/15
Turkey	15	5[8]	10/15	10
Ukraine	15	5[3]	5/10	5/10
United Arab Emirates	0	0	0	0
United Kingdom	15	5[6]	0	0
United States	15	5[12]	0	0
Uzbekistan	10	5[2]	5	5
Vietnam	10	5[19]	10	5/10/15
Zambia	7.5	7.5	10	8/10

Notes:

1. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly or indirectly at least 25% of the capital of the dividend-paying company. The 0% rate applies to dividends paid to the Albanian Government (Central Bank and statutory bodies).
2. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the dividend-paying company. The 0% rate applies if the beneficial owner is a company (other than a partnership) which has held directly at least 25% of the capital of the dividend-paying company for at least 2 years, subject to certain conditions.
3. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the dividend-paying company. The 0% rate applies to dividends paid to any organisation, agency or institution wholly or mainly owned by the Belarus Government.
4. No reduction under the treaty, the domestic rate applies, subject however to e.g. the application of the Parent-Subsidiary Directive in the case of Belgium and France.
5. The 0% rate applies to dividends paid to the Botswana Government.
6. The 5% rate applies if the beneficial owner is a company which controls directly or indirectly 10% or more of the voting power in the dividend-paying company.
7. The 5% rate applies if the beneficial owner is a company that controls directly at least 20% of the voting power in the dividend-paying company.
8. The 5% rate applies if the beneficial owner is a company which holds directly at least 25% of the voting power in the dividend-paying company.
9. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the voting power in the dividend-paying company.
10. The 5% rate applies if the beneficial owner is a company which controls directly or indirectly at least 10% of the voting power in the dividend-paying company and has invested more than 100,000 EUR in the capital of the dividend-paying company. The 0% rate applies if the beneficial owner is a company which controls directly or indirectly at least 50% of the voting power in the dividend-paying company and has invested at least 2 million EUR in the capital of the dividend-paying company.
11. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the dividend-paying company. The 0% rate applies to dividends paid to the Kazakh Government (National Bank, Government or a central or local authority thereof, institution wholly

owned by the Kazakh government).

12. The 5% rate applies if the beneficial owner is a company which owns at least 10% of the voting stock of the dividend-paying company.
13. The 5% rate applies if the beneficial owner is a company (other than a partnership) which controls directly or indirectly at least 25% of the voting power in the dividend-paying company.
14. The 5% rate applies if the beneficial owner is a company which holds directly or indirectly at least 10% of the capital of the dividend-paying company.
15. The 6% rate applies if the beneficial owner is a company which owns directly at least 25% of the capital of the dividend-paying company.
16. The 0% rate applies if the recipient holds directly at least 25% of the voting power in the dividend-paying company.
17. The 0% rate applies if the recipient is (i) a company that holds directly at least 25% of the capital of the dividend-paying company (ii) the government of Saudi Arabia, the Saudi Arabia Monetary Agency or any institution, agency or fund wholly owned by the Saudi government.
18. The 0% rate applies if the beneficial owner is (i) a company (other than a partnership) which holds directly at least 10% of the capital in the dividend-paying company (ii) a pension scheme or (iii) the Central Bank.
19. The 5% rate applies if the beneficial owner is a company which holds directly at least 70% of the voting power in the dividend-paying company.

ISLE OF MAN

MEMBER FIRM

City	Name	Contact Information
PKFI	Stefaan De Ceulaer	+44 203 691 2511 stefaan.deceulaer@pkf.com

BASIC FACTS

Full name:	Isle of Man
Capital:	Douglas
Main languages:	English
Population:	84,573 (2017 estimate)
Monetary unit:	British Pound (GBP)
Internet domain:	.im
Int. dialling code:	+44

KEY TAX POINTS

- Companies resident in the Isle of Man (IoM) are subject to corporate income tax (CIT) on their worldwide income.
- There is no capital gains tax in the IoM and furthermore, gains are not included in ordinary taxable income.
- The VAT rules in the IoM are nearly identical to those applying in the UK. The standard VAT rate is 20% (with the exception of hotel accommodation and certain building works which are taxed at 5%).
- Double tax relief is available for foreign tax paid.
- There are no specific transfer pricing rules.
- There are no specific thin capitalisation or CFC rules.
- Income tax is payable by IoM resident individuals on their worldwide income. A non-resident is generally taxed on their IoM sourced income.

- There are no death duties, estate duties or taxes on gifts although there are potentially significant probate charges.

A. TAXES PAYABLE

COMPANY TAX

IoM resident companies are taxed in the Isle of Man on worldwide income. Non-resident companies are required to pay tax on IoM-sourced income only. A company incorporated in the IoM is automatically resident in the IoM. A company that is incorporated outside of the IoM but that is 'managed and controlled' in the IoM will also be considered IoM resident.

There are three CIT rates in the IoM. A 10% rate applies to banking businesses and companies that derive in excess of GBP 500,000 income from retail activities. A 20% rate applies to companies which derive income from IoM situs land and property. A 0% corporate income tax rate applies to most other income. Company tax returns are due one year and one day after the end of the accounting period and any tax liability is due by the same date.

CAPITAL GAINS TAX

There is no tax on capital gains in the IoM and gains are not included in ordinary taxable income.

BRANCH PROFITS TAX

IoM companies with foreign branches remain taxable on their worldwide income although relief for foreign tax paid may be available. IoM branches of foreign companies will be subject to IoM income tax on profits attributable to the branch. The rates of tax above apply to all companies, including branches of foreign companies.

VALUE ADDED TAX (VAT)

Value Added Tax is imposed at a standard rate of 20% (with the exception of hotel accommodation and certain building works which are taxed at 5%). The VAT rules are nearly identical to those applying in the UK. Both the UK and IoM form a common area for the purposes of VAT and Customs Duties and the Isle of Man is in the UK for VAT purposes.

FRINGE BENEFITS TAX

Fringe benefits tax may be payable in certain circumstances.

FATCA

The IoM signed an agreement with the United States in December 2013 to implement the Foreign Account Tax Compliance Act (FATCA). Information started to be exchanged in 2015. The IoM signed an agreement with the United Kingdom in October 2013 which implements similar reporting requirements as required by the FATCA regulations. Information under this agreement will begin to be exchanged later in 2016. The IoM signed an agreement in October 2014 in Berlin committing to implementing the Common Reporting Standard ("CRS").

LOCAL TAXES

Local rates are imposed on properties. Local authorities determine the rate.

OTHER TAXES

The IoM government also imposes customs and excise duties. For these purposes, the IoM is regarded as being part of the Customs Union. The UK and the IoM form a common area for customs duties purposes.

National Insurance contributions ("NIC") are payable by employers in the IoM. NIC rates are similar to those that apply in the UK.

FOUNDATIONS

Foundation legislation has been introduced to create a new separate legal entity which has the power to manage its own assets, arrange its own funding and can operate and be taxed in a fashion similar to a local company, incurring 0% IoM tax on all sources other than profits derived from IoM situs real estate.

B. DETERMINATION OF TAXABLE INCOME

The taxable income of a company is calculated by aggregating its taxable income and subtracting allowable expenses. Generally, to be deductible for tax purposes, expenses must be wholly and exclusively incurred for the purpose of a company's trade. Some expenses are specifically not deductible for tax purposes, e.g. depreciation.

CAPITAL ALLOWANCES

Tax relief is given for the cost of plant and machinery acquired for the purposes of a business in the form of capital allowances. Capital allowances are also available for certain industrial and agricultural buildings and tourist premises. A 100% allowance is available in the first year in which the expenditure is incurred (restricted for some motor vehicles).

CAPITAL GAINS AND LOSSES

There is no capital gains tax in the IoM.

DIVIDENDS

Dividends received by IoM resident companies are generally taxable at the 0% rate. Dividends received by IoM resident individuals are generally taxable as part of normal income.

INTEREST DEDUCTIONS

Interest paid by IoM resident companies to IoM lenders is tax deductible. Interest paid to non-IoM lenders is tax deductible if incurred wholly and exclusively for the purposes of the company's trade. There are no thin capitalisation rules in the IoM. The IoM has anti-avoidance provisions which may be in point where interest is incurred purely to mitigate IoM tax.

LOSSES

Trading losses can be carried forward indefinitely provided a continuity of business test is satisfied. There are also provisions for loss relief within groups of companies (see below). Losses can be set off against total income in the year of loss or in the previous year.

FOREIGN SOURCE INCOME

The IoM does not have CFC legislation. The IoM does however have general anti-avoidance legislation which may be enacted, generally, if it is deemed that the main purpose of contrived arrangements is to avoid IoM taxation.

C. FOREIGN TAX RELIEF

Double tax relief is available for foreign tax paid. A company may offset any foreign tax paid against IoM tax payable to avoid double taxation. Where the income is received from the UK, relief may be available under the UK-IoM Double Tax agreement. There are double taxation agreements, of varying complexity and scope, with the following countries:

Australia	Bahrain	Belgium
Denmark	Estonia	Faroe Islands
Finland	Greenland	Guernsey
Iceland	Ireland	Jersey
Luxembourg	Malta	New Zealand
Norway	Poland	Qatar
Seychelles	Singapore	Slovenia
Sweden	UK	

The IoM also has Tax Information Exchange Agreements (TIEAs) currently in force with the following countries:

Argentina	Australia	Botswana
British Virgin Islands	Canada	Cayman Islands
China	Czech Republic	Denmark
Faroe Islands	Finland	France
Germany	Greenland	Iceland
India	Ireland	Italy
Japan	Lesotho	Mexico
Netherlands	New Zealand	Norway
Poland	Portugal	Romania
Slovenia	Sweden	Switzerland
Turkey	Turks and Caicos	United Kingdom
United States of America		

D. CORPORATE GROUPS

Trading losses in one IoM resident company may be surrendered to another IoM company within the same group. Two companies are members of a group if one is at least a 75% subsidiary of the other or both are at least 75% subsidiaries of a third company. Consolidated tax returns cannot be submitted.

E. RELATED PARTY TRANSACTIONS

The IoM does not have any specific transfer pricing rules. However, as noted above, where expenditure has not been incurred wholly and exclusively for the purposes of a company's trade, a tax deduction may not be available.

F. WITHHOLDING TAX

A company may, in certain circumstances, be required to withhold tax from payments it makes to non-resident companies or individuals. An IoM company is generally not required to withhold tax on amounts paid to non-resident companies or individuals. The exceptions to this are where the income payable to a non-resident company or individual represents rent from IoM property, in which case 20% withholding tax is deducted, or if the income relates to certain types of IoM sourced income payable to a non-resident individual, in which case 20% withholding tax is deducted.

G. EXCHANGE CONTROL

There are no exchange control rules in the IOM.

H. PERSONAL TAX

IoM resident individuals are subject to income tax on their worldwide income. Non-resident individuals are taxed on their IoM-sourced income, excluding income from approved financial institutions and most sources of income from IoM companies. Generally speaking, an individual is regarded as a resident in the IoM if he spends an aggregate of six months in any tax year in the IoM. In addition, an individual who visits the IoM over four or more consecutive years for an average of three months in each year will also be considered an IoM resident.

Income tax is assessable on income less any allowable deductions. The rules for allowable deductions in respect to individuals engaged in a trade are similar to those for companies. An individual may claim tax deductions, at various tax rates depending on individual circumstances, for certain expenditure subject to relevant caps and tax rate restrictions. Examples include contributions to approved pension schemes, interest paid to an IoM lender, nursing expenses and private medical insurance payments (made by taxpayers aged over 60).

Income tax and NIC are normally deducted at source by an individual's employer under the Income Tax Instalment Payments (ITIP). All individuals are required to complete an income tax return. The tax year for income tax purposes runs from 6 April – 5 April. Any outstanding income tax liability must be settled by 6 January following the end of the tax year. A payment on account may also need to be settled on this date in respect to the following years anticipated tax liability. This might be the case if the majority of an individual's

tax liability is not collected under the ITIP system for example if an individual was self-employed.

Spouses are taxed as separate individuals, unless the couple elect to be assessed jointly. If a joint assessment is made then a couple will be assessed on their combined taxable income. Where, immediately prior to 6 April 2006, a couple were jointly assessed, they will be deemed to have made the election to continue to be jointly assessed.

The tax rates are as follows:

Taxable income (GBP)	Rate (%)
0 – 6,500 (GBP 12,500 for jointly assessed couples	10% (standard rate)
Above 6,500 (GBP 12,500 for jointly assessed couples	20% (higher rate)

IoM resident individuals are entitled to a personal allowance. The current personal allowance amount is:

- Single person: GBP 13,250
- Married couple, jointly elected: GBP 26,500

An IoM resident individual is able to make a five year irrevocable election in order to take advantage of the IoM 'tax cap'. If an election is made then an individual's income tax liability will be capped at GBP 150,000. This cap is doubled if a couple is jointly assessed. There is no tax in the IoM on gifts and no inheritance tax liability for the estates of IoM resident individuals.

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BENEFITS

Exempt benefits include:

- General benefits which do not exceed GBP 400;
- Approved Profit Sharing or Savings Related Share Options Schemes;
- Car Parking space at or near place of work;
- Medical/dental insurance;
- Christmas party expenses up to GBP 100 per head;
- Provision of a personal computer for use at home up to benefit value of GBP 1,000;
- Nursery or crèche facility expenses necessary for employees to attend work.

TAXATION OF NON-RESIDENT INDIVIDUALS

Non-residents are subject to IoM income tax on IoM sourced income. Non-residents are not entitled to a personal allowance.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	0	0	0	0
Individuals	0	n/a	0/20	20
Treaty countries:				
Bahrain	0	0	0	0
Estonia	0	0	0	0
Guernsey	0	0	0	0
Jersey	0	0	0	0
Luxembourg	15	5[1]	0	0
Malta	0	0	0	0

Qatar	0	0	0	5
Seychelles	0	0	0	5
Singapore	0	0	12	8

Notes:

1. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends.

ISRAEL

MEMBER FIRM

City	Name	Contact Information
Ramat-gan	Haim Halfon	+972 361 239 39 haim@ahcpa.co.il

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BASIC FACTS

Full name:	State of Israel
Capital:	Jerusalem
Main languages:	Hebrew, Arabic
Population:	8.43 million (2018 estimate)
Monetary unit:	Israeli New Shekel (ILS)
Internet domain:	.il
Int. dialling code:	+972

KEY TAX POINTS

- Israeli resident companies are liable to Israeli taxes on their worldwide income and capital gains. A non-resident company is only liable to Israeli tax on income sourced in Israel.
- VAT is charged at a rate of 17% on the supply of goods and services by Israeli business entities.
- Withholding taxes are deducted from payments of interest, dividends and royalties made to non-residents, subject to double tax treaty arrangements.
- Income tax is payable by Israeli-resident individuals on income derived from all sources, including passive income and all income derived or paid from overseas sources.

A. TAXES PAYABLE

COMPANY TAX - ORDINARY INCOME

Israeli resident companies are liable to Israeli taxes on their worldwide income and capital gains. A non-resident company is only liable to Israeli tax on income sourced in Israel. A company resident in Israel is one that is incorporated in Israel or managed and controlled in Israel. The corporate tax rate in Israel is 23%.

The financial year runs from 1 January to 31 December. A company must normally submit tax returns within six months of the end of its accounting period. This period may be extended for up to 14 months. Companies must make monthly advance tax payments of company tax, based on the previous year's tax liability. In addition, monthly payments must be made within 15 days of the month's end at the rate of 45% in respect of certain expenses, which are not allowable for tax purposes, such as excessive travel and entertaining costs. Where the company has taxable income, such payments are treated as advanced payments.

CAPITAL GAINS TAX

Capital gains are divided into two elements. That part of the gain which is inflationary by nature is taxable at

the rate of 10% in respect of the inflationary gain which was earned up to 31 December 1993 and at a 0% rate thereafter. The real gain is taxable at the corporate tax rate. Non-resident companies are liable to Israeli tax on capital gains derived in Israel. Foreign residents have the option of having the real gain calculated by reference to changes in the exchange rate of the foreign currency as related to the Israeli currency.

BRANCH PROFIT TAX

There is no branch profit tax in Israel i.e. profits of an Israeli branch of a foreign company can be distributed to the foreign country (after paying Israeli tax on the profit itself) free of withholding tax on the distribution.

VALUE ADDED TAX (VAT)

VAT is charged at a rate of 17% on the supply of goods and services by Israeli business entities. The export of goods and certain services from Israel is zero-rated.

FRINGE BENEFITS TAX (FBT)

There is no separate fringe benefits tax in Israel. Fringe benefits are included in the employee's gross income and are taxed as salary.

LOCAL AND OTHER TAXES:

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PURCHASE TAX

Purchase tax is payable on the purchase of real estate at 6%. A purchase tax ranging from 0% to 10% is payable if the building is a residential apartment.

NATIONAL INSURANCE (SOCIAL SECURITY)

Employers are required to pay a National Insurance premium as well as payments in respect of health insurance. These payments amount to 19.50% of salaries. Of this amount, 12% is recoverable from employees. The monthly ceiling up to which salary payments are levied on is five times the average salary (ILS 43,370) effective from 1 January 2018 and relates to both employees and the self-employed. Dividend income is exempt from the social security payment.

MUNICIPAL RATES

Municipal Rates are levied by local authorities. The government decides the maximum rate of increase. The local councils set their own rates accordingly based on square meters of occupied real estate.

LAND BETTERMENT TAX

Tax on land betterment accrued until 7 November 2001 is set at the marginal rates of up to 46% for individuals and up to 25% for companies. Tax on land betterment accrued after 7 November 2001 till 31 December 2011 is set at the rates of 20% for individuals and 25% for companies.

Tax on land betterment accrued after 1 January 2012 till 31 December 2013 is set at the rates of 25% for individuals and 25% for companies. Tax on land betterment accrued after 1 January 2014 is set at the rates of 25% for individuals and 26.5% for companies. Tax on land betterment accrued after 1 January 2015 is set at the rates of 25% for individuals and 25% for companies. Tax on land betterment accrued after 1 January 2017 is set at the rates of 25% for individuals and 24% for companies. Tax on land betterment accrued after 1 January 2018 is set at the rates of 25% for individuals and 23% for companies. Those rates are calculated in proportion to the period from the date of acquisition of the asset to the date of disposal.

The sale of residential real estate by individuals is exempt from this tax if certain conditions are met.

ESTATE TAX

At present there is no estate tax in Israel.

B. DETERMINATION OF TAXABLE INCOME

Taxable income is generally based on income reported in the financial statements subject to adjustments as indicated in the tax law. Special regulations apply in respect of the matters referred to below.

DEPRECIATION

Deduction for the depreciation of assets that are used by a company are inflation-adjusted and calculated normally on the straight-line basis at the following annual rates:

Nature of Asset	Rate (%)
Plant and machinery of an industrial company	20 – 40
Other plant and machinery	7 – 10
Electronic equipment	15
Furniture and office equipment	6 – 7
Furniture and office equipment (restaurants and hotels)	9 – 12
Computers and software	25 – 33
Trucks and commercial vehicles	20
Cars	15
Patents and know how	12.5
Research and development expenditure	33 – 100

Accelerated depreciation up to 200% can be claimed on equipment used in production activities, if certain conditions are met.

INVENTORY

Inventory is valued using the FIFO or weighted average methods (LIFO is not a permissible alternative).

DIVIDENDS

Dividends received by an Israeli company from another Israeli company are exempt from company tax, except where the income (out of which the dividend is paid) is from a foreign source. Dividends received from an approved enterprise (see 'Incentives' below) are subject to 15% company tax. Dividends received from non-resident companies are fully liable to company tax at the rate of 25%. Dividends paid to a non-resident shareholder are subject to withholding tax of 25% unless a lower rate is provided for within the framework of a double tax treaty.

Dividends paid after 1 January 2012 to Israeli or foreign individuals and foreign companies are subject to withholding tax of 25% (until 31 December 2011 - 20%). However, dividends paid after 1 January 2012 to major shareholders (holdings of 10% and above) are subject to withholding tax of 30% (until 31 December 2011 - 25%). Dividends paid after 1 January 2017 till September 30 2017 to major shareholders are subject to withholding tax of 25% if certain conditions are met. These rates may be reduced according to the terms of the relevant tax treaty. With effect from 1 January 2003, taxes paid on foreign income, including both company tax and dividend withholding tax can be set off against taxes payable in Israel in specific cases.

INTEREST DEDUCTIONS

Interest is normally deductible on an accrual basis. However, interest payable to a non-resident is effectively deductible only when payment is effected since a deduction may only be taken if tax has been withheld at source from the interest payment within three months of the end of the company's accounting period. There is no curtailment of deductible interest by reference to debt/equity ratios.

LOSSES

Trading losses may be set off against all categories of income and capital gains in the same accounting period. Unutilised losses may be carried forward indefinitely against future income and capital gains which result from the business from any trade or business carried on by the company but not against income or gains from any other source. Generally, carry forward of losses may be denied where there has been a change in the control of the company and one of the purposes of the change is tax avoidance. Losses may not be carried back. Losses incurred abroad are allowed as a deduction from Israeli income (conditions apply).

FOREIGN SOURCED INCOME – CFC TAX

For entities controlled by Israeli residents, CFC tax is payable in Israel at the rate of 25% if the following conditions apply:

1) The source of income of the foreign corporation is passive (interest, dividends, royalties, rentals, etc.);
2) The foreign corporation has paid tax in a 'low tax territory' (less than 20%);
3) Israeli residents control more than 50% (in certain circumstances more than 40%) of the shares in the foreign corporation or have the right to influence certain management decisions.

PARTICIPATION EXEMPTION

In Israel, in most cases, there is no participation exemption. However, an Israeli holding company, subject to specific conditions, is exempt from tax on dividends received from foreign subsidiaries; from capital gains tax on the sale of such subsidiaries; and from interest on deposits made in Israel by the subsidiaries. Foreign shareholders benefit from a reduced withholding tax of 5% on dividends distributed by the holding company. An Israeli shareholder will pay between 25% to 30% withholding tax on dividends distributed.

OTHER INCENTIVES

There are various other incentives available such as employment incentives; international trading company incentives; the construction of dwellings for rental; research and development (R&D) where bi-national funds have been established to promote joint ventures; tourism industry schemes; and incentive training programs with the granting of loans for the encouragement of small businesses.

The Law for the Encouragement of Capital Investment established a management body to grant benefits for tourist attractions and the creation of a tourist investment board. There are also benefits in the field of renewable energy. The Israeli government has signed research and development co-operation agreements with the United States, Canada, the European Union and some countries in Asia. A government Seed Fund has been established to encourage investment in start-up companies by matching the capital of investors. Special 'Free Trade Zones' have been established with major tax benefits including exemption from VAT, lower tax rates and exemption from property tax.

INCENTIVES

In order to encourage both local and foreign investment, Israel grants a number of significant tax incentives which have the effect of eliminating or substantially reducing the tax rate for companies. These incentives are known as incentives for "approved enterprises". These incentives are included in the Encouragement of Capital Investments Law. In 2011 new amendments were published regarding the Encouragement of Capital Investments Law. The amended law is effective as of 1 January 2011.

1) According to the amended law the incentives will be given by two geographical zones:
   (i.) Zone A (as defined in the "zone map" which is in force until the end of 2012, generally defined as periphery regions that are distant from the centre of Israel. The "zone map" for 2013 and onwards is yet to be determined);
   (ii.) The rest of the country;
2) An "Industrial Enterprise" that meets the requirements of section 18A of the Law is entitled to a reduced corporate income tax rate, in respect of income generated from 2011 onwards, although a minimum of 25% of the company's total turnover must be generated from exports;
3) The tax benefits are not time limited, meaning that any industrial company which exports 25% of its total turnover is eligible for the reduced tax rates for as long as it meets the above criteria. However there are no benefits guaranteed for the years to come and it could be altered by new legislation;
4) The tax benefits are applicable in relation to the enterprise's total turnover. The reduced corporate income tax rates are 9% for companies in Zone A and 16% for the rest of Israel;
5) An Industrial Enterprise, only if located in zone A, is entitled to a grant when filing a comprehensive investment plan, which fulfils the legislative intent. A qualified investment may include investments in human capital and other investments which meet the legislative intent of the amended law;
6) The grant is expected to be set at 20% of the company's investment, with an option for an additional 4% of administrative grant. A company defined by the Israeli Investment Centre (IIC) as a ”Big Company"

will be entitled to a grant no larger than ILS 20 million (20% of an ILS 100 million investment plan), while others will be entitled to a grant no larger than ILS 6 million (20% of an ILS 30 million investment plan);

7) A company is able to enjoy both the grants track and the tax benefits track, under the condition of being located in zone A;

8) Dividends distributed to Israeli and non-Israeli residents (companies and individuals) would be subject to a 15% withholding tax or to a reduced tax rate according to the relevant tax treaty's provisions;

9) There are transitional provisions for companies with plans under the previous law provisions.

RESEARCH AND DEVELOPMENT (R&D) INCENTIVES

The Office of the Chief Scientist at the ministry of industry, trade and labour is responsible for implementing the government's policy of encouraging and supporting industrial research and development in Israel. This office provides a variety of support programs which have helped to make Israel a major centre of hi-tech entrepreneurship. The R&D Fund offers grants of between 20% and 50% for approved projects. If the project is commercially successful, the company is under an obligation to repay the grant through royalty payments. Grants of up to 90% of the costs are available for biotechnology research and up to 85% for technological incubators.

C. FOREIGN TAX RELIEF

Foreign tax credits are given to Israeli-resident companies in respect of foreign taxes borne on overseas-sourced income and capital gains. There is no system of 'global' foreign tax credits. Each foreign source is treated as separate for the purpose of the consideration of credits. With effect from 1 January 2003, an Israeli company is allowed to deduct the tax paid on foreign company profits and also the withholding tax paid on dividends from taxes payable, provided it holds directly at least 25% (or at least 50% indirectly) of the shares in the foreign company.

D. CORPORATE GROUPS

In general, there is no consolidation of profits and losses of a group of Israeli companies for tax purposes. However, consolidated tax returns may be filed for a group of industrial companies meeting certain criteria.

E. RELATED PARTY

The tax assessing officer has powers to impose at arm's length prices on arrangements between related parties. Market value can be determined by a prior ruling from the tax authorities. In November 2006, new legislation was introduced relating to 'transfer pricing' for multi-national groups with effect from the 2007 tax year.

F. WITHHOLDING TAX

Withholding taxes are deducted from payments of interest, dividends and royalties made to non-residents, subject to double tax treaty arrangements. See section ‘I’ below for treaty and non-treaty rates.

G. EXCHANGE CONTROL

There are no exchange controls in Israel and foreign currency can be freely transferred in and out of the country.

H. PERSONAL TAX

Income tax is payable by Israeli-resident individuals on income derived from all sources, including passive income and all income derived or paid from overseas sources. Non-resident individuals are only liable to income tax on Israeli-sourced income. Factors determining residence include the situation of family, business and social activities. For information regarding the tax rates see below.

Rental income is taxed in the hands of an individual at rates of 10% or 15%, with no allowance for the deduction of expenses, depending on whether the property is situated in or out of Israel (This does not include commercial rentals). Individuals can choose to pay normal taxes on rental income and then can claim deductions (financial expenses, maintenance and other expenses relating to the property) against the rental income. The tax rate on the net income will be the marginal rate of the individual.

Rental income of residential apartments in the hands of an individual is exempt up to ILS 5,010 per month. Interest income is taxed in the hands of an individual at rates between 15% to individual marginal rate depending on circumstances. Exemptions are provided for low income earners. Capital gains are taxed in the hands of an individual at rates of 25%.

TAX RELIEF FOR NEW AND RETURNING RESIDENTS

A major tax reform for new and returning residents has been retroactively in force from January 2007.

There has been a change in the definition of "foreign resident". Individuals who leave Israel will only lose their Israeli residency status if they are outside of Israel for at least 183 days each year during two consecutive tax years and their primary residence is outside of Israel for a further two years. A senior returning resident is defined as an individual who returns to Israel to reside after being a foreign resident for at least five consecutive years if they return to Israel in the tax years 2007 through 2009, or at least 10 consecutive years if they return to Israel after 2009.

SUMMARY OF BENEFITS

Details	Benefit for new resident and senior returning resident
Passive income-exemption from foreign assets purchased before becoming Israeli resident	10 years exemption
Exemptions from foreign business income and foreign salary	10 years exemption
Foreign companies that are managed and controlled from Israel, CFC, or foreign professional company	Those companies will be considered as foreign for 10 years
Foreign allowances and pensions	10 years exemption
Capital gain exemption	10 years
Tax return	No need to submit a tax return on the exempt income.

OTHER

No tax is payable on income arising outside of Israel and received by non-residents who are in the country temporarily, who do not intend to establish a place of residence and who have not resided in Israel for periods totalling six months in the tax year. 'Approved specialists' are foreign experts whose status is granted by the Investment Centre where no Israeli resident could perform the job or possess the necessary skills to do so. Approved specialists are liable to a maximum tax rate of 25% on their income for a period of three tax years, with a possible extension for a further five years. The rates of tax on monthly taxable income of individuals as of January 2016 are:

Monthly Income (ILS)	Rate (%)
0 - 6,220	10
6,221 - 8,920	14
8,921 - 14,320	20
14,321 - 19,900	31
19,901 - 41,410	35
41,411 - 53,333	47
Over 53,334	50

The above rates relate to income from employment, trading or profession.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)	Interest[1] (%)	Royalties (%)
Non-treaty countries:	20/25	0/25	25
Treaty countries:			
Austria	25	15	0/10[2]
Belarus	10	5/10[3]	5/10
Belgium	15	15	0/10
Brazil	10/15	15	10/15[4]
Bulgaria	7.5/12.5	5/10	7.5/12.5
Canada	15	15	0/15
China	10	7/10	10
Croatia	5/10/15	5/10	5
Czech Republic	5/15	10	5
Denmark	0/10	5	0
Estonia	0/5[10]	5	0
Ethiopia	5/10/15	5/10	5
Finland	5/15	10	10
France	5/10/15	5/10	0/10
Georgia	0/5	5	0
Germany	25	15	0/5
Greece	Domestic[5]	10	10
Hungary	5/15	0	0
India	10	10	10
Ireland	10	5/10	10
Italy	10/15	10	0/10
Jamaica	15/22.5	15	10
Japan	5/15	10	10
Korea	5/10/15	7.5/10	2/5
Latvia	5/10/15	5/10	5
Lithuania	5/10/15	10	5/10[6]
Luxembourg	5/10/15	5/10	5
Mexico	5/10	10	10
Moldova	5/10	5	5
Netherlands	5/10/15	10/15	5/10
Norway	25	25	10
Philippines	10/15	10	15
Poland	5/10	5	5/10
Portugal	5/10/15	10	10
Romania	15	5/10	10

Russia	10	10	10
Singapore	5/10	7	0
Slovak Republic	5/10	2/5/10	5
Slovenia	5/10/15	0/5	5
South Africa	25	25	0/15
Spain	10	5/10	5/7
Sweden	0	25	0[7]
Switzerland	5/10/15	5/10	5
Taiwan	10	7/10	10
Thailand	10/15	10/15	5/15
Turkey	10	10	10
Ukraine	5/10/15	5/10	10
United Kingdom	15	15	0/15
United States	12.5/25	10/17.5	10/15[8]
Uzbekistan	10	10	5/10[9]
Vietnam	10	10	5/15

Notes:

1. Many treaties provide for an exemption of certain types of interest, e.g. interest paid to public bodies and institutions. Such exemptions are not considered in this column.
2. The lower rate applies depending on the type of royalties. Normally, royalties other than film royalties are subject to the lower rate.
3. The lower rate applies to interest payable to a bank or a financial institution.
4. The higher rate applies to royalties from trademarks.
5. The domestic withholding tax applies.
6. The lower rate applies to royalties for industrial or scientific equipment.
7. Film and natural resource royalties are not exempt; however, no specific rate is provided under the treaty.
8. The lower rate applies to copyright and film royalties.
9. The lower rate applies to copyright royalties (excluding film royalties).
10. The rate applies if (i) the Estonian company owns directly at least 10% of the capital in the Israeli company, or (i) dividends are paid to the government of the other state, a local authority or the central bank, or to a pension fund or other similar institution providing pension schemes in which individuals may participate, subject to further conditions.

Please note that a substantial tax reform was approved by the Israeli parliament in December 2011 and part of the final legislation was not completed. The information above reflects the expected changes in the final version of the legislation.

ITALY

MEMBER FIRM

City	Name	Contact Information
Milan / Rome	Marco Giuliani	+39 02 4398 1751 mgiuliani@mgpstudio.it

Milan / Rome	Guido Pignanelli	+39 02 4398 1751 gpignanelli@mgpstudio.it
Milan / Genoa	Stefano Quaglia	+39 02 928 5426 (Milan) +39 10 81 83 250 (Genoa) stefano.quaglia@tclsquare.com
Bologna	Federica Godoli	+39 051 232 450 fgodoli@studiogodoli.it

BASIC FACTS

Full name:	Italian Republic
Capital:	Rome
Main languages:	Italian
Population:	59.3 million (2018 estimate)
Monetary unit:	1 Euro (EUR) = 100 cents
Internet domain:	.it
Int. dialling code:	+39

KEY TAX POINTS

- All resident companies are subject to corporate income tax (IRES) on income from any source, whether earned in Italy or abroad. Non-resident companies are subject to IRES only on income earned in Italy. Both resident and non-resident companies are subject to regional income tax (IRAP) on income arising in Italy.
- Capital gains realised by a company are generally taxable as normal business income subject to IRES and IRAP, albeit certain reliefs may apply as per next paragraph description.
- Italian tax law includes a comprehensive set of rules on controlled foreign companies (CFC).
- VAT is levied on transfers of goods and services by enterprises, in the course of their business or professions within Italy, and on all imports into Italy.
- Foreign taxes may generally be credited against the Italian IRES tax liability, provided an equivalent clause exists in the territory from which the income derives.
- Transactions with foreign affiliated companies are closely scrutinised in order to determine whether transfer prices are at arm's length.
- Domestic companies making certain types of payments (e.g. interests, royalties, professional fees etc.) are required to withhold taxes at various rates.
- Resident individuals are subject to a personal income tax (IRPEF) on their worldwide income. Individuals carrying on a business or profession and/or partnerships are liable to IRAP which is not deductible from IRPEF. Non-residents individuals are subject to tax only on their Italian source income.
- There is no wealth tax in Italy. Gift and inheritance tax applies at rates dependent on the relationship that the person receiving the gift or inheritance has with the donor/testator.

A. TAXES PAYABLE

NEW KINDS OF INCORPORATIONS PROVIDED BY LAW

LIMITED LIABILITY COMPANIES

The so-called "limited liability companies with reduced equity", introduced in 2012, have been abolished. Those previously incorporated were automatically converted into "simplified limited liability companies". The maximum age limit of 35, previously established for shareholders of a simplified limited liability company, was eliminated: therefore, individuals of any age may now have a participation in the share capital of an SLLC. Furthermore:

- The directors do not necessarily have to be shareholders;

- The share capital must be between EUR 1 and EUR 9,999 and can only consist of cash which has to be paid in full to the Directors at the Incorporation Deed.

The Articles of Association must be drafted in accordance with a template approved by the Ministry of Justice, whose clauses cannot be amended.

As far as "ordinary" limited liability companies are concerned, 25% of the share capital contribution must be paid in cash to the directors, instead of to the bank as previously foreseen. The share capital can be less than EUR 10,000 but at least EUR 1. Furthermore, a sum equal to one fifth of the net profits resulting from the financial statements for each financial year must be assigned to the legal reserve until the company's equity reaches EUR 10,000. The reserve can only be used to increase the share capital or to cover any losses and it must be reinstated if, for any reason, it is has been reduced. The Articles of Association do not need to be drafted according to the above mentioned template that is only required for simplified limited liability companies.

INNOVATIVE START-UP COMPANIES

Some (but not all) requirements to be met by new and existing (by no longer than 5 years, as recently modified by Law Decree 24/2015) companies to be considered "innovative start-up companies" are the following:

- Their shares must have been owned by individuals for at least 24 months;
- The registered office is in Italy;
- The purpose of the Company is the development, production and sale of goods and/or services with high level technology.

The benefits of being such a company include:

- Exemption from the payment of both stamp and annual duties to the Companies House;
- Particular tax concessions concerning employment contracts and in terms of corporate laws.

FEDERAL TAXES AND LEVIES:
COMPANY TAX

As a rule, corporate income tax is payable by all resident companies on income from any source, whether earned in Italy or abroad. Non-resident companies are subject to corporate income tax (IRES) only on income earned in Italy. Starting from 1 January 2017, IRES is charged at 24% (reduced from the former 27.5%) and 27.5% for banks and financial institutions. Companies are also subject to a regional tax on productive activities (IRAP) at the rate of 3.9% but interest expenses are not deductible for IRAP purposes. The rate of IRAP is fixed at 3.9% for ordinary companies, 4.65% for banks and 5.9% for insurance companies. Since 2015 the cost of employees hired for an unlimited period has become deductible for IRAP purposes.

Company tax returns, which cover both IRES and IRAP, must be filed electronically within nine months of the statutory year end. With respect to tax year 2017, for entities whose tax year overlaps the calendar year the previous deadline is postponed to 31 October 2018. An advance tax payment is due by the 30th day of the sixth month of the accounting period equal to 40% of the previous year's income tax liability. A second advance payment of 60% is due by the end of the eleventh month of the company's financial year.

Any remaining amount would be due by the 30th day of the sixth month after the end of the period. For income tax purposes the company can choose either a calendar or a fiscal year. For VAT and withholding tax purposes, the calendar year always applies.

BRANCH PROFIT TAX

Italian branch profits of foreign companies are fully liable to IRES and IRAP. Starting from 2016, Italian companies having a branch in a foreign country may opt for a branch exemption regime instead of the general “tax credit” regime. The branch exemption regime allows to tax the branch’s profit only in the foreign country where the PE is established and according of its tax rules. The option is irrevocable and must be applied to all the branches of the Italian company.

There is no branch remittance tax in Italy.

FISCALLY TRANSPARENT COMPANIES

Italian limited liability and joint stock companies may opt for this regime and be treated as fiscally transparent companies. In order to qualify for this treatment, joint stock companies must hold between 10% and 50% of the voting rights in another Italian company for a continuous 12-month period, whereas Italian limited liability

companies must have a total gross income not exceeding EUR 7.5 million and be owned by a maximum of 10 private shareholders. Non-resident companies (regardless of their legal form) may also opt for such a regime only if entitled to apply the EU Parent-Subsidiary Directive to the dividends paid by the Italian controlled company.

Under the above regime, the 'transparent' company is not taxed on its own income for corporate income tax purposes. Income produced by its subsidiaries is directly allocated to the parent company according to its percentage of ownership, whether or not these profits have been remitted to it by way of dividend. The election is irrevocable for three years and must be communicated to the Tax Authorities.

CONTROLLED FOREIGN COMPANIES

Italian tax law includes a comprehensive set of rules on controlled foreign companies (CFC). These rules are aimed at avoiding hiving off income from foreign subsidiaries located in certain low tax jurisdictions. Law no.208/2015 defined tax havens as all jurisdictions (other than an EU or EEA country that has concluded an exchange of information agreement with Italy) having a nominal corporate income tax rate lower than 50% of the Italian tax rate. The profits earned by a CFC located in a tax haven country have to be imputed to the Italian resident parent company/individual regardless of any dividend distribution.

The CFC rule is also applied to entities domiciled for tax purposes in EU and EEA jurisdictions if their effective rate of taxation is lower than 50% of the effective Italian tax rate, which would be applied if they were resident in Italy, and if they have more than 50% of passive income (i.e. interests, royalties, dividends). Application of the rule may be avoided by filing a tax ruling proving that the foreign entity does not represent an artificial structure unduly aimed at achieving a tax benefit. To escape the CFC rule, one of the following exceptions must be met:

(1) Market Link
The business of the CFC is mainly derived from local customers or suppliers.

(2) Adequate level of CFC taxation
If the Italian company can prove that it has not used the CFC to hive off its profits into a tax haven territory.

CAPITAL GAINS

Capital gains realised by the company are generally taxable as ordinary business income subject to IRES and IRAP and capital losses are generally deductible. Tax on gains realised on disposal of fixed assets may be spread over five years if owned for more than three years. Capital gains on assets owned for less than three years are taxed in the year in which they are realised. Capital gains arising from stock transfers are 95% exempt, under specific conditions, where they relate to financial assets owned for an uninterrupted period of at least 12 months (participation exemption rule).

FRINGE BENEFITS

Fringe benefits are included in the taxpayer's total aggregated income.

MINIMUM TAXABLE INCOME

Until FY 2017, companies with an annual turnover lower than EUR 7.5 million were subject to an automatic evaluation in accordance with the so-called Sector Studies (‘Studi di Settore'). This was to determine whether the company's income was higher than that stated in the tax return but it was not sufficient for assessing a higher taxable base. Any amended assessment must be based on concrete evidence. For income related to 2011 onwards, any taxpayer (individual, partnership or company) not consistent and not congruent with Sector Studies, is liable to a new and more stringent tax investigation procedure, carried out by the tax authorities. Starting from FY 2017, Sector Studies have been abolished and replaced by certain Compliance Indicators in order to determine a sort of reliability degree of the taxpayer.

NON-OPERATING OR DORMANT COMPANIES

Such companies are subject to a minimum tax charge as far as IRES and IRAP are concerned. The company must declare an income for the tax period which cannot be lower than the amounts calculated by multiplying percentages to certain balance sheet items (estimated figure). If this amount is higher than the taxable income declared then the company is taxed on this higher amount. Furthermore, a VAT receivable is not refunded if these non-operating circumstances persist for five years as recently modified by law 23/2014. A company is considered dormant also if:

(a) It has made a loss for five consecutive fiscal periods; or

(b) It has made a loss for four fiscal periods and, in the next, has a taxable income lower than that estimated.

Moreover, any company considered dormant is subject to an additional 10.5% tax (which gives an overall corporate taxation of 34.5%).

VALUE ADDED TAX (VAT)

VAT is levied on transfers of goods and services by enterprises or professionals in the course of their business within Italy and on all imports. Items exported or destined for export are not subject to VAT. Since October 2013, the standard VAT rate increased to 22%. Other rates applied, as at today, are 4%, 5% and 10%. A specific VAT regime applies to real estate transactions. The standard rate might increase again, depending on whether or not the Government will be adopting certain specific laws concerning the Public Budget.

As an alternative to the nomination of a VAT representative (which remains the only procedure allowed by extra-EU companies), non-resident EU companies can apply for a "Direct VAT Identification". This enables the non-resident to settle any VAT payment directly in Italy or claim back any VAT credit. The direct VAT identification procedure is intended to facilitate the payment of Italian VAT liabilities by the non-resident. This procedure was discontinued with effect from 25 September 2009 in cases where a non-resident EU company has a permanent establishment in Italy.

The basic "place of supply" rule for supplies of services to "VAT registered persons" is that such supplies are deemed to be made where the customer is established and the related VAT is due in accordance with the so-called "reverse charge" procedure. Services subject to reverse charges also have to be included on Intrastat forms, subject to some exceptions. Periodic returns must be filed on a monthly or quarterly basis, depending on the company's turnover. A yearly return must be filed by 30 April of the following year. Starting from 2017, a group of companies, under certain conditions, may apply for a VAT Group in order to be considered as a unique taxpayer for VAT purposes.

TAX CLAIMS

The taxpayer has the right to seek recourse against assessments and undue payment demands, etc. by appealing to the tax courts through three ranks of justice. The tax assessment can be settled by paying a lower penalty before appealing to the Tax Court.

IVIE (TAX ON REAL ESTATE OUTSIDE ITALY)

Starting from fiscal year 2012 Italian and non-Italian citizens who are tax residents in Italy and own properties located outside of Italy will be subject to IVIE. This tax is calculated by applying:

A rate of 0.76% to:

(a) The cadastral value as normally calculated in the country where the real estate is situated;

(a) The cost of the real estate, as indicated in the Purchase Deed or in the contract(s); or

(a) The fair value that can be assigned to the property in the Country where the real estate is situated.

A rate of 0.40% to:

(a) Properties located abroad that are utilised as a principal residence where a lump-sum deduction of EUR 200 is applicable to the tax burden computed by applying the 0.40% rate.

The value mentioned at a) above can only be used for taxation purposes for estates located in EEA member states. The tax is calculated proportionally to the effective month and percentage of possession. It is only due for payment if the tax burden is higher than EUR 200. Any property tax paid in the country where the real estate is located can be offset against IVIE. Taxpayers may also deduct the income tax payable on properties located in EEA member states.

The Italian Tax Agency has published the Circular 28/2012 listing and distinguishing which Country applies the abovementioned letter a) and letter b). The deadline for paying this tax coincides with the Income Tax payment deadline.

IVAFE (TAX ON FOREIGN FINANCIAL INSTRUMENTS, BANK ACCOUNTS)

IVAFE is a tax introduced in 2011 on foreign financial assets on the possession of financial products, bank accounts and passbooks owned abroad by Italian resident taxpayers. It is applied on the assets' value at a rate of 0.1% for 2011 and 2012, which increased to 0.15% at the beginning of 2013 and to 0.2% starting from 2014. To avoid double taxation, a deduction is allowed for any "wealth" tax paid abroad on the same assets.

LOCAL TAXES

REAL ESTATE TAX (IMU)

Real estate tax (IMU) is currently payable annually in two instalments (June and December) on the value of real estate property owned by companies as well as individuals. It has a variable rate ranging from 0.4% to 1.06% of the property value, depending on each county council's assessment. IMU is no longer charged on the principal place of abode owned by any taxpayer, unless it is classified as being luxurious for fiscal purposes within special cadastral categories. Moreover, IMU is no longer charged on rural buildings considered instrumental.

Both self-employed VAT registered individuals and companies are allowed to deduct 20% of the IMU paid during the fiscal year on instrumental premises. The deduction in question is only applicable on the computation of corporate tax but it is not applicable when calculating the IRAP burden for the year.

TARI AND TASI

TARI is due for waste collection. TASI is a tax on general services provided by Italian municipalities. TASI's taxable base corresponds to the IMU's one: a rate between 1 and 3.3 per thousand is applicable.

In any case, IMU summed up together with TASI cannot exceed a 6 per thousand rate as far as the principal abode is concerned and 10.6 per thousand for other buildings. Both self-employed VAT registered individuals and companies are allowed to deduct 100% of the TASI and TARI paid during the fiscal year.

OTHER TAXES

From 2008 onwards stamp duty on the transfer of shares, bonds and similar securities has been repealed under the name of Tobin Tax. Register tax is levied on the registration of any written contract or deed. The percentage varies according to the type of deed. One of the higher rates applied to contributions or transfers of real estate is 9%. Registration tax is not applicable if the transaction is subject to VAT, except for real estate rental contracts whereby VAT and a 1% registration tax are both applicable.

PAYMENTS DUE BY VAT REGISTERED ENTITIES

VAT registered persons are required to effect all tax and social security payments electronically, whether or not an intermediary is involved by means of a standard form (F24).

B. DETERMINATION OF TAXABLE INCOME

The taxable income of a company is based on the result of its business profits, which consists of the net income determined during a financial period, adjusted as required by the Tax Act. Non-resident companies are taxed in Italy on certain types of income earned from sources in Italy.

CAPITAL ALLOWANCES

Depreciation of tangible assets is permitted on a straight-line basis calculated by applying the coefficient established by the Ministry of Finance to the cost price, reduced by half for the first tax year. Tangible property with an acquisition cost of less than EUR 516.46 may be written off in the year of purchase. For new assets, if they meet certain requirements the depreciation rate is increased to 30% or 150% in case of high technology assets.

STOCK / INVENTORY

Inventory is valued at cost of purchase. Companies may apply any acceptable method of inventory pricing, i.e. FIFO, average, continuous average, etc. If the cost of purchase is lower than the market value as of the previous month, the stock can be valued using this method.

DIVIDENDS

(a) Companies are taxed at 5% on dividends received regardless of where the company paying the dividend is a resident (except for black-listed countries).

(a) Budget Law 2018 has amended the tax treatment applicable (with effect from 1 January 2018) to dividends derived by individuals outside a business capacity providing for a flat tax rate at 26% (either for substantial and non-substantial participations). However, dividends from substantial participations) accrued up to 31 December 2017, whose distribution is approved by 31 December 2022, will still be subject to the old rules (i.e. 49.72% or 58.14% of the dividends will be included in the individual's taxable income for IRPEF purposes).

The Budget Law 2018 provides that 50% of the dividends distributed by a foreign black-listed entity will be excluded from the taxable income of the resident shareholder, if it can prove that as its core business, the foreign company paying the dividends actually trades on the market of the state or territory in which it is located (first CFC safe-harbour rule or 'business test').

INTEREST DEDUCTIONS

Interest expenses, including interest on leasing costs but excluding capitalised and non-deductible interest and net of the interest income accounted in the same tax period, are not deductible if they exceed 30% of the company's statutory EBITDA, i.e. the earnings resulting from its "core business". The Budget Law 2018 changes the calculation method for the tax deduction of interest expenses (the earnings stripping rule). With effect from tax year 2017 (for calendar-year taxpayers), dividends received from foreign controlled subsidiaries will no longer be included in EBITDA for the purpose of deducting interest expenses.

Interest expenses that exceed the aforementioned limit may be carried forward, without a time limit, and be used to offset taxable income within the 30% limit as above in succeeding tax years. Any surplus interest deductions (interest cost lower than the 30% EBITDA) may be carried forward.

DEVALUATION OF RECEIVABLES

It is allowed to deduct the devaluation if the transaction complies with National Accounting Principles and if its intent is not elusive.

LOSSES

Net operating losses incurred in tax year 2012 and onwards may be carried forward without a time limitation from the year in which they originated. However, they can only be used to offset up to 80% of the income arising in later years. The losses realised in the first three years of business can be used for the entire amount. Net losses incurred before 2011 can be carried forward for up to five years with no offset limitations. These rules only apply for corporation tax (IRES) and not for IRAP purposes.

FOREIGN SOURCE INCOME

Only 5% of the value of dividends received from controlled foreign companies is liable to IRES. This 95% exemption is not available if the source of the dividends is a company resident under a 'privileged tax regime' outside the EU. A full exemption is applicable to the dividends paid by a CFC taxed under the transparency method.

INCENTIVES

Italian law provides for various forms of incentives to support economic investment in the south of Italy, other depressed areas in the centre/north, and in those areas struck by catastrophes such as earthquakes or floods.

BLACKLIST

Starting from 2017 all transactions with subjects residing in black-listed countries do not need to be communicated anymore to the Tax Authorities. Until FY 2016 the deduction of the cost incurred with black-list subjects was subject to specific conditions or to previous ruling procedures. On 26 October 2016 the Italian Revenue Agency has published a provision outlining that Switzerland has become whitelisted for Italian tax purpose further to amendment of the double tax treaty between Switzerland and Italy. The amendment notably foresees the agreement to exchange information and to provide assistance in the collection of tax credits, which is the driver for Switzerland's whitelisting.

EXIT TAX

As a general rule, Italian companies that decide to transfer their tax residence abroad are deemed to have realised their assets at "fair value" unless they maintain a permanent establishment in Italy. However, where the tax residence is transferred to another state within the European Union or to a state included within a specific "white list", companies may choose to pay in instalments or to have the resulting tax charge suspended until the assets of the transferred business are disposed of.

ACE (ALLOWANCE FOR CAPITAL EXPENDITURE)

In March 2012, the Italian Minister of Finance issued a decree that has introduced the possibility for incorporations and permanent establishments of non-resident companies (as well as for individuals and partnerships with ordinary bookkeeping), to deduct a lump-sum amount from their own taxable income. The

deduction that is applicable from the year ended 31 December 2011 onwards is, in fact, calculated by applying a 3% rate to a net increase in shareholders' equity compared to the previous year end. This 3% rate was applied to increases during the fiscal years 2011, 2012 and 2013 whereas the rate to be applied for 2014 is 4%, to be increased to 4.5% for 2015 and to 4.75% for fiscal year 2016. The rate has been decreased to 1.6% for tax period 2017 and 1.5% for the following tax periods as a fixed rate. Examples of increases in shareholders' equity are:

- Cash injections into a company (share capital increase, write off of payables previously due to shareholders, offsetting of receivables to increase the share capital);
- Earnings not distributed to shareholders but retained and allocated to reserves.
- Examples of decreases in shareholders' equity are:
- Distribution of earning reserves to shareholders;
- Decrease in capital and in reserves of capital.

The distribution of the current year profits as well as losses affecting share capital are not considered to be a decrease in the shareholder's equity.

C. FOREIGN TAX RELIEF

Foreign taxes may generally be credited against the tax liability suffered in Italy on the same income. Any excess foreign credits can be carried forward or backwards for eight years. The tax credit must be claimed in the tax return for the year in which the foreign tax is paid. If not, the right to the tax credit is forfeited.

D. CORPORATE GROUPS

Provisions for the consolidation of resident and non-resident company results were introduced in 2004. These provisions allow for the consolidation of income between group companies at both domestic and international level, resulting in a single tax liability for the parent company. The option is irrevocable for a three-year period where only Italian resident companies are involved and for a five-year period for a worldwide consolidation (or three years if subsequently renewed). The companies participating in the group consolidation are jointly liable for taxes, penalties and interest assessed on the aggregate income. The consolidated income is taxed at the parent company level.

E. RELATED PARTY TRANSACTIONS

Transactions with foreign affiliated companies are closely scrutinised in order to determine whether transfer prices are at arm's length. There are ministerial guidelines which suggest various limits on payments between affiliates. A set of documentation, consistent with OECD standards, is required from those companies that make cross-border operations with controlled foreign companies (CFC). The documentation must contain detailed information and data about the transactions as well as their compliance with the "arm's length principle". Although this documentation is not mandatory, it would provide penalty protection to companies should they communicate to the Tax Authorities that they have this documentation on hand for consultation.

Furthermore, they must also communicate to the Tax Authorities as to whether they have this documentation available for previous tax periods that are still subject to assessment. From tax year 2017, a country-by-country report showing certain financial information and economic indicators has been made compulsory for certain multinational entities. The rules on transfer pricing are also applicable for IRAP purposes, having retroactive effects from the tax periods subsequent to 31 December 2007. A sentence dated November 2015 declared lawful IRAP application only starting from fiscal year 2014.

F. WITHHOLDING TAX

Domestic companies making certain types of payments (e.g. interests, royalties, professional fees, etc.) are required to withhold taxes at various rates. In general, dividends distributed to non-residents are subject to a final 26% withholding tax. For dividends paid to residents of EU countries and those included on the "white list", a special withholding tax rate of 1.375% applies (1.20% starting from 1 January 2017). This rule applies only to profits earned starting from fiscal year 2008. Any dividends paid that represent profits from previous fiscal years will be subject to previous years' rules. However, Italian legislation has transposed the EU Directive 2003/49/CE (the ‘Parent-Subsidiary Directive’). No withholding tax is levied on dividends paid to a parent company in another EU Member State if both the parent and the subsidiary are 'qualifying' companies under the Directive and the parent has held at least 10% of the capital of the subsidiary continuously for at least one year.

The EU interests and royalties directive has also been incorporated into domestic law. Outbound interests and royalties are exempt from any Italian tax provided that the recipient is an associated company of the paying company and is resident in another EU Member State or such a company's permanent establishment is situated in another Member State. Two companies are "associated companies" if:

(a) One of them holds directly at least 25% of the voting rights of the other; or,

(b) A third EU company holds directly at least 25% of the voting rights of the two companies.

The relevant companies must have a legal form listed in the Annex to the Directive and be subject to a corporate income tax. A one-year holding period is required.

G. EXCHANGE CONTROL / ANTI-MONEY LAUNDERING

There are no exchange controls in Italy. However, banks and financial institutions are required to monitor any deposit/withdrawal of over EUR 15,000 for anti-money laundering purposes. This duty was extended to audit firms, professionals, etc. With effect from 1 January 2016, cash payments of over EUR 3,000 (increasing the previous limit of EUR 1,000) are not permitted. This limit is applicable to all categories. Penalties range from 1% to 40% of the amount transferred with a minimum penalty of EUR 3,000 (and EUR 15,000 when cash payments exceed EUR 50,000).

H. PERSONAL TAX

Resident individuals are subject to a personal income tax called IRPEF on their worldwide income.

Individuals carrying on a business or profession are liable to IRAP which is not deductible from IRPEF. Non-resident individuals are subject to tax only on their Italian-sourced income.

Individuals are considered resident for fiscal purposes in Italy if they are registered at the official Register of Population; their principal place of business and interests is located in Italy; or if they remain in Italy for more than six months in any calendar year. Progressive rates for IRPEF are as follows:

Taxable Income (EUR)	Rate (%)
Up to 15,000	23
15,001 – 28,000	27
28,001 – 55,000	38
55,001 – 75,000	41
Over 75,000	43

In addition to the above progressive rates, a regional surcharge (variable rate from 0.9% to 1.4%) is payable and an additional municipal tax could be charged and fixed locally. An additional tax had been introduced for taxpayers whose overall income is higher than a EUR 300,000 threshold. This new tax was called the "solidarity contribution" and it was computed by applying a 3% rate to income exceeding EUR 300,000. It was introduced only for fiscal years 2011-2013, but it was extended also for fiscal years 2014-2016, applying the same rate.

The tax period in Italy is the calendar year and tax is due over two advance payments made during the tax year with the balance due by 30th June of the following year. IRPEF is withheld at source from employee salaries and wages. The payment of taxes on account and settlement functions are done under a similar system as for companies. There is no wealth tax in Italy. Gift and inheritance tax has come back into force with a range of tax rates and exemptions.

FLAT TAX ('CEDOLARE SECCA')

Since 2011, individuals whose income is derived from renting their own properties to tenants who, in turn, use them as dwellings, can be taxed at a flat 21% rate on the agreed fees (the rate is equal to 10% for certain particular "agreed upon" local contracts.)

In order to qualify for this scheme, the lessor should choose this option when the rental agreement is registered at the local tax office, or within his or her tax return. The tenant(s) must be informed of such a choice through a registered letter with return receipt. This scheme only applies to individuals renting buildings used as dwellings. It does not apply where the building is to be used for a business purpose.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends: Individuals, Companies (%)	Dividends: Qualifying companies (%)	Interest (%)	Royalties (%)
Domestic rates:				
Companies:	1.375/26	0	0/12.5/26	22.5
Individuals:	12.5/26	n/a	0/12.5/26	22.5
Treaty rates (countries)				
Albania	10	10	0/5	5
Algeria	15	15	0/15	5/15
Argentina	15	15	0/20	10/18
Armenia	10	5	0/10	7
Australia	15	15	10	10
Austria	15	15	0/10	0/10
Azerbaijan	10	10	0/10	5/15
Bangladesh	15	10	0/10/15	10
Barbados[1]	15	5	0/5	5
Belarus	15	5	0/8	6
Belgium	15	15	15	5
Bosnia Herzegovina	10	10	10	10
Brazil	15	15	15	15/25
Bulgaria	10	10	0	5
Canada	15	5	0/10	0/5/10
Chile	10	5	5/15	5/10
China	10	10	0/10	10
Croatia	15	15	0/10	5
Cyprus	15	15	10	0
Czech Republic	15	15	0/5	0/5
Denmark	15	0	0/10	0/5
Ecuador	15	15	0/10	5
Egypt	–	–	0/25	15
Estonia	15	5	0/10	5/10
Finland	15	10	0/15	–/5
France	15	5	0/10	0/5
Georgia	10	5	0	0
Germany	15	10	0/10	0/5
Ghana	15	5	10	10
Greece	15	15	0/10	0/5
Hong Kong	10	10	12.5	15

Hungary	10	10	0	0
Iceland	15	5	0	5
India	25	15	0/15	20
Indonesia	15	10	0/10	10/15
Ireland	15	15	10	0
Israel	15	10	10	0/10
Ivory Coast	15	15	0/15	10
Japan	15	10	10	10
Kazakhstan	15	5	0/10	10
Kyrgyzstan	15	15	0	0
Korea (South)	15	10	0/10	10
Kuwait	0/5	0/5	0	10
Latvia	15	5	10	5/10
Lithuania	15	5	0/10	5/10
Luxembourg	15	15	0/10	10
Macedonia (FYR)	15	5	0/10	0
Malaysia	10	10	0/15	15
Malta	15	15	0/10	0/10
Mauritius	15	5	0/–	15
Mexico	15	15	0/15	0/15
Moldova	15	5	5	5
Montenegro	10	10	10	10
Morocco	15	10	0/10	5/10
Mozambique	15	15	0/10	10
Netherlands	15	5/10	0/10	5
New Zealand	15	15	0/10	10
Norway	15	15	0/15	5
Oman	10	5	0/5	10
Pakistan	25	15	30	30
Philippines	15	15	0/10/15	25
Poland	10	10	0/10	10
Portugal	15	15	0/15	12
Qatar	15	5	0/5	5
Romania	10	10	0/10	10
Russia	10	5	10	0
Saudi Arabia	10	5	0/5	10
Senegal	15	15	0/15	15
Serbia	10	10	10	10

Singapore	10	10	12.5	15/20
Slovak Republic	15	15	0	0/5
Slovenia	15	5	0/10	10
South Africa	15	5	0/10	6
Spain	15	15	0/12	4/8
Sri Lanka	15	15	0/10	10/15
Sweden	15	10	0/15	5
Switzerland	15	15	12.5	5
Syria	10	5	0/10	18
Tanzania	10	10	15	15
Thailand	20	15	0/10/–	5/15
Trinidad and Tobago	20	10	10	0/5
Tunisia	15	15	0/12	5/12/16
Turkey	15	15	15	10
Turkmenistan	15	15	15	10
Ukraine	15	5	0/10	7
United Arab Emirates	15	5	0	10
United Kingdom	15	5	0/10	8
United States	15	5	0/10	0/5/8
Uzbekistan	10	10	0/5	5
Venezuela	10	10	0/10	7/10
Vietnam	15	5/10	0/10	7.5/10
Zambia	15	5	0/10	10

Notes:

1. Effective date: 1 January 2018.

JAMAICA

MEMBER FIRM

City	Name	Contact Information
Kingston	Aulous F. Madden	+1 876 922 1074 aulous.madden@afmpkf.com
Kingston	Charmaine A. Madden	+1 876 922 1074 charmaine.madden@afmpkf.com

BASIC FACTS

Full name:	Jamaica
Capital:	Kingston
Main languages:	English, Jamaica Patois

Population:	2.90 million (2018 estimate)
Monetary unit:	Jamaican Dollar (JMD)
Internet domain:	.jm
Int. dialling code:	+1 876

KEY TAX POINTS

- Jamaican resident companies are liable for income tax on all sources of non-exempt income wherever arising.
- A non-resident company is taxed on income of a branch carrying on a trade or business in Jamaica, i.e. the income arises in Jamaica.
- The tax year of 'year of assessment' is a period of twelve (12) months commencing on 1st January in each year.
- There is no income tax on capital gains secured on the disposal of capital assets. However, there is a transfer tax of 5% of gross consideration or market value when title passes.
- Branches of non-resident corporations or companies doing business in Jamaica are taxed on the profits arising in Jamaica. The income tax rate is 25% for an unregulated entity and 33,33% for a regulated entity.
- General Consumption Tax (GCT) is generally imposed at the standard rate of 16.5% effective on the supply in Jamaica of goods or services by a 'registered taxpayer' and on the importation of goods or services by any person for consumption in Jamaica.
- The chargeable income of a company is determined by deducting all non-capital disbursement and expenses wholly and exclusively incurred in acquiring the income from all taxable income brought into charge. Domestic and private expenses are not allowable deductions.
- There are no exchange controls in Jamaica at this time.
- Personal Tax: An individual who is resident, ordinarily resident and domiciled in Jamaica is subject to income tax on his worldwide income as it arises. Non-residents are subject to tax on income arising from Jamaica. Income is taxed at a zero rate for the first threshold of JMD 1,500,096 (as from 1 April 2017) and then income above the threshold but below JMD 6,000,000 is taxed at 25% and income in excess of JMD 6,000,000 is taxed at 30%.

A. TAXES PAYABLE

COMPANY TAX

Jamaican resident companies are liable for income tax on all sources of non-exempt income wherever arising. A company is regarded as resident in Jamaica if its central management and control is located and exercised in Jamaica. A non-resident company is taxed on income of a branch carrying on a trade or business in Jamaica, i.e. the income that arises in Jamaica.

The tax year or 'year of assessment' is a period of twelve (12) months commencing on 1st January in each year. Companies are assessed to income tax on their income which arises in the basis period and this normally coincides with the year of assessment. Where the company usually makes up its accounts for a period other than the calendar year, the Commissioner General, Tax Administration Jamaica, will allow this period to be substituted for the calendar year, once an application has been submitted for approval of said change in accounting date.

The company is required to submit its Annual Return of Income and Tax Payable by 15th March of the year following the year of assessment for which the tax return is being prepared and to pay any balance of tax due by that date. The company is also required to submit an Annual Declaration of Estimated Income and Tax Payable for the current year based on the results of the preceding year (estimated tax). Payment of estimated tax is due in four (4) equal instalments on 15th March, 15th June, 15th September and 15th December of the current year.

An amendment to Corporate Income Tax became effective 1 January 2013. The corporate income tax rate structure was modified as follows:

a) Tax charge for regulated companies is now 33,33%, unless otherwise specified;

b) Tax charge for unregulated companies is now 25%;

c) Building Societies special rate is 30% (as before);

d) Life Insurance Companies (i) is 15% (as before);

e) Life Insurance Companies (ii) is 3% (as before).

The regulated companies include those companies regulated by:

- Financial Services Commission (FSC);
- Office of Utilities Regulations (OUR);
- Bank of Jamaica (BOJ) and
- Ministry of Finance and Planning (MOFP).

Minimum Business Tax (MBT)

The Minimum Business Tax of JMD 60,000 which was introduced in March 2014 and which is payable in two equal instalments of JMD 30,000, each payable 15th June and 15th September, has been amended. In respect of individuals, the threshold has been increased to JMD 5 million, up from the previous JMD 3 million. This income limit does not apply to companies. Provisions have also been made for any company incorporated under the Companies Act for not more than 24 months, registered charities, international organizations subject to the Diplomatic Immunities and Privileges Act and individuals with gross revenue below JMD 5 million to be exempt from paying the Minimum Business Tax.

It applies to all companies or other corporate bodies incorporate or registered in Jamaica, including overseas companies conducting business in Jamaica. Companies which are exempted from the payment of Income Tax or operating under an income tax incentive regime are also liable to pay MBT. In addition, companies making a loss, as well as companies that are dormant are also liable to pay the MBT. The Minimum Business Tax is credited towards income tax payable for the particular year of assessment and is to be claimed on the final income tax return. It is not creditable against income tax payable by the taxpayer for any other assessment period.

NEW ASSET TAX REGIME

The filing date for the Annual Declaration of Assets for a company has moved from 1st September to 15th March of the same year based on the Financial Statements for the previous accounting year.

Example

Y/A 2014: Due to be filed on 15 March 2014 using 2013 Financial Statements.

Y/A 2015: Due to be filed on 15 March 2015 using 2014 Financial Statements.

The asset tax rates effective from 2015 are as follows:

Value of Asset	Asset tax
Less than JMD 50,000	5,000
At least JMD 50,000 but less than JMD 0.5 million	25,000
At least JMD 0.5 million but less than JMD 5 million	100,000
At least JMD 5 million but less than JMD 50 million	150,000
At least JMD 50 million	200,000

Effective from the Year of Assessment 2013, Asset Tax is not an allowable deduction under the Income Tax Act.

CAPITAL GAINS TAX

There is no capital gains tax on capital gains secured on the disposal of capital assets. However, there is a transfer tax of 5% of gross consideration or market value when title passes. Effective 1 June 2005, the transfer tax payable at death will be simplified and the rate reduced as follows:

(i) The first JMD 100,000 value of the estate – no tax;

(ii) Balance over JMD 100,000 – 7.5%;

(iii) Effective 16 May 2011, the existing fee structure applicable to deceased estates was abolished.

Thereafter, fees will be applied as 'ad valorem' stamp duty as follows:

- Estates whose net value is JMD 10 million or less – JMD 5,000;

- Estates whose net value is above JMD 10 million but less than JMD 20 million – JMD 10,000;
- Estates whose net value is above JMD 20 million but less than JMD 30 million – JMD 15,000;
- Estates whose net value is above JMD 30 million, but less than JMD 40 million – JMD 20,000;
- Estates whose net value is JMD 40 million and above – JMD 25,000.

BRANCH PROFITS TAX

Branches of non-resident corporations or companies doing business in Jamaica are taxed on the profits arising in Jamaica. Branch income is taxed at the same rate as that of local corporations and on a similar basis (at 25% for unregulated entities and at 33,33% for regulated entities). The transfer of profits to the head office is subject to a 33,33% withholding tax (branch remittance tax) or to a lower treaty rate, where applicable.

GENERAL CONSUMPTION TAX (GCT)

General Consumption Tax (GCT), which is a value added tax, is generally imposed at the standard rate of 16.5% effective on the supply in Jamaica of goods or services by a 'registered taxpayer' and on the importation of goods or services by any person for consumption in Jamaica. A large number of goods and services are zero rated, which means that the supplier does not charge GCT on the supply but may credit GCT on incoming supplies against the tax chargeable on non-zero-rated supplies he makes. A number of goods and services are GCT exempt which means no CGT is chargeable thereon. Certain goods are subject to special consumption tax (SCT) and not GCT. This is levied on the manufacture for sale in Jamaica and the import into Jamaica of prescribed goods such as petroleum products, cigarettes, spirits and beer.

LOCAL PAYROLL TAXES:

NATIONAL INSURANCE (NIS)

Effective 7 January 2013, the National Insurance Contribution was increased and is now based on 5% of salary restricted to a maximum salary of JMD 1,500,000 annually, which is JMD 75,000. This is contributed as follows:

- Contribution by employee 2.5% - JMD 37,500;
- Contribution by employer 2.5% - JMD 37,500.

The maximum monthly and weekly contributions are JMD 3,125 and JMD 721.15 respectively by employees and this is matched by the employer.

Self-employed persons are required to contribute 5% of their taxable income for income tax purposes up to a maximum of JMD 75,000 annually.

This compulsory deduction is made both by the employee and employer and goes towards the provision of a pension at age 60 for women and 65 for men who have retired. However, if still employed, women and men are required to contribute to NIS up to age 65 and 70 respectively. The NIS pension is deferred for a further period of five years or the date that employment ceases, whichever is earlier.

NATIONAL HOUSING TRUST (NHT)

National Housing Trust (NHT) is payable by the employee at a rate of 2% and by the employer at a rate of 3% of taxable emoluments. The contributions together with any accrued bonus or interest are refundable to the contributor on an annual basis after seven years and fully on retirement. Note that the expatriate employee is refunded the full sum whenever he/she leaves the island. Self-employed persons contribute NHT at a rate of 3% of chargeable income. NHT contributions cease when persons attain 65 years of age.

EDUCATION TAX

Education Tax is payable by the employee at a rate of 2.25% and by the employer at a rate of 3.50% of taxable emoluments. Contributions continue until age 65 years (men and women). Education Tax contributions are not refundable. Self-employed persons pay education tax at a rate of 2.25% of chargeable income. There is no age limit for self-employed persons. Education tax is not payable on interest, dividends and pension income.

PAYE AS YOU EARN (PAYE)

Effective 1 April 2017, emoluments are taxed at a zero rate for the first threshold of JMD 1,500,096 and then income above the threshold but below JMD 6,000,000 is taxed at 25% and income in excess

of JMD 6,000,000 is taxed at 30%.

OTHER TAXES

Custom fees and excise and stamp duties are imposed on imported goods.

Property tax is payable on the unimproved value basis of property. Property tax rates were revised on 1 April 2017 and start at JMD 1,000 for unimproved values up to JMD 400,000 for values determined by different rates applicable to values in bands of increasing values.

The Construction Industry and Tillage are subject to a contractor's levy of 2% of the contract price, and it is withheld from payments to contractors and paid to the Revenue Authority. The levy is treated as payment on account of income tax liability of the contractor. However, if the contractor has no final income tax liability or a lesser income tax liability, the excess of the levy over the income tax liability is not refundable nor can it be used to offset against any tax liability. It is treated as an additional tax liability.

B. DETERMINATION OF TAXABLE INCOME

The chargeable income of taxpayers is determined by deducting all non-capital disbursements and expenses wholly and exclusively incurred in acquiring the income from all taxable income brought into charge. Domestic and private expenses are not allowable. Special deductions may include capital allowances.

NEW CAPITAL ALLOWANCES REGIME (1 JAN 2014)

As a part of the income tax reform, the capital allowances regime has been standardised and streamlined. This will include:

- The discontinuance of the various incentives embedded therein e.g. investment allowances and accelerated tax depreciation to agriculture and manufacturing sectors;
- Providing allowances to certain categories of capital expenditure not currently covered;
- Providing greater alignment between the useful economic life of various categories of assets and their write-off periods for tax purposes;
- Allowing capital expenditure to be written-off using the straight-line method;
- Standardising the application of the regime across sectors and facilitating enhanced administration of the same.

General Rule:

Capital expenditure (on specified assets) incurred on or after January 1, 2014 will be written-off in accordance with the new capital allowance regime as outlined below. All capital expenditure incurred on or after January 1, 2014 will be written-off using the straight line method. Capital expenditure incurred prior to January 1, 2014 will continue to be written-off for income tax purposes in accordance with the rules existing prior to January 1, 2014, as if there were no changes.

Capital allowances are granted for depreciation of equipment, plant and machinery and other assets used in the business at the following rates using the straight-line method:

- Plant, machinery and equipment:
  a) First year allowance (initial allowance) – 25% for machinery directly used in the production of primary products or in the manufacture of goods or automated packaging of primary products or goods;
  b) Annual allowance – 12.5%.
- Automatic Data Processing Equipment
  a) First year allowance – 25%;
  b) Annual Allowance – 20%.
- Telecommunication Equipment
  a) First year allowance – nil;
  b) Annual Allowance – 20%.
- Other plant, machinery and equipment
  a) First year allowance – nil;
  b) Annual Allowance – 12.5%.

- Private motor vehicles:
  a) First year allowance – nil;
  b) Annual allowance – 12.5% (restricted on a cap of USD 35,000).
- Trade vehicles:
  a) First year allowance – nil;
  b) Annual allowance – 20% of cost (straight-line).
- Industrial buildings:
  a) First year allowance – 20% of cost;
  b) Annual allowance – 4%, 10%, or 12.5% dependent on type of construction and whether housing machinery.
- Other commercial buildings:
  a) First year allowance – nil;
  b) Annual allowance – 4%, 10%, or 12.5% dependent on type of construction and whether housing machinery.

CAPITAL GAINS AND LOSSES

See discussion above.

DIVIDENDS

In addition to the income tax on the company's profits, any distribution or dividends are taxable.

As of 1 July 2009, dividends payable by resident unlisted companies to non-resident shareholders (individual and companies) are subject to tax at rates appropriate to them and the companies making such distributions are required to deduct tax due and account for it to the Inland Revenue Department. The rate of tax payable on preference dividends is at the rate of tax applicable to the recipient preference shareholder as at the date of the receipt of said income. As of 1 April 2013, the rate of tax payable on dividends to Jamaican resident individuals and companies by Jamaican resident companies is 15%. This withholding tax is a final tax except for an approved superannuation fund or retirement scheme, registered charitable organizations, pensioners or persons over sixty five (65) years of age. The rate of withholding tax is modified if distributions are made to residents of double tax treaty countries. The negotiated rates provided in the relevant articles are applicable.

Dividends and distributions paid out of profits which are relieved or exempt from tax by virtue of incentive legislation, would not be subject to tax unless they are in fact taxable in the country of the taxpayer's residence.

Capital distribution or capital dividends are not subject to income tax but are, however, subject to transfer tax (rate 7.5%).

INTEREST DEDUCTIONS

Interest paid upon any money borrowed on capital employed in acquiring the income is tax deductible. There are no thin capitalization provisions in Jamaica.

TRADE LOSS RELIEF

There are changes in loss relief and the way a trade loss can be utilised. The position is as follows:

a) Tax losses can be carried forward for any number of years, however
b) Effective for the year of assessment 2014, tax losses carried forward will be restricted for relief against current year taxable profits of up to 50% of taxable profit (excluding the loss).

This 50% limit will not apply:

a) For the first five (5) years after a business commences trading. Commissioner General of TAJ will determine when it is a business commences trading and the relief available.
b) Where the taxpayer’s gross revenue from all sources for the year is equal to or less than JMD 3 million.

FOREIGN SOURCE INCOME

Where the company is resident in Jamaica, i.e. its central management and control is situated in Jamaica, the income of such company wherever it arises is subject to tax in Jamaica. This includes:

a) Branch or agency profits from businesses earned outside Jamaica;

b) Dividend, interest, royalties and rents earned outside Jamaica.

C. FOREIGN TAX RELIEF

Unilateral relief by the credit method is granted to residents and non-residents against income tax payable in Jamaica on any income which is also subject to Commonwealth income tax. For residents of Jamaica, the maximum credit is one-half of the Jamaican income tax rate, i.e. 16.67% and 12.5% in the case of corporations and 12.5% in the case of individuals.

If the Commonwealth income tax rate on the income concerned does not exceed half the Jamaican rate (16.67% and 12.5%), full relief is granted for the Commonwealth tax. Jamaican residents who are liable to pay Jamaican tax on income in respect of which United Kingdom tax is also payable are entitled to relief equal to the amount by which Jamaica tax exceeds half the rate of United Kingdom tax payable. If the Jamaican rate exceeds the United Kingdom rate, the relief is equal to half of the United Kingdom rate.

Unilateral relief is generally provided by way of deduction for taxes payable in other overseas territories.

Where a claim for double taxation relief is made under a treaty, the Jamaican income tax is reduced by the appropriate amount of the credit for foreign tax. The credit may not exceed tax at the Jamaican rate on the income concerned computed under Jamaican income tax principles, before any allowance of credit.

D. CORPORATE GROUPS

Tax liability in a group basis is not permissible. The liability of each company within the group is determined separately.

E. RELATED PARTY TRANSACTIONS

Transfer pricing

With effect from 1 January 2016, transfer pricing rules (TP) are applicable in Jamaica. The applicable TP methods closely follow the OECD guidelines on TP. Related party transactions which are carried out for considerations not at arm's length, intended to secure a benefit or tax advantage or to reduce the tax payable, are counteracted by the Commissioner General, taking appropriate actions to negate this advantage.

When filing an income tax return, the taxpayer must certify whether to his knowledge the information and accounts on which the return is based contains particulars of any connected party transactions, and must fully disclose those particulars, if any. Failure to provide this certification on the return or to fully disclose the required particulars may result in prosecutions with a maximum JMD 2 million fine or twelve (12) months imprisonment. This will apply to income tax returns as from assessment year 2016.

There are TP documentation regulations which only apply to companies with gross annual turnover of JMD 500 million or more in the previous year of assessment. These companies are required to keep exhaustive TP documentation and to present them to the Commissioner General, upon request. The documentation comprises: an overview of the company's business operations and an organizational chart, details of all connected party transactions performed, along with an analysis of the factors used in identifying comparable independent transactions, justification of choice of a particular TP method, a description of tests done and the process used to identify the comparable independent transactions relied upon, details of any industry or economic analysis done by the company to arrive at the TP, and a conclusion as to whether the conditions of the connected party transactions were consistent with an arm's length consideration, along with details of any adjustments that were required to guarantee compliance.

The taxpayer may also enter into an Advanced Pricing Agreement (APA) with the revenue authorities.

Controlled Foreign Companies (CFC)

There are no CFC regulations in Jamaica.

F. WITHHOLDING TAX

Withholding tax on Specified Services became effective 1 September 2015

The Tax Administration Jamaica and the Ministry of Finance introduced a 3% Withholding Tax on specified services on 1 September, 2015. At its implementation the tax will be withheld from Specified Services by Tax Withholding Agents (TWA). The Specified Services include: • Accounting; • Auditing; • Catering; • Consultancy; • Decorating; • Engineering (Architectural, electrical, mechanical and structural); • Entertainment; • Information technology; • Janitorial; • Laundry; • Landscaping; • Legal; • Management; • Repairs and maintenance; • The rental or leasing of motor vehicles or equipment; • Transportation, haulage or tours; and Any other services specified by the Minister by order published in the Gazette.

The TWAs who are required to withhold the tax when making payments to suppliers in the initial stage are:

- All Ministries of Government.
- An Executive Agency, an agency or a department of Government.
- All Statutory Bodies or Authorities.
- Financial institutions regulated by the Bank of Jamaica (BOJ) and the Financial Services Commission (FSC).
- Tourism operators.
- Utility companies that have annual gross revenue of JMD 500,000,000 and over.
- Cable companies that have annual gross revenue of JMD 500,000,000 and over.
- The Council of the Kingston and St. Andrew Corporation.
- Any person with annual gross revenue exceeding JMD 500,000,000, including any entity with such revenue that is exempt from the payment of income tax.

Payments to non-residents

Dividends, interest, royalties, management and consultancy fees paid to non-residents are subject to 33,33% withholding tax. This is not a final withholding tax.

G. EXCHANGE CONTROL

There are no exchange controls in Jamaica at this time.

H. PERSONAL TAX

An individual who is resident, ordinarily resident and domiciled in Jamaica is subject to income tax on his worldwide income as it arises. Non-residents are subject to income tax on income arising from Jamaica.

Residence is determined by physical presence in Jamaica for period of 183 days or six (6) months. Regular visits of substantial periods may make such visitor a resident, even though the stay is less than six (6) months.

Broadly, an individual is domiciled in the country or state which he regards as his permanent home. He acquires a domicile of origin at birth normally that of his father and retains it until he acquires a new domicile of choice. To acquire a domicile of choice, a person must sever his ties with his domicile of origin and settle in another country with the clear intention of making it his permanent home. A commonwealth citizen not ordinarily resident in Jamaica or any resident not domiciled in Jamaica is taxed on unearned income only to the extent that is remitted to Jamaica.

The Pay-As-You-Earn (PAYE) system of collection is in operation. The employers, who act as agents for the Commissioner General, Tax Administration Jamaica, deduct income tax from salaries, wages and other emoluments of employees and account for tax so deducted by the 14th day of the month following the month for which the deduction was made. Failure to do so will result in the employer being charged interest at a rate of 40% per annum and penalty at a rate of 50% from the day after the due date to the date of payment on the sum payable.

Self-employed individuals pay their taxes in advance by four quarterly instalments based either on the chargeable income of the previous year or their estimated chargeable income of the current year. The instalments are due on 15th March, 15th June, 15th September and 15th December. Any balance of tax is payable on filing of the final returns on the following 15th March after the year of assessment for which the return is due. Individuals who are suffering from a disabling permanent physical handicap or a disabling permanent mental handicap but are capable of being gainfully employed may apply to TAJ for an exemption of emoluments.

As of 1 January 2013 there is also a pension exemption of JMD 80,000 for pension received from either a statutory pension scheme or an approved retirement scheme. Further there is an age exemption of JMD 80,000 for an individual who attained the age of 65 at any time during the year of assessment for which the return is being made.

Personal income tax shall be levied and paid for each year of assessment at the following rates:

- For the first JMD 1,500,096 1 (as from 1 April 2017) = Nil.
- Between JMD 1,500,096 and JMD 6,000,000 = 25%;
- Exceeding JMD 6,000,000 = 30%.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)	Interest (%)	Royalties (%)
Non-treaty countries			
Companies	33.33	33.33	33.33
Individuals	25	25	25
Treaty countries			
Canada	22.5/15	15	10
Caricom[1]	Nil	15	15
China	5	7.5	10
Denmark	15/10	12.5	10
France	15/10	10	10
Germany	15/10	10/12.5	10
Israel	22.5/15	15	10
Mexico[2]	10/5	10	10
Norway	15	12.5	10
Spain	10/5	10	10
Sweden	22.5/10	12.5	10
Switzerland	15/10	10	10
United Kingdom	15/22.5	12.5	10
United States	15/10	12.5	10

Notes:

1. Treaty negotiated with Caricom countries but only Trinidad and Tobago, Belize, Jamaica, St Lucia, and Barbados have ratified. Benefits apply only to these countries.
2. Effective 1 January 2019.

JAPAN

MEMBER FIRM

City	Name	Contact Information
Osaka	Hiroki Kitagawa	+81 6 6229 0387 kitagawa-hiroki@pkf-hibiki-audit.com
Tokyo	Shihoko Korenaga	Please contact the above

BASIC FACTS

Full name:	Japan
Capital:	Tokyo
Main languages:	Japanese
Population:	127 million (2018 estimate)
Monetary unit:	Japanese Yen (JPY)
Internet domain:	.jp
Int. dialling code:	+81

KEY TAX POINTS

- Domestic corporations, whose head or main office is located in Japan are subject to tax on their worldwide income.
- Foreign corporations are subject to either corporation tax or final withholding tax on Japanese source income (including income relating to the exploration for oil in the continental shelf) depending on the type of income and the extent of the foreign corporation's activities in Japan.
- Vendors are liable for a consumption tax (value added tax) of 6.3% of sales, including imports of goods and services (7.8% from 1 October 2019).
- Relief is available for foreign taxes on foreign source income and capital gains whether or not Japan has concluded a tax treaty with the foreign country.
- Under the consolidated tax regime, an affiliated group of companies (a 'Consolidated Group') can report and pay national corporate income tax as one unit.
- All transactions between related companies are required to be conducted on an arm's length basis within the meaning of an 'arm's length price' depending upon the transaction.
- Domestic corporations are subject to withholding tax on dividends, interest and certain other income. Foreign corporations are subject to withholding tax on dividends, interest, royalties, income from immovable property, rentals from industrial or commercial equipment, and certain other income. No tax credit for income tax withheld on dividends is allowed in the case of foreign corporations.
- Non-resident taxpayers are taxed only on their Japanese source income. Non-permanent resident taxpayers are taxed on Japanese source income plus that part of non-Japanese source income that is paid in and/or remitted to Japan. A permanent resident taxpayer is taxed on his worldwide income.

A. TAXES PAYABLE

COMPANY TAX

Domestic corporations are those whose head or main office is located in Japan. Companies incorporated in Japan under the Corporate Law or under other special laws are required to locate their head office in Japan. Such domestic corporations are subject to tax on their worldwide income. Foreign corporations are all corporations which are not domestic corporations. A corporation having its head or main office outside Japan is a foreign corporation even if its business operations are in Japan. Foreign corporations are subject to corporation tax on Japanese source income, including income relating to the exploration for oil in the continental shelf. Foreign corporations are subject to either corporation tax or final withholding tax on Japanese source income, depending on the type of income and the extent of the foreign corporation's activities in Japan. Foreign corporations are not subject to tax on liquidation income.

The rate of national tax for Japanese corporations is 23.4% unless the paid-in capital of the corporation is JPY 100 million or less, in which case the first JPY 8 million of income is only taxed at 19% (this rate is temporarily decreased to 15% for fiscal years beginning up to 30 September 2019). From 1 October 2019, a part of inhabitant tax (local tax) has been moved to the national tax regime as ‘local corporate tax’ of 10.3% (until then 4.4%). Tax is imposed on a current year basis. The tax year adopted is generally that specified in a company's constituent documents with the standard year being a calendar year. However, it should be noted that other periods are also allowed, including periods of 12 months or less. Japanese branches of foreign corporations are required to adopt the accounting period used by their foreign head office. Final tax

is payable when lodging the final corporation tax return, usually required within two months of the end of the accounting period. Extensions of time to lodge can be sought although interest at 7.3% or less is payable where such an extension is obtained.

Interim tax returns and payments are required if a corporation has a fiscal period longer than six months. Ordinarily, provisional taxes are computed as one half of the tax liability of the previous year but a reduction is available where the interim tax returns are filed to reflect bi-annual results of operations for the current year.

BLUE RETURN FILERS

Preferential tax treatment is given to companies who file 'Blue Returns'. A company which undertakes to maintain specified bookkeeping records and documentation and gains approval from the Director of the District Tax Office can file a Blue Return, the associated benefits of which are as follows.

- Tax losses may be carried forward for ten years (however, for large scale companies the use of the losses is restricted to 55%1 of taxable income for fiscal years beginning on or after 1 April 2017 and up to 31 March 2018) or carried back to the previous year (temporarily suspended except for companies with paid-in capital of JPY 100 million or less (except for a subsidiary of a large scale company).
- The revenue authorities cannot seek to adjust taxable income without a physical review of the books and records of the company and must state the reason for such an adjustment.
- Allowance of reserves, special depreciation and tax credits as stipulated in the Special Taxation Measures Law.

Importantly, a new company must seek registration for Blue Form returns within the earlier of three months from incorporation or the end of the initial accounting period.

NOTES:

1. This rate will be further reduced:
   For fiscal years beginning from 1 April 2017 to 31 March 2018: 55%. Carry-forward period: 9 years;
   For fiscal years beginning on or after 1 April 2018: 50%. Carry-forward period: 10 years.

VALUE ADDED TAX (VAT)

Vendors are liable for a consumption tax (VAT) of 6.3% (7.8% from 1 October 2019) of sales, including imports of goods and services. Only a limited number of goods and services are zero rated. Exemptions apply to leases of land, education and medical treatment. Exports and certain specific services invoiced to non-residents are zero rated. In addition, a new local consumption tax is also collected at the rate of 1.7% (2.2% from 1 October 2019). The net result will be an 8% (10% from 1 October 2019) rate of consumption tax.

LOCAL TAXES
INHABITANT TAX

Inhabitants Taxes are local prefectural and municipal taxes. These taxes are computed as a percentage of the corporation tax before tax credits. From 1 October 2014, a part of inhabitant tax has been moved to national tax regime as 'local corporate tax'. Each prefecture and municipality may elect an Inhabitants Tax rate within the range shown below:

	Rates (for fiscal year years beginning up to March 2019)	**Rates (for fiscal year years beginning after April 2019)**
Prefecture	3.2% to 4.2%	1% to 2%
Municipality	9.7% to 12.1%	6% to 8.4%
Tokyo Metropolitan (combined)	12.9% to 16.3%	7% to 10.4%

In addition to the above, local governments charge a per capita levy on inhabitants with standard rates that vary from JPY 50,000 to JPY 3,600,000 depending upon the amount of the paid-in capital and the number of employees.

ENTERPRISE TAX

Prefectures can elect to levy an Enterprise Tax. The tax base is business income and liquidation income as computed for corporation tax purposes, with certain adjustments such as the exclusion of income from

a business carried on in a foreign country. Enterprise Tax is deductible in computing taxable income for corporation and Enterprise Tax purposes.

Size-based taxation has been recently introduced and this taxation is applied only to large corporations with paid-in capital of more than JPY 100 million and for the business years beginning on or after 1 April 2004. For such large corporations, Enterprise Tax consists of the traditional Enterprise Tax levied based on the taxable income and the newly introduced Enterprise Tax levied based on the capital etc. (i.e. paid-in capital and capital surplus) and value added (i.e. wages, interest and rental expenses). Tax rates vary depending on whether or not the corporation is a large corporation with paid-in capital of more than JPY 100 million and depending on the prefecture:

Taxable periods beginning after 1 April 2014 – 30 September 2019

			Standard (%)	Maximum (%)	Local Corporate Special Tax
(1)	Company whose paid-in capital is JPY100 million or less				
	Taxable Income:				
		First JPY 4,000,000 per annum	3.1	3.65	(Taxable Income*Tax rate)*81%
		Next JPY 4,000,000 to JPY 8,000,000 per annum	5.1	5.46	
		Above JPY 8,000,000 per annum	6.7	7.18	
(2)	Company whose paid-in capital is more than JPY 100 million				
	(a)	Income base (taxable income):			
		First JPY 4,000,000 per annum	0.3	0.395	(Taxable Income*Tax rate)*414.2%
		Next JPY 4,000,000 to JPY 8,000,000 per annum	0.5	0.635	
		Above JPY 8, 000,000 per annum	0.7	0.88	
	(b)	Added value base:			
		The sum of wages, net interest expense and net rental expense	1.26	1.26	
	(c)	Capital base:			
		The sum of paid-in capital and capital surplus	0.525	0.525	

OTHER TAXES

FAMILY HOLDING COMPANY SURTAX

Family holding companies are liable for surtax on earnings not distributed in excess of specified limits at the following rates:

Excess Income	Rates
First JPY 30,000,000 per annum	10%
Next JPY 70,000,000 per annum	15%
Over JPY 100,000,000 per annum	20%

A Japanese company in which more than 50% of the shares are held by the first shareholders' group is a family holding company and is subject to the surtax. A family holding company with paid-in capital of JPY 100 million or less (when its 100% parent company's stated capital is JPY 500 million or more, 'Intra-group transaction taxation' in the year of 2010 tax reform takes away this benefit) whose net equity is 50% or less

of its total assets is not subject to this special corporate surtax for accounting periods which begin on or after 1 April 2003 but before 1 April 2006.

BUSINESS OFFICE TAX

Companies whose business premises exceed 1,000 square meters and/or employ in excess of 100 employees in designated cities are subject to a tax on business activity based on space or gross payroll respectively. It is within the discretion of the city authorities whether or not to charge the tax. Additions can be made to the list of designated cities for the purpose of this tax but the city must have a population of at least 300,000. The tax is imposed on:

a) Construction or extension of business premises (a one-time payment due from the owner of the building);

b) Ongoing businesses.

The rate of tax is JPY 600 per square meter of floor space in business use plus 0.25% of the total remuneration paid to employees.

FIXED ASSETS TAX

Real property and tangible depreciable fixed assets are subject to a fixed assets tax at the standard rate of 1.4% (1.7% for real property in specified large cities).

LANDHOLDING TAX

Landholding tax is also levied at the national and municipal level.

TOTAL EFFECTIVE TAX RATE

By way of example of how the major taxes interrelate and accumulate, set out below is a sample effective tax rate calculation for a Japanese or foreign corporation having paid-in capital of JPY 100 million or less.

	Rate (%) (until March 2016)	Rate (%) (from April 2016)
Effective tax rate	33.80	33.59

Note: Enterprise Tax is deductible for corporation tax purposes for the period in which it is paid.

B. DETERMINATION OF TAXABLE INCOME

Income is ordinarily determined in accordance with generally accepted accounting principles, with certain adjustments made to comply with the tax law. Income and expenses are recorded on an accruals basis, with deductions from gross income for all reasonable expenses, costs and losses. Restrictions apply to the deduction of entertainment expenses.

DEPRECIATION

Depreciation is allowed in respect of all tangible assets, other than land and specified intangible assets. Depreciation on tangible assets is calculated using the straight-line or declining-balance method at the option of the taxpayer. However, for buildings and equipment attached to buildings, only the straight-line method may be used. Intangible assets are generally amortised on a straight-line basis.

The legislation specifies the period over which assets are to be depreciated and the rates for both the straight-line and declining-balance methods. Minor assets that cost JPY 100,000 or less are deductible as an expense. In addition to ordinary depreciation, special depreciation in the form of increased initial depreciation and accelerated depreciation is available in certain cases.

STOCK / INVENTORY

Inventory valuation methods acceptable for tax include an item's individual cost, FIFO, moving or straight average, most recent purchase, retail and lower of cost or market. Importantly, the tax treatment must replicate that adopted for the statutory accounts.

LOSSES

Corporations filing a 'Blue Return' are eligible for loss carry-over treatment. In general, losses may be carried forward ten years (from April 2015; however, for large scale companies, use of the losses is restricted to 65%; 60% from 1 April 2016; 55% from 1 April 2017 and 50% from 1 April 2018) of taxable income for each year or carried back one year. The carry-back provisions have been suspended for accounting periods ending

after 1 April 1992. However, a Blue Return status corporation with paid-up capital of JPY 100 million or less (except for a subsidiary of a large-scale company) can carry back a net loss incurred in a business year to the previous year. The loss is limited to the loss incurred for each business year within the five years after the initial business year.

FOREIGN SOURCE INCOME

Japanese corporations are taxable on their worldwide income when earned. However, corporations are generally entitled to claim tax credits against corporation and Inhabitants Tax for foreign income taxes paid (direct credit). For subsidiaries in low or nil tax countries or jurisdictions whose profits are not distributed, such profits are taxed in the hands of the Japanese parent on an accruals basis, with any associated foreign tax credits being available.

OVERSEAS INVESTMENT

Japanese corporations investing in certain companies involved with developing countries or in prospecting for or developing natural resources may be able to establish a tax deductible reserve of 30% or 90% of the amount invested. After the reserve has been maintained for five successive years, the amount of the reserve multiplied by the number of months of the business year, divided by 60, must be restored to taxable income in succeeding years following the year of reserve accrual.

TAX CREDIT INCENTIVES – CAPITAL INVESTMENT

Corporate tax credits of 7% of the acquisition cost are available on designated energy efficient machinery and equipment acquired by small to medium sized corporations. However, the total credit available is limited to 20% of the corporate tax. The credit was only applied to qualifying capital equipment acquired by 31 March 2016.

C. FOREIGN TAX RELIEF

Relief is available for foreign taxes on foreign source income and capital gains whether or not Japan has concluded a double tax treaty with the foreign country. Where a tax treaty exists, it will specify the method of relief. In the absence of a treaty, the domestic Japanese tax legislation allows a tax credit or deduction from taxable income. Under Japanese domestic law, foreign taxes not eligible for foreign tax credits are deductible. Treaties following the OECD model normally provide relief in the form of either a credit or exemption from tax.

D. CORPORATE GROUPS

The Japanese consolidated tax regime (a part of the corporate tax reform act for the year 2002) was enacted on 1 August 2002. The revised Corporate Tax Law and the Corporate Tax Law Enforcement Order are applicable to consolidated years ending on or after 31 March 2003, with transitional rules in respect of consolidated years beginning between 1 April 2002 and 30 June 2003 and ending on or after 31 March 2003.

Under the consolidated tax regime, an affiliated group of companies (a 'Consolidated Group') can report and pay national corporate income tax as one unit. For these purposes, a Consolidated Group means a Japanese parent company and its 100% directly or indirectly owned Japanese subsidiaries. An application for consolidated filing is at the taxpayers' choice but, if made, must include all of the parent's eligible subsidiaries. Once started, consolidated filing should in principle continue indefinitely, unless a specific event (such as change of ownership) causes the qualifying conditions for consolidated filing to be failed, or an application to discontinue is approved by the Commissioner of National Tax Administrative Agency.

The group's national corporate income tax liability will be computed on a consolidated basis by aggregating the separate taxable income or loss of the member companies, and then making various consolidation adjustments. The consolidated national corporate income tax liability will then be determined by applying the normal corporate income tax rate to the consolidated taxable income, adjusted for consolidated tax credits. The total liabilities will then be allocated among the members. The parent company will file the consolidated return and pay the national corporate income tax on behalf of the group, although the member companies remain jointly and severally liable for the Consolidated Group's national corporate income tax liability. Local corporate income taxes levied on member companies will continue to be paid on an individual basis although the amount payable will be affected by the existence of the consolidation.

The consolidation tax regime provides for certain benefits such as the deduction of losses of individual member companies from the total income of the Consolidated Group (for national corporate income tax purposes only); deferral of gains on intra-group transfers of certain assets; and non-taxability of the dividends received from other member companies (regardless of the interest expense attributable to the dividend

income). On the other hand, some features of the consolidated tax regime may result in an unpredictable tax burden on the introduction of tax consolidation or when a company joins the Consolidated Group in the future, thus putting some restrictions on future M&A (mergers and acquisitions) activity by the group. Therefore, understanding these issues will become very important for tax professionals and taxpayers when considering an application for consolidation.

A company with registered capital of JPY 100 million or less can take various preferential tax treatments (for example, reduced tax rate for first JPY 8 million of income, one year loss carry-back), however, 'Intra-group transaction taxation' in the year 2010 tax reform takes away such tax benefits when its 100% parent company's stated capital is JPY 500 million or more.

E. RELATED PARTY TRANSACTIONS

All transactions between related companies are required to be conducted on an arm's length basis with the meaning of 'arm's length price' depending upon the transaction. Any difference arising between the price of the actual transaction and that regarded as the arm's length price is taxable or not deductible as applicable. The transactions covered by the provisions include the purchase and sale of inventory, the provision of services and financial facilities such as the making of loans and guarantee facilities.

F. WITHHOLDING TAX

Domestic corporations are subject to 20% withholding tax on dividends and interest and certain other income. Foreign corporations are subject to withholding tax (generally at the rate of 20%) on dividends, interest, royalties, income from immovable property, rentals from industrial or commercial equipment and certain other income. This tax may generally be taken as a credit against the ultimate tax liability of the recipient. It should be noted that where the foreign corporation has a permanent establishment in Japan, certain types of income (for example, rent and royalties) are exempt from withholding tax if taxed together with income from Japanese business income. As indicated, the tax may generally be taken as a credit against the ultimate tax liability of the recipient. However, no tax credit is allowed for income tax withheld on dividends in the case of foreign corporations.

G. PERSONAL TAX

While similarities between the taxation of companies and individuals do exist in Japan, the above refers largely to companies. Accordingly, outlined below are the basic rules and rates applicable to individuals. Given the complexity of this area, it is necessary to stress the need to seek professional advice. Non-resident taxpayers are taxed only on their Japanese source income. Non-permanent resident taxpayers are taxed on both Japanese source income plus that part of non-Japanese source income that is paid in and/or remitted to Japan. A permanent resident taxpayer is taxed on his worldwide income. Individuals are generally classified on the following basis:

Period of Residence	Classification
Up to 12 months	Non-resident
12 months to 60 months	Non-permanent resident
More than 60 months	Permanent resident

National individual tax:

Taxable income (JPY)	Rate	Deduction (JPY)
0 – 1,950,000	5%	---
1,950,000 – 3,300,000	10%	97,500
3,300,000 – 6,950,000	20%	427,500
6,950,000 – 9,000,000	23%	636,000
9,000,000 – 18,000,000	33%	1,536,000
18,000,000 - 40,000,000	40%	2,796,000
Above 40,000,000	45%	4,796,000

Calculation: Taxable income × tax rate –deduction = national tax.

In response to the need for additional funds to deal with the aftermath of the earthquake in 2011, a surcharge

of 2.1% of the national personal tax liability has been added to the national personal tax rate for 25 years from January 2013. Retirement income, interest and timber income are each taxed separately from other income.

H. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Non-treaty countries				
Companies	15/20[26]	15/20[26]	0/15/20	20
Individuals	15/20	--	0/15/20	20
Treaty countries:				
Australia	10	0/5[1]	0/10	5
Austria	20	10[2]	10	10
Bangladesh	15	10[3]	10	10
Belgium	15	10[4]	10	10
Brazil	12.5	12.5	12.5	12.5/15/25
Brunei	10	5[5]	10	10
Bulgaria	15	10[3]	10	10
Canada	15	5[6]	10	10
Chile	15	0/5[7]	4/10	2/10
China	10	10	10	10
Czech Republic	15	10[4]	10	0/10
Denmark	15	10[8]	10	10
Egypt	15	15	–[21]	15
Fiji	–[21]	–[21]	–[21]	10
Finland	15	10[3]	10	10
France	10	0/5[9]	0/10	0
Germany	15	0/5[10]	0	0
Hong Kong	10	5[5]	10	5
Hungary	10	10	10	0/10
India	10	10	10	10
Indonesia	15	10[8]	10	10
Ireland	15	10[4]	10	10
Israel	15	5[6]	10	10
Italy	15	10[3]	10	10
Kazakhstan	15	5[5]	10	5
Korea	15	5[6]	10	10
Kuwait	10	5[5]	10	10
Luxembourg	15	5[6]	10	10

Malaysia	15	5[6]	10	10
Mexico	15	0/5[11]	10/15	10
Netherlands	10	0/5[12]	0/10	0
New Zealand	15	0[13]	0/10	5
Norway	15	5[6]	10	10
Oman	10	5[5]	0/10	10
Pakistan	10	5/7.5[14]	10	10
Philippines	15	10[15]	10	10/15
Poland	10	10	10	0/10
Portugal	10	5[16]	5/10	5
Qatar	10	5[17]	0/10	5
Romania	10	10	10	10/15
Saudi Arabia	10	5[18]	0/10	5/10
Singapore	15	5[6]	0/10	10
Slovak Republic	15	10[4]	10	0/10
Slovenia	5/10	5/10	0/5	5
South Africa	15	5[6]	10	10
Spain	15	10[19]	10	10
Sri Lanka	20	20	–[21]	0/10
Sweden	10	0[20]	0/10	0
Switzerland	10	0/5[12]	0/10	0
Taiwan	10	10	10	10
Thailand	–[21]	15/20[22]	10/25	15
Turkey	15	10[3]	10/15	10
United Arab Emirates	10	5[5]	10	10
United Kingdom	10	0[23]	0/10	0
United States	10	0/5[24]	0/10	0
USSR[25]	15	15	10	0/10
Vietnam	10	10	10	10
Zambia	0	0	10	10

Notes:

1. The 5% rate applies if the beneficial owner is a company which owns directly shares representing at least 10% of the voting power of the paying company. The 0% rate applies to dividends paid to a company that has owned directly shares representing at least 80% of the voting power of the company paying the dividends for the 12 month period ending on the date on which entitlement to the dividends is determined and the company that is the beneficial owner of the dividends (i) is a qualified publicly traded company or (ii) at least 50% of the aggregate vote and value of its shares is owned directly or indirectly by five or fewer such qualified publicly traded companies or (iii) has received a determination of entitlement to the treaty benefits.

2. The 10% rate applies if the recipient is a corporation which holds or owns more than 50% of the entire share capital of the paying company during a period of 12 months immediately before the end of the accounting period for which the distribution of profits takes place.
3. The 10% rate applies if the beneficial owner is a company which owns at least 25% of the voting shares of the paying company during the period of 6 months immediately before the end of the accounting period for which the distribution of profits takes place.
4. The 10% rate applies if the recipient is a company which owns at least 25% of the voting shares of the paying company during the period of 6 months immediately preceding the date when the dividends become payable.
5. The 5% rate applies if the beneficial owner is a company that has owned directly or indirectly, for the period of 6 months ending on the date on which entitlement to the dividends is determined, at least 10% of the voting shares of the paying company.
6. The 5% rate applies if the beneficial owner is a company which owns at least 25% of the voting shares of the paying company throughout the period of 6 months immediately before the end of the accounting period for which the distribution of profits takes place.
7. The 5% rate applies if the beneficial owner is a company that has owned directly, for the period of 6 months ending on the date on which entitlement to the dividends is determined, at least 25% of the voting power in the paying company. The 0% rate applies if the beneficial owner is a pension fund provided that the dividends are not derived from the carrying on of a business by such pension fund or through an associated enterprise.
8. The 10% rate applies if the beneficial owner is a company which owns at least 25% of the voting shares of the paying company during the period of 12 months immediately before the end of the accounting period for which the distribution of profits takes place.
9. The 5% rate applies if the beneficial owner is a company which holds during the period of 6 months immediately before the end of the accounting period for which the distribution takes place directly at least 15% of the voting rights in the paying company. The 0% rate applies if the beneficial owner is a company which is a French qualified resident and which has held during the period of 6 months immediately before the end of the accounting period with respect to which the profits distribution takes place directly at least 15% of the voting rights in the paying company. The term qualified resident refers to (i) a company quoted on the French Stock Exchange or (ii) more than 50% of the capital of the company is held directly or indirectly by, among others, the French State, its local authorities or public legal persons.
10. The 5% rate applies if the beneficial owner is a company that has owned directly, for the period of 6 months ending on the date on which entitlement to the dividends is determined, at least 10% of the voting shares of the paying company. The 0% rate applies if the beneficial owner is a company (other than a partnership) that has owned directly, for the period of 18 months ending on the date on which entitlement to the dividends is determined, at least 25% of the voting shares of the paying company.
11. The 5% rate applies if the beneficial owner is a company which owns at least 25% of the voting shares issued by the paying company during the period of 6 months immediately before the end of the accounting period for which the profits distribution takes place. The 0% rate applies if the recipient is a company which holds at least 25% of the voting shares issued by the paying company during the period of 6 months immediately before the end of the accounting period for which the profits distribution takes place and satisfies on the date of payment the following conditions: (i) the recipient's shares are traded on the Mexican Stock Exchange and (ii) more than 50% of the total shares is owned by, among others, the Mexican Government, its political subdivisions or local authorities.
12. The 5% rate applies if the beneficial owner is a company that has owned, directly or indirectly, shares representing at least 10% of the voting power of the paying company for the period of 6 months ending on the date on which entitlement to the dividends is determined. The 0% rate applies if the beneficial owner is (i) a company that has owned, directly or indirectly, shares representing at least 50% of the voting power of the paying company for the period of 6 months ending on the date on which entitlement to the dividends is determined or (ii) a pension fund, provided that the dividends are not derived from the carrying on of a business, directly or indirectly, by such pension fund.
13. The 0% rate applies if the beneficial owner is a company that has owned directly or indirectly, for the period of 6 months ending on the date on which entitlement to the dividends is determined, at least 10% of the voting power of the paying company and the beneficial owner of the dividends (i) is a qualified publicly traded company or (ii) at least 50% of the aggregate voting power is owned directly or indirectly by five or fewer such qualified publicly traded companies or (iii) is granted benefits to the dividends.

14. The 5% rate applies if the beneficial owner is a company that has owned directly, for the period of 6 months ending on the date on which entitlement to the dividends is determined, at least 50% of the voting shares of the paying company. The 7.5% rate applies if the beneficial owner is a company that has owned directly, for the period of 6 months ending on the date on which entitlement to the dividends is determined, at least 25% of the voting shares of the paying company.
15. The 10% rate applies if the beneficial owner is a company which holds directly at least 10% either of the voting shares of the paying company or of the total shares issued by that company during the period of 6 months immediately preceding the date of payment of the dividends.
16. The 5% rate applies if the beneficial owner is a company (other than a partnership) that has owned directly for the period of 12 months ending on the date on which entitlement to the dividends is determined, at least 10% of the voting shares of the paying company.
17. The 5% rate applies if the beneficial owner is a company that has owned directly or indirectly, for the period of 6 months ending on the date on which entitlement to the dividends is determined, at least 10% of the voting power or of the total issued shares of the paying company.
18. The 5% rate applies if the beneficial owner is a company which holds directly or indirectly, during the period of 183 days ending on the date on which entitlement to the dividends is determined, at least 10% of the voting shares or of the total issued shares of the paying company.
19. The 10% rate applies if the recipient is a company which holds directly at least 25% of the voting shares of the paying company during the period of 6 months immediately before the end of the accounting period for which the distribution of profits takes place.
20. The 0% rate applies if the beneficial owner is a company (other than a partnership) that has held, directly or indirectly, at least 10% of the voting power of the paying company for the period of 6 months ending on the date on which entitlement to the dividends is determined.
21. No reduction under the tax treaty, the domestic rate applies.
22. The 15% rate applies in case the dividends are paid by a company engaged in an industrial undertaking and if the beneficial owner is a company which owns at least 25% of the voting shares of the paying company during the period of 6 months immediately before the end of the accounting period for which the profits distribution takes place. The 20% rate applies in all other cases.
23. The 0% rate applies if the beneficial owner is a company that has owned, directly or indirectly, shares representing at least 10% of the voting power of the paying company for the period of 6 months ending on the date on which entitlement to the dividends is determined or is a pension fund or pension scheme, provided that such dividends are not derived from the carrying on of a business, directly or indirectly, by such pension fund or pension scheme.
24. The 5% rate applies if the beneficial owner is a company that owns directly or indirectly, on the date on which entitlement to the dividends is determined, at least 10% of the voting stock of the paying company. The 0% rate applies if the beneficial owner of the dividends is either (i) a company that has owned, directly or indirectly through one or more residents of either state, more than 50% of the voting stock of the paying company for the period of 12 months ending on the date on which entitlement to the dividends is determined, and that satisfies various requirements on the ownership of its shares, or has received a determination of entitlement to the treaty benefits or (ii) a pension fund, provided that such dividends are not derived from the carrying on of a business, directly or indirectly, by such pension fund.
25. Japan continues to apply the treaty with the former USSR in its relations with Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.
26. Dividends paid by resident companies to non-resident companies are subject to a 20% withholding tax. A reduced 15% rate applies to dividends from certain listed shares.

JERSEY

MEMBER FIRM

City	Name	Contact Information
St. Clement	Mark Godel	+44 1534 858490 mark.godel@pkfbba.com

BASIC FACTS

Full name:	Bailiwick of Jersey
Capital:	Saint Helier
Main languages:	English
Population:	104,200 (2018 estimate)
Monetary unit:	Pound Sterling (GBP)
Internet domain:	.je
Int. dialling code:	+44 1534

KEY TAX POINTS

- There are no capital taxes i.e. capital gains tax or inheritance tax.
- Residents are subject to Jersey income tax on their worldwide income as it arises. The standard rate of Income Tax is 20%.
- Non-residents are normally only subject to income tax on income arising in Jersey.
- Goods and Services tax (GST) is charged on the supply of goods and services in Jersey by a Jersey business at a rate 5%.
- Double taxation relief is available in accordance with various treaties.
- A company tax resident in Jersey is chargeable to tax at 0%, 10% or 20% depending upon the nature of its income. Generally trading companies and investment holding companies are taxed at 0%. Financial service entities are liable to tax at the 10% corporate rate. Utility companies and companies with Jersey rental income and Jersey property development companies are taxed at 20%.
- Non-resident companies are not liable to Jersey tax unless managed and controlled in Jersey and therefore Jersey tax resident.

A. TAXES PAYABLE

COMPANY TAX

All companies incorporated in Jersey or managed and controlled in Jersey are treated as tax resident and, therefore chargeable to Jersey income tax. A Jersey resident company is liable to tax at 0%, 10% or 20%. Financial services entities are subject to a 10% rate and are defined as:

- All entities carrying out banking business through a permanent establishment in Jersey, whether through a Jersey company, a branch or some other structure.
- All entities carrying on the business of a trust business through a permanent establishment.
- All entities carrying on investment business, independent financial advice and similar activities through a permanent establishment.
- All entities carrying on the business of funds administration or funds custody services through a permanent establishment.

It should be noted that clerical functions such as invoicing operations, management and administration services and entering into contracts in respect of a company's international business do not amount to the carrying on of a business through a permanent establishment in the Island. Public utility companies such as those providing electricity, water, gas, telecommunications and postal services are taxed at 20%. Jersey rental income and profits from property development in Jersey are taxed at the rate of 20%. Most other companies are liable at the standard rate of 0%.

The tax year runs from 1 January to 31 December, although companies may adopt an accounting year end of their choice. Income is assessable on a current year basis. Assessments are notified to the company in the year following the year of assessment.

CAPITAL GAINS TAX

There is no capital gains tax in Jersey. Capital gains are not included in ordinary taxable income.

BRANCH PROFITS TAX

There is currently no branch profits tax in Jersey.

SALES TAX / VALUE ADDED TAX (VAT)

A Goods and Services Tax (GST) which is a form of sales tax on the domestic consumption of imported and locally produced goods and services is in place. There is a standard rate of 5% which will be collected from customers by registered businesses when they make supplies of those goods and services which are specified by Law as taxable at the standard rate.

There are three categories of supplies:

- Standard-rated supplies - e.g. the sale of new and used goods including those under a hire purchase agreement, renting and hiring out of goods, business stock used for private purposes, the provision of services (e.g. hairdressing or hotel accommodation), charging admission for access onto premises, and imported goods.
- Exempt supplies – e.g. financial services, insurance, postal services, medical and pharmaceutical supplies made by registered professionals or institutions, and supplies to charities.
- Zero-rated supplies – e.g. exports, the supply of a dwelling, supplies made on medical prescription and international services.

GST registration is compulsory for businesses established in Jersey making annual taxable supplies exceeding £300,000, although voluntary registration is available for business trading below this level. Certain businesses do not have to register for GST in Jersey, and these can apply to be an International Service Entity (ISE). These are businesses, often financial service businesses, which mainly serve non-residents of Jersey and are exempted from GST, but are subject to other charges.

LOCAL TAXES

Taxes are levied at a state level only.

OTHER TAXES

Social Security contributions are charged on employees at a rate of 6% on gross earnings of up to GBP 4,180 per month. The employer then pays 6.5% of gross earnings up to GBP 4,180 per month and 2% over that amount on up to GBP 13,828 per month.

The maximum rate for self-employed individuals is GBP 715.46 per month (there is a reduced rate in certain circumstances). Earnings must be over GBP 884 per month to pay a class of social security contributions on gross earnings. On moving to the Island an individual must register with the Social Security department.

FRINGE BENEFITS TAX (KNOWN AS BENEFITS IN KIND IN JERSEY)

Taxable benefits include, amongst other things, the private use of a company motor vehicle, rent-free accommodation and free board and lodging. Employees are responsible for payment of tax on benefits.

LAND TRANSACTIONS TAX

There is a Land Transactions Tax to collect which is a form of stamp duty on share transfer transactions involving immovable property in Jersey. The charge takes the form of a Tax rather than Stamp Duty. A legal obligation is placed on the purchaser of a residential property by share transfer to pay a tax exactly equal to the amount of Stamp Duty which would have been paid on the purchase if it had been freehold property. This only applies to certain companies whose Articles of Association expressly provide for the shareholders to occupy the property.

There are lower rates for first time buyers, charities, the transfer of matrimonial property from joint to sole ownership (or vice versa), and transfers from a deceased person's estate. Non-resident purchasers of shares are not exempt from the tax. The standard charge is GBP 80 plus an amount calculated per the standard land transaction tax rate bands:

Bands (GBP)	Rate
0 to 50,000	0.5% (subject to a minimum of £10)
50,000 to 300,000	1.5%
300,000 to 500,000	2%
500,000 to 700,000	2.5%
700,000 to 1,000,000	3%
1,000,000 to 1,500,000	4%
1,500,000 to 2,000,000	5%
2,000,000 to 3,000,000	6%
3,000,000 to 6,000,000	8%
over 6,000,000	9%

B. DETERMINATION OF TAXABLE INCOME

For a company or business, taxable trading profits are calculated by ascertaining assessable income and subtracting allowable deductions. Generally, to be deductible, expenditure must be wholly and exclusively incurred for the purposes of the trade and be revenue in nature rather than capital.

CAPITAL ALLOWANCES AND DEPRECIATION

No deduction is permitted in respect of depreciation on capital items. However, annual allowances, calculated using the reducing-balance method, are allowed as follows:

- Plant and machinery – 25%; glasshouses – 10%;
- Motor vehicles – 25% (cost reduced to £22,000 for expensive cars).

If, in any year, there are insufficient profits to cover balancing allowances, which are treated as a deduction from profits, any unrelieved amount is carried forward and treated as an allowance for the following year. This surplus capital allowance and balancing allowances may be carried forward indefinitely, if necessary.

STOCK / INVENTORY

UK principles are followed such that the value of the stock is normally the lower of cost and market value. Acceptable methods of valuing inventory include FIFO and average cost but not LIFO.

CAPITAL GAINS AND LOSSES

There is no capital gains tax in Jersey. Capital losses are not allowable.

DIVIDENDS

Dividends paid are not deductible in calculating the profits of a company but are paid out of after tax profits. Dividends paid out of a Jersey company's profits carry a tax credit in relation to the tax paid by the company at either the 0%, 10% or 20% rates. Dividends received from a UK resident company do not qualify for double tax relief and individuals are taxed on the net amount received.

No unilateral relief is available to resident companies on receipt of foreign dividends and, thus, the net dividend is taxable (in other words, relief is given for foreign tax suffered by way of deduction). However, relief may be granted by concession on foreign dividend income if the absence of it would prevent bona fide commercial transactions (e.g. because dividends paid to a holding company by an overseas subsidiary would be subject to double taxation). This income is liable to Jersey tax at the standard corporate tax rate of 0% when received by a Jersey company. All distributions to a Jersey resident shareholder who owns more than 2% of the company are subject to tax at their personal tax rates.

SHAREHOLDER LOANS

A loan made to a Jersey resident shareholder or a member of the shareholder's family or a related party is liable to income tax unless it is made at a commercial rate of interest. The shareholder is entitled to a credit when the loan is repaid, equal to the amount of tax paid on the loan.

INTEREST DEDUCTIONS

Interest is deductible to the extent that it relates to monies borrowed for the purpose of the business.

LOSSES

Losses can be carried forward indefinitely provided there is a continuity of trade. There is a limited right to carry back losses. Losses can also be group relieved in the same year if the same basis periods exist. There are limitations on loss claims.

C. FOREIGN TAX RELIEF

Double taxation relief is available on all income taxed at source excluding UK dividends received and UK debenture interest. Associated with its negotiations in relation to Tax Information Exchange Agreements, Jersey has entered into limited double taxation arrangements relating to income and mutual agreement procedures with:

Australia	Denmark	Faroe Islands
Finland	France	Germany
Greenland	Iceland	New Zealand
Norway	Poland	Sweden

Tax Information Exchange Agreements (TIEAs) have been signed with:

Argentina		Australia	Austria
Canada	China	Czech Republic	
Denmark	Faroe Islands	Finland	
France	Germany	Greenland	
Hungary	Iceland	India	
Indonesia	Ireland	Italy	
Japan	Latvia	Mexico	
Netherlands	New Zealand	Norway	
Poland	Portugal	Romania	
Slovenia	South Africa	Sweden	
Switzerland	Turkey	UK	
USA			

Belgium, Brazil, Chile and Korea not yet in force.

D. CORPORATE GROUPS

The tax provisions relating to groups of qualifying companies allow losses of a group company to be offset against the profits or gains of another company in the same group. A claim for relief must be made within one year following the year of assessment in which the loss period ended.

Companies will be treated as being in the same group where one holds directly or indirectly more than 50% of the ordinary share capital of the other company, or where one company (company A) owns directly or indirectly more than 50% of the ordinary share capital of the two other companies (company B and company C).

E. RELATED PARTY TRANSACTIONS

There is no transfer pricing or related party legislation in Jersey.

F. WITHHOLDING TAX

There are no withholding taxes in Jersey.

G. EXCHANGE CONTROL

There are no exchange control rules in Jersey.

H. PERSONAL TAX

Income tax is charged on Jersey resident individuals on their worldwide income and profits regardless of whether such profits or income are remitted to Jersey. There is, however, a statutory relief for individuals who are resident, but not ordinarily resident in Jersey, so that foreign income not remitted escapes taxation. The tax year is the calendar year i.e. to 31 December. There is no statutory definition of residence or ordinary residence in Jersey. Generally, individuals are treated as resident in a year if they are present in Jersey for more than six months or if they are present for three months or more, on average, over a period of four consecutive years.

If an individual maintains a place of abode in Jersey or has available accommodation, he is regarded as resident in any year that he stays in that abode or accommodation, even if for only one night. He is also regarded as ordinarily resident if his visits are habitual (after four years) unless his centre of life is abroad, e.g. has a home, business or professional activities abroad and is spending less than three months a year in Jersey. Income from offices and employment is assessable on an arising basis. Income tax is levied on the assessable income of the individual less personal allowances and deductions at a rate of 20%.

Earned income arising outside the island is assessed on the net amount arising after the deduction of any foreign tax charged and any necessary expenses. The maximum amount of tax paid on total income is 20%, but there are two methods of calculating tax, the standard rate calculation, i.e. 20% of total income and the marginal relief calculation where allowances and reliefs are deducted. Income is exempt if it does not exceed GBP 14,550 for a single person (GBP 15,900 for those aged 65 and over) or GBP 23,350 for a married person (GBP 26,100 for those aged 65 and over). Marginal relief is available where income exceeds the exemption limit on small incomes, and the tax charged is not to exceed 26% of the excess.

Where income is chargeable to tax, personal allowances are available as follows:

- Single person GBP 14,550 (over 65 GBP 15,900)
- Married/civil partnership person GBP 23,350 (over 65 GBP 26,100)
- Child allowance GBP 1,000
- Spouse/civil partner working allowance GBP 5,000

The Enhanced Child Allowance for a parent whose child is in full time higher education is £9,000. There is an Additional Personal Allowance for single parents of GBP 4,500. There is also relief for childcare costs for a registered child carer up to GBP 6,150 or GBP 16,000 (dependent on type of childcare).

There is interest tax relief in certain circumstances. Mortgage interest relief is deductible but only on loans up to GBP 300,000 on an individual's principal private residence if the individual is taxed at the marginal rate of 26%. The relief is restricted to GBP 13,500. There is tax relief for pension contributions, with the maximum relief being the lower of GBP 50,000 or relevant earnings and the relief is restricted if the individual's income is more than GBP 150,000. The only other deduction is for employment expenses.

Some reliefs are restricted and have conditions attached to them which need to be satisfied. A long-term care fund has been set up to help those who need long-term care. If an individual pays income tax they pay into this fund. The long-term care contribution rate is 1% of total income.

HIGH NET WORTH INDIVIDUALS

High Value Resident individuals whose income exceeds GBP 625,000 per annum can apply for a special residence licence to live in Jersey. The current tiered rate of tax on personal, worldwide income is taxed as follows;

- 20% on the first GBP 625,000
- 1% on all income over GBP 625,000
- 20% on income derived from Jersey property

(Based on 2017 rates and allowances)

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)	Interest (%)	Royalties (%)
Domestic rates			
Companies	0	0	0
Individuals	0	0	0
Treaty countries:			
Cyprus	0	0	0
Estonia	0	0	0
Guernsey	0	0	0
Hong Kong	0	0	4
Isle of Man	0	0	0
Luxembourg	5/15[1]	0	0
Malta	0	0	0
Qatar	0	0	5
Rwanda	10	10	10
Seychelles	0	0	0
Singapore	0	12	8
United Arab Emirates	0	0	0

2. The lower rate applies in case the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends.

JORDAN

MEMBER FIRM

City	Name	Contact Information
Amman	Mohammed Khattab	+962 795 572 746 mkhattab@pkf.jo

BASIC FACTS

Full name:	The Hashemite Kingdom of Jordan
Capital:	Amman
Main languages:	Arabic
Population:	9.87 million (2018 estimate)
Monetary unit:	Jordanian dinar (JOD)
Internet domain:	.jo
Int. dialling code:	+962

KEY TAX POINTS

- Domestic companies are subject to income tax on worldwide income, although income from the export of goods is exempt until 31 December 2018. Foreign companies are subject to tax on income from Jordanian sources.
- Special rates of corporate income tax apply to certain industries including transport, construction, banking and other financial industries.
- Capital gains are taxed at the appropriate corporation tax rate if the assets are subject to depreciation rules.
- Credit for foreign taxes is generally only available where a relevant double tax agreement is in place.
- No withholding tax is charged on the payment of dividends by Jordanian companies. However, withholding taxes are charged on the payment of interest, royalties and other charges to both residents and non-residents.
- Income tax is payable by residents and non-residents on salaries earned from any employment in Jordan.

A. TAXES PAYABLE

FEDERAL TAXES AND LEVIES

The Jordanian Tax year is a calendar year starting on 1 January until the 31 December of each year.

The taxpayer might change the Tax year to be compatible with his business.

COMPANY TAX

Domestic companies are subject to income tax on all their sources of income wherever arising. Foreign working branches (companies) are subject to income tax only on their income from Jordanian sources. Export sales of goods are only income tax exempted until 31 December 2018 and the Tax Department might often extend this exemption. The taxpayer should maintain regular audited accounting records with a separate cost centre for export activities.

Export sales of some services are exempted including accounting services, computer services, feasibility studies services and IT services. Dividends received from domestic companies are exempt from tax. Company tax is levied as follows:

Domestic companies and foreign operating branches:	**Rate**
Banks	35%
Major telecom companies, electricity distribution and generation companies, mining companies, insurance and re-insurance companies, brokerage, legal persons who practice financial leasing.	24%
Industrial sector	14%
All legal persons except what was stated above	20%

FOREIGN NON-OPERATING COMPANIES

SECURITIES TRANSACTION TAX

Security Transaction Tax is not applicable in Jordan.

CAPITAL GAINS TAX

Capital gains are taxed at the appropriate corporation tax rate if the assets are subject to depreciation rules.

TONNAGE TAX FOR SHIPPING INDUSTRY

Tonnage Tax for shipping industries is not applicable in Jordan.

DIVIDEND DISTRIBUTION TAX

Profits from stocks and dividends distributed by a resident to another resident are exempted, except profits of mutual investment, funds of banks and financial companies.

BRANCH PROFITS TAX

Jordanian companies' branches operating outside the Kingdom, and foreign investments if the source of capital originated inside the Kingdom, are subject to a 10% tax ratio, based on net income declared in their final accounts which are certified by an external certified auditor.

SALES TAXES / VALUE ADDED TAX (VAT)

The rates of the sales tax are:

- 16% as a general rate for goods and services;
- 8% on home Internet, building iron, reinforcement steel, certain types of food.
- 4% for specified agricultural products, fruits, meat, vegetables and live animals;
- Zero rate for a list of specified products like energy-saving products and pharmaceutical industry inputs.

A state government initiative to promote industrial growth provides sales tax exemption and defers the payment of the tax payable on goods and services at importation.

FRINGE BENEFITS TAX

There is no separate fringe benefits tax. Benefits provided by employers to their employees are subject to income tax, computed in the prescribed manner. Employers are obliged to withhold payable income tax on all benefits provided to employees on their behalf. If the company adopts provident funds or insurance plans, employers are required to contribute.

LOCAL TAXES:

STAMP DUTY

Stamp Duty of 0.6% is payable on all transactions with governmental and publicly traded corporations.

LAND AND PROPERTY TAX

No tax is levied on land property except for improvement taxes. However, real estate property is subject to tax at a variable rate between 2% to 5% of a credited value.

OTHER TAXES:

CUSTOMS DUTY

Customs Duty is payable on goods imported into Jordan. The rates of basic Customs Duty may reach up to 30% depending on the governmental strategy.

RESEARCH AND DEVELOPMENT

Research and development expenses can be deducted whenever incurred.

WEALTH TAX

Wealth tax is not applicable in Jordan.

GIFT TAX

Income from prizes, the value or amount of which exceeds JOD 1,000 is subject to a final withholding tax rate of 15%.

B. DETERMINATION OF TAXABLE INCOME

Any income incurred in or from the Hashemite Kingdome of Jordan for any person regardless of the place of payment shall be subject to income tax. Generally, to be deductible, an expenditure must be assigned to generate taxable income. Some expenses require a special treatment. Non-resident taxpayers pay tax only on Jordanian earned income. The assessment year is the period of 12 months from 1 January until 31 December.

DEPRECIATION

Depreciation allowance is available as per the following rates depending on the nature of asset:

Buildings (depending upon their nature)	2% to 10%
Furniture and Fixtures	5% to 15%
Plant and Machinery	20% to 35%
Intangible Assets (patents, trademarks, know-how, licences, copyrights, etc)	10% to 50%
Modes of Transportation (land, air, sea)	15%

Assets used for less than 180 days in the year of acquisition are entitled to half of the normal depreciation allowance. Depreciation not set off against current year's income can be carried forward for set off against any future income for unlimited period.

STOCK / INVENTORY

The valuation of closing stock is normally completed on the basis of cost or market value, whichever is lower. The accepted valuation methods include FIFO, weighted average cost or other valuation methods in accordance with IFRS. The valuation basis is to be consistently followed.

INTEREST DEDUCTION

Interest incurred or paid on borrowings used for business purposes is tax deductible within the same year as mentioned below:

a) For new businesses, interest incurred prior to commencement of commercial production is to be capitalised.

b) Interest paid for financing another taxpayer is not deductible.

c) Interest paid by banks, financial companies and financial leasing companies is fully deductible.

EXPENDITURE INCURRED FOR EXEMPT INCOME

Expenditure incurred in earning an exempted income from tax is not tax deductible. With regards to the exempted income from trading in dividends, stocks, bonds, equity loan, treasury bonds, mutual investment funds and currencies, the non-deductible amount shall be 25% of the exempted income. In all cases, the non-deductible amount should not exceed the allowable expenses.

LOSSES

Business losses can be set off against any other income in the same assessment year and against business profits. Losses can be carried forward not exceeding five (5) years. Losses for activities outside the Kingdom are deducted from the activity's profits. There are no provisions for carrying losses backward. Export losses cannot be carried forward.

MINIMUM ALTERNATE TAX (MAT)

MAT is not applied in Jordan.

FOREIGN SOURCED INCOME

Jordanian companies' branches operating outside the Kingdom, and foreign investments if the source of capital originated inside the Kingdom are subject to a 10% tax ratio. Any income for a resident person from sources outside of the Hashemite Kingdom of Jordan shall be subject to tax, provided that it originates from money or deposits from inside the Kingdom. Income for a non-Jordanian resident fiscal person is exempt from income tax if this income is generated outside of Jordan.

INCENTIVES

In addition to the incentives which are available for export sales of goods, the investment Law provides tax and customs duties exemptions on certain new projects. In case of an undertaking located in a Special Economic Zone, the tax incentives for the first ten years are normally 75%. Input sales tax for export sales is refundable.

FOREIGN EXCHANGE EARNINGS

Foreign exchange earnings are only taxable for companies.

C. FOREIGN TAX RELIEF

UNILATERAL TAX CREDIT WHERE THERE IS NO TAX TREATY

Where a resident of Jordan has paid tax in any country with which Jordan does not have a tax treaty, a credit is not available for such tax payment in Jordan.

TAX CREDIT UNDER TAX TREATIES

Jordan has entered into tax treaties with many countries. Under an applicable tax treaty, Jordanian residents paying taxes in other countries can claim a credit in Jordan for foreign tax payments as mentioned in each treaty.

D. CORPORATE GROUPS

There are no provisions in Jordan for consolidation of accounts for tax purposes or provisions for group taxation.

E. RELATED PARTY TRANSACTIONS

Related party transactions are required to be reported separately and the tax authorities are given power to consider whether transactions are at arm's length. Where prices paid for the purchase of goods or services are excessive or unreasonable, the assessing officer can disallow a deduction for the excess portion.

F. WITHHOLDING TAX

The law stipulates that the legal person should deduct and pay a rate of 5% as a down payment of the fees and wages paid to a resident person of:

1. Doctors;
2. Lawyers;
3. Engineers;
4. Auditors;
5. Consultants;
6. Authorized persons for taxpayers (Tax Advisors);
7. Insurance and Re-insurance brokers;
8. Arbitrators;
9. Customs brokers;
10. Real estate brokers;
11. Arbitrators by commissions;
12. Financial brokers;
13. Shipping brokers by commissions;
14. Any other persons which are identified under instructions.

Income from royalties and any other non-exempted income paid by a resident to a non-resident person directly or indirectly is subject to withholding tax at the rate of 10% and the withheld amount shall be considered a final tax.

G. EXCHANGE CONTROL

There are no exchange control rules in Jordan.

H. PERSONAL TAX

Jordanians and non-Jordanian resident individuals are both subject to the same rules and taxes that are assessed on income in, or from, Jordan. Taxable income is the gross income less the following deductions (exemptions):

- Tax on a physical person:
  - a) JOD 12,000 yearly exemption for a resident natural person;
  - b) JOD 12,000 yearly exemption for dependents;
  - c) JOD 4,000 yearly exemption for a natural person and dependents to cover medical treatment, education, housing loans interests, Murabaha on housing, technical, engineering and legal services, provided that invoices or supporting documents are presented.
- Income tax according to the following ratios:
  - a) First JOD 10,000 is subject to a 7% ratio;
  - b) Second JOD 10,000 is subject to a 14% ratio;
  - c) Any amount above that is subject to a 20% ratio.

A non-Jordanian resident pays tax only on income from Jordanian sources of income. Income from stocks and dividends distributed by a resident is considered an exempt income for individuals.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends%		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	0/10	0	5	10
Individuals	0/10	--	5	10
Treaty countries:				
Algeria	15	15	15	15
Arab Economic Union Council	--[2]	--[2]	--[2]	--[2]
Azerbaijan	8	8	8	10
Bahrain	10	10	10	10
Bulgaria	10	10	10	10
Canada	15	10[3]	10	10
Czech Republic	10	10	10	10
Croatia	10	5[4]	10	10
Egypt	15	15	15	20
France	15	5[5]	0/15	5/15/25
India	10	10	10	20
Indonesia	10	10	10	10
Iran	7.5	5[6]	5	10
Italy	10	10	10	10
Korea	10	10	10	10
Kuwait	10	5[7]	5	30
Lebanon	10	10	10	10
Malaysia	10	10	15	10

Malta	10	10	10	10
Morocco	10	10	10	10
Netherlands	15	5[5]	5	10
Palestine	10	7	10	10
Pakistan	10	10	10	10
Poland	10	10	10	10
Qatar	10	10	5	10
Romania	15	15	12.5	15
Saudi Arabia[1]	5	5	5	7
Syria	10	10	10	18
Tunisia	--[8]	--[8]	--[8]	--[8]
Turkey	15	10[9]	10	12
Ukraine	15	10[9]	10	10
United Arab Emirates1	0/7	0/7[10]	7	10
United Kingdom	10	10	10	10
Uzbekistan	10	7[11]	10	20
Yemen	10	10	10	10

Notes:

1. Effective 1 January 2018.
2. No limitation on WHT on dividends, interest and royalties under the treaty. The domestic rate applies. Member states are: Egypt, Iraq, Jordan, Kuwait, Libya, Mauritania, Palestinian Autonomous Area, Saudi Arabia, Somalia, Sudan, Syria, the United Arab Emirates and Yemen.
3. The 10% reduced rate applies if the beneficial owner is a company that controls directly or indirectly at least 10% of the voting power in the dividend-paying company.
4. The 5% reduced rate applies if the beneficial owner is a company (other than a partnership) which holds at least 25% of the capital of the dividend-paying company, provided that this holding was not acquired primarily for the purpose of taking advantage of this provision.
5. The 5% reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the dividend-paying company.
6. The 5% reduced rate applies if the beneficial owner is a company which has owned at least 25% of the capital of the dividend-paying company.
7. The 5% reduced rate applies if the beneficial owner is a company which holds directly at least 5% of the capital of the dividend-paying company.
8. There is no limitation under the treaty, the domestic rate applies.
9. The 10% reduced rate applies if the recipient is a company (excluding partnership) which holds directly at least 25% of the capital of the dividend-paying company.
10. The 0% rate applies if the beneficial owner is the state, one of its political subdivisions or local governments, or a financial institution.
11. The 7% reduced rate applies if the beneficial owner is a company which holds directly at least 25% of the capital of the dividend-paying company.

KAZAKHSTAN

MEMBER FIRM

City	Name	Contact Information
PKFI	Stefaan De Ceulaer	+44 20 3691 2511 stefaan.deceulaer@pkf.com

BASIC FACTS

Full name:	Republic of Kazakhstan
Capital:	Astana
Main languages:	Kazakh, Russian
Population:	18.38 million (2018 estimate)
Monetary unit:	Kazakhstani Tenge (KZT)
Internet domain:	.kz
Int. dialling code:	+7

KEY TAX POINTS

- Standard corporate income tax rate is 20%.
- VAT is levied at a standard rate of 12%.
- Dividends, interest and royalties paid to non-residents without a permanent establishment in Kazakhstan are subject to 15% withholding tax, subject to the application of a double tax treaty. Dividends, interest and royalties paid to non-residents registered in a tax haven jurisdiction are subject to 20% withholding tax. Technical service fees and management fees are subject to 20% withholding tax. However, certain technical fees may be reclassified as royalties and thus be subject to 15% withholding tax only.
- Branches are subject to corporate tax at a rate of 20% on their net income. A 15% branch remittance tax also applies to net income after corporate tax regardless of whether the net profit is remitted to the head office but subject to the application of a double tax treaty. The effective tax rate for the income of branches of foreign legal entities therefore amounts to 32% if there is no reduction under a the application of a double tax treaty

A. TAXES PAYABLE

COMPANY TAX

Resident companies are taxed on their worldwide income while non-residents are generally only taxed on Kazakhstan-sourced income. A company is considered to be a Kazakh tax resident if it is established under the laws of Kazakhstan or if its governing body or place of actual management and control is located in Kazakhstan.

The standard corporate income tax rate of 20% applies to both domestic and foreign companies. The corporate income tax return is due by 31 March of the year following the reporting tax year.

CAPITAL GAINS TAX

Capital gains are taxed as normal income and thus subject to the standard corporate income tax rate of 20%. Capital gains from the disposal of shares are exempt, provided that the shares are:

- held for a period of at least 3 years; and
- held in resident companies whose assets which are used for subsurface use activities in value do not exceed 50% of the total asset's value of that company.

BRANCH PROFITS TAX

Like resident entities, branches are subject to corporate tax at a rate of 20% on their net income. A 15% branch remittance tax also applies to net income after corporate tax regardless of whether the net profit

is remitted to the head office but subject to the application of a double tax treaty. The effective tax rate for the income of branches of foreign legal entities therefore amounts to 32% if there is no reduction under the application of a double tax treaty.

SALES TAX / VALUE ADDED TAX (VAT)

The standard rate of VAT is 12%. It is levied on the supply of goods and services and on imports. VAT is payable by all legal entities (including branches and representative offices of non-resident legal entities) and individual entrepreneurs registered for VAT purposes. The registration is mandatory if the taxable person has a turnover exceeding 30,000 MCI in a calendar period (currently, 1 MCI = 2,269 KZT). The threshold will be reduced gradually to 25,000 MCI starting from 2018 and to 20,000 MCI starting from 2019. Voluntary VAT registration is allowed.

The VAT return shall be filed for each tax period by the 15th day of the second month following the reporting period while the deadline for payment of VAT is due by the 25th day of the second month following the reporting period.

B. DETERMINATION OF TAXABLE INCOME

Entities are subject to corporate income tax on trading profits and other taxable income. In general, all expenses incurred by a taxpayer are deductible if they are made with the view to derive business income (except for those expenses specifically listed as non-deductible by the Tax Code) and if they are supported by appropriate documentation.

Non-deductible expenses comprise, among others, dividends, administrative fines and not duly documented expenses.

DEPRECIATION

The accepted depreciation method is the declining balance method. The Tax Code provides for the following depreciable asset groups and depreciation rates:

Asset group	Rate (%)
Buildings and constructions.	10
Fixed assets not included in the preceding groups, including oil, gas wells and transmission devices.	15
Machinery and equipment (except those for oil and gas production, and computer equipment for information processing.	25
Computers and equipment for information processing, software.	10

CAPITAL GAINS AND LOSSES

Capital losses that cannot be fully offset against capital gains in the current tax year can be carried forward for up to 10 years and credited against future capital gains, subject to certain exceptions.

DIVIDENDS

Dividends received are income tax-exempt, with the exception of some categories such as dividends received from risk investment funds.

No withholding tax is levied on dividends distributed to resident companies. Dividends paid to non-residents without a permanent establishment in Kazakhstan are subject to 15% withholding tax, subject to the application of a double tax treaty. Dividends paid to non-residents registered in a tax haven jurisdiction are subject to 20% withholding tax. Dividends are a non-deductible expense.

INTEREST DEDUCTIONS

Thin capitalization rules apply in respect of interest paid to related parties and persons registered in black-listed jurisdictions. The interest paid is deductible if the debt-to-equity ratio does not exceed 4:1 (7:1 for financial institutions).

LOSSES

Operating losses may be carried forward for up to 10 years. Loss carry-back is not available. Depreciation expenses are deductible during a loss-making year.

FOREIGN SOURCE INCOME

Resident companies individuals are taxed on their worldwide income while non-residents are subject to tax on their Kazakh-sourced income only.

TAX INCENTIVES

- Accelerated tax deductions for capital expenditure, subject to certain conditions;
- Incentives for investment in priority economic sectors related to business in special economic zones and investment in qualifying investment priority projects.
- Special tax regimes and incentives for qualifying non-profit organizations and organizations operating in social sectors.

C. FOREIGN TAX RELIEF

Resident taxpayers may claim foreign tax relief unilaterally or based on tax treaties (if applicable). A credit is generally available for foreign taxes paid on foreign-sourced income on the basis of documentation confirming the foreign income tax payment. Double tax treaties usually grant a tax credit for the tax paid on income and capital having its source abroad. Double tax treaties prevail over domestic tax legislation.

D. CORPORATE GROUPS

Group taxation is not permitted under the tax legislation, each company must file a separate return. However, non-residents having several permanent establishments in Kazakhstan may opt to submit a consolidated tax return.

Controlled Foreign Companies (CFC)

CFC rules apply to residents with at least a 10% participation in an entity based in a jurisdiction having a preferential tax regime. A jurisdiction is considered as having a preferential tax regime if the following conditions are fulfilled:

- the corporate income tax rate is 10% or lower; or
- it has laws concerning the confidentiality of financial information or laws allowing secrecy in respect of the actual owner of property or the income or actual owners, founders or shareholders of a company.

A list of preferential jurisdictions is made by the government. It currently has 58 jurisdictions listed, including Malta and Panama.

E. RELATED PARTY TRANSACTIONS

Transfer pricing

The current Law on transfer pricing came into force on 1 January 2009 adopting the arm's length principle and comprising reporting requirements. The methods allowed to determine the market price are the comparable uncontrolled price method, cost plus, resale price, profit split and the transactional net margin method. The legislation does not provide for the possibility to conclude an advance pricing agreement (APA) with the tax authorities.

On 25 April 2018, the State Revenue Committee announced the introduction of a three-tiered approach to TP documentation. According to Law No. 122-VI of 25 December 2017, multinational enterprises (MNEs) that operate in Kazakhstan are obliged to prepare and submit (i) a country-by-country report (ii) a master file (iii) a local file and (iv) a notification.

The Law defines an MNE group as a group of legal entities, including a parent company, which meets all of the following requirements:

- Legal entities are connected through control and/or ownership;
- At least one entity is a Kazakhstan tax resident or a foreign entity that carries out its business through a PE in Kazakhstan; and
- Consolidated financial statements are prepared with respect to such entities. The consolidation requirement could be omitted if it is in line with IFRS.

Country-by-country (CbC) reporting

The CbC report should be submitted by one of the following members of an MNE group:

- A parent company that is a tax resident in Kazakhstan;
- An authorized member (if such authorization is granted by a parent company); or
- A resident or non-resident entity that operates in Kazakhstan through a PE, upon request of the Kazakhstan tax authorities.

For CbC reporting purposes, a group consolidated revenue for the fiscal year immediately preceding the reporting financial year should not be less than:

- EUR 750 million if a parent entity is a resident of Kazakhstan; or
- As stipulated by foreign legislation if a parent company or an authorized member are not residents of Kazakhstan.

The CbC report should be submitted within 12 months following the reporting financial year or, if it has been requested by the tax authorities, from the date of such request. The CbC reporting requirements were introduced retrospectively with effect from 2016.

Master file

The MNE group must submit a master file upon request of the tax authorities if a Kazakhstan entity or member of an MNE group performs controlled transactions. The master file for the reporting financial year should be submitted within 12 months from the date of received request. The provisions of the Law with respect to the master file will come into force from 1 January 2019.

Local file

Similar to the requirements stipulated for the master file, if a business activity falls into the scope of controlled transactions, a member of the MNE group should submit a local file. A local file should be submitted if the threshold of a group consolidated revenue is lowered to 5 million monthly calculation index (MCI), which is approximately EUR 30 million. The local file should be submitted to the tax authorities on an annual basis and within 12 months following the reporting financial year. The provisions of the Law with respect to the local file will come into force from 1 January 2019.

F. WITHHOLDING TAX

Dividends, interest and royalties paid to non-residents without a permanent establishment in Kazakhstan are subject to 15% withholding tax, subject to the application of a double tax treaty. Dividends, interest and royalties paid to non-residents registered in a tax haven jurisdiction are subject to 20% withholding tax. Technical service fees and management fees are subject to 20% withholding tax. However, certain technical fees may be reclassified as royalties and thus be subject to 15% withholding tax only.

G. EXCHANGE CONTROL

In principle, payments between residents may only be made in Kazakhstani tenge. Under the Civil Code, an obligation between two residents may not be denominated in foreign currency, subject to certain exceptions. This rule does not apply to contracts between residents and non-residents, payments between which may be made in any currency. Certain transactions may be subject to the National Bank's notification or registration regime.

H. PERSONAL TAX

Residents are subject to tax on their worldwide income. Non-resident individuals are subject to tax on Kazakh-sourced income only. Are deemed to be residents in Kazakhstan:

- individuals who permanently reside in Kazakhstan; or
- individuals who have their centre of vital interests in Kazakhstan.

Employment income is taxed at a flat rate of 10% for residents and non-residents alike. Dividends are taxed at 5% for residents while dividends and capital gains are taxed at 15% for non-residents. Other income is taxed at 10% for residents and 20% for non-residents.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends%		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Non-treaty countries				
Companies	15	15	15	15
Individuals	15	--	15	15
Treaty countries:				
Armenia	10	10	10	10
Austria	15	5	10	10
Azerbaijan	10	10	10	10
Belarus	15	15	10	15
Belgium	15	5	10	10
Bulgaria	10	10	10	10
Canada	15	5	10	10
China	10	10	10	10
Czech Republic	10	10	0/10	10
Estonia	15	5	10	15
Finland	15	5	10	10
France	10/15	5	10	10
Georgia	15	15	10	10
Germany	15	5	10	10
Hungary	15	5	10	10
India	10	10	10	10
Iran	15	5	10	10
Ireland1	15	5	10	10
Italy	15	5	10	10
Japan	15	5	10	10
Korea (South)	15	5	10	10
Kyrgyzstan	10	10	10	10
Latvia	15	5	10	10
Lithuania	15	5	10	10
Luxembourg	15	5	10	10
Macedonia	15	5	10	10
Malaysia	10	10	10	10
Moldova	15	10	10	10
Mongolia	10	10	10	10
Netherlands	15	0/5	10	10
Norway	15	5	10	10

Pakistan	15	12.5	12.5	15
Poland	15	10	10	10
Romania	10	10	10	10
Russia	10	10	10	10
Saudi Arabia	5	5	10	10
Serbia	15	10	10	10
Singapore	10	5	10]	10
Slovak Republic	15	10	10	10
Slovenia	15	5	10	10
Spain	15	5	10	10
Sweden	15	5	10	10
Switzerland	15	0/5	10	10
Tajikistan	15	10	10	10
Turkey	10	10	10	10
Turkmenistan	10	10	10	10
Ukraine	15	5	10	10
United Arab Emirates	--[2]	5	10	10
United Kingdom	15	5	10	10
United States	15	5	10	10
Uzbekistan	10	10	10	10
Vietnam	15	5	10	10

NOTES:

1. Effective date: 1 January 2018.
2. No reduction under the treaty, the domestic withholding tax rate applies.

KENYA

MEMBER FIRM

City	Name	Contact Information
Nairobi	Michael Mburugu	+254 20 4270000 mmburugu@ke.pkfea.com

BASIC FACTS

Full name:	The Republic of Kenya
Capital:	Nairobi
Main languages:	Swahili, English
Population:	50.73 million (2018 estimate)
Monetary unit:	Kenyan Shilling (KES)

Internet domain:	.ke
Int. dialling code:	+254

KEY TAX POINTS

- Resident and non-resident companies are subject to income tax on income accrued or derived from Kenya. Different rates apply to resident and non-resident companies.
- Capital Gains Tax (CGT) is applicable at a rate of 5% of the net gain on the transfer of property. It is a final tax and cannot be offset against other income taxes.
- VAT is chargeable on imports and the supply of goods and services in Kenya. The standard rate is 16%. Certain goods and all exports are zero-rated. Some goods and services such as unprocessed agricultural products and financial services are exempt.
- Kenyan resident individuals are taxed on Kenya-sourced income and on income from employment or services rendered abroad.
- Non-resident individuals are taxable on any income from employment with, or services rendered to, an employer resident in Kenya or the permanent establishment in Kenya of a non-resident employer.
- There are no foreign exchange controls applicable in Kenya and foreign currency is freely transferable in Kenya.

A. TAXES PAYABLE

CORPORATION TAX

Corporation tax is based on adjusted taxable profits. The rates are:

- Resident companies: 30%;
- Non-resident companies: 37.5%;
- Turnover tax: 3% of turnover (with effect from 1 January 2007 for turnover of up to KES 5,000,000).
- Real estate developers constructing at least four hundred residential units per year will enjoy a reduced corporation tax rate of 15% subject to approval from the Cabinet Secretary responsible for Housing;
- Companies engaging in local assembly of motor vehicles will be subject to a reduced income tax rate of 15% for the first five years of operations in Kenya with effect from 1 January 2018.

CAPITAL GAINS TAX

It is applicable at a 5% of the net gain on the transfer of property. It is a final tax and cannot be offset against other income taxes. There are certain circumstances under which CGT is exempted.

BRANCH PROFITS TAX

A branch of a foreign entity pays corporate tax at the rate of 37.5%. There is no branch remittance tax in Kenya.

VALUE ADDED TAX (VAT)

The VAT rates are 16% and 0%. Exports are zero rated. Some goods and services such as unprocessed agricultural products and financial services are exempt. Taxable goods and services for construction of recreation parks (50 acres and above), parks (100 acres and above), have been exempted from VAT subject to specified approvals. Entry to national parks and reserves, tour operators' services, service charge in lieu of tips, motor vehicles for use in official aid funded projects and construction of specialised hospitals with a maximum bed capacity of fifty are exempted from VAT, etc.

WITHHOLDING VAT

Withholding VAT is deductible at the rate of 6% on taxable value of goods and services supplied to appointed agents such as Government Ministries, Departments, Agencies, and any other person appointed by the Commissioner.

EMPLOYMENT BENEFITS TAX

Cash and non-cash benefits are taxable on the higher of the cost incurred by the employer or the fair market value. The taxable value is added to the emoluments for tax purposes. Non-cash benefits are not taxable where the total aggregate value does not exceed KES 36,000 per annum. In addition meals with an aggregate value of less than KES 48,000 per annum are not taxable.

Motor Vehicles

The benefit is the higher of 2% per month of the initial cost of the vehicle or the commissioner prescribed rates. For leased vehicles the benefit is the cost of leasing.

Housing

For non-executive directors the benefit is the higher of 15% of total income (emoluments - for a full-time service director), fair market rental value and rent paid. For agricultural employees it is 10% of emoluments. For other employees it is the higher of rent paid or 15% of emoluments.

Loans to employees

Loans to employees are taxed at a corporate tax rate on the difference between the interest rate prescribed by the Commissioner and the actual interest rate paid by the employee.

Other benefits

The taxable benefit of furniture is 1% of cost per month, telephone is 30% of the bill, and employee share ownership plans (ESOPs) is the difference between the market price of shares and the offer price at the date the option is granted.

Tax incentive for low income employees

Income in the form of bonuses, overtime and retirement benefits for individuals who fall under the lowest income tax bracket are exempted from PAYE.

EMPLOYMENT TAX

Employment income is taxed on a withholding basis known as PAYE at a graduating scale of 10% to 30%.

OTHER TAXES

LAND RATES

Land rates are based on the percentage of the site value.

NATIONAL SOCIAL SECURITY FUND (NSSF)

Contributions are set at the rate of a combined minimum of 12% of the pensionable earnings made up of equal contributions of 6% by the employee and employer.

The NSSF contributions as per the NSSF Act 2013 are set at an upper limit of KES 2,160 per employee earning more than KES 18,000 per month. However, an employee earning less than the lower earnings limit of KES 6,000 will contribute up to a maximum of KES 720. The effective date for the NSSF Act 2013 is yet to be set due to an impending court case.

The old NSSF contributions are therefore still applicable and are set at 10% of monthly income up to a maximum of KES 400 per month. Half of the contribution is paid by the employer and the balance by the employee.

NATIONAL HOSPITAL INSURANCE FUND (NHIF)

NHIF payments are set at graduated scale rates starting at KES 150 per month to a maximum of KES 1,700 per month and for self-employed persons at KES 500.

SINGLE BUSINESS PERMIT

The business permit cost is applicable and varies based on county governments.

B. DETERMINATION OF TAXABLE INCOME

CAPITAL ALLOWANCES

The rates for capital allowances are as follows:

Wear and Tear:	Rate
Tractors/heavy vehicles (Class I)	37.5%
Computers hardware, copiers, scanners (Class II)	30.0%
Other motor vehicles, aircrafts (Class III)	25.0%
Ships, plant, machinery, furniture and equipment(Class IV)	12.5%
Telecommunication equipment	20.0%
Computer software	20.0%
Loose tools and implements (straight-line)	33.3%

Industrial building allowances:	Rate
Factories (2.5% up to 2009)	10% from 1 January 2010
Commissioner certified hotels - (up to 2006 was 4%)	10% from 1 January 2010
Hostels or approved educational building - (from 2007 was 10%)	100% from 1 January 2016
Commercial Buildings (with roads, power water, sewers & other social infrastructure)	25% from 1 January 2013
Residential Rental Buildings constructed in a planned development area approved by the Cabinet Secretary (CS) in charge of housing	25% up to 31 December 2012

Farm works	100% from 1 January 2011
Investment deductions eligible for building and machinery used for manufacture (from 2008) and also for use in Special Economic Zones	100%
Investment deductions eligible for construction of an industrial building or purchase and installation of machinery costing KES 200 million and above outside Nairobi, Mombasa & Kisumu municipalities including Special Economic Zones	150%
Shipping investment deduction for vessels above 125 tonnage	100% from 1 January 2016
Purchase of filming equipment by licensed film producers	100%
Investment deduction on buildings in use for training of film producers, actors or crew	100%
Construction of transportation and storage facilities for petroleum products by the Kenya Pipeline Company Limited	100% or 150% depending on location from 1 January 2018

Mining allowance - (on capital expenditure on machinery for the first use)	100% from 1 January 2015

DEPRECIATION

This is an accounting expense which is not allowable for tax purposes. However, wear and tear allowances indicated above are allowable deductions while computing income tax.

STOCK / INVENTORY

The cost of sales is deducted as allowable expenditure before arriving at the accounting profits. General provisions on slow moving stock and stock write-offs may be allowable in arriving at the taxable income based on certain established criteria.

CAPITAL GAINS AND LOSSES

Capital Gains Tax (CGT) at the rate of 5% on net gains was reintroduced with effect from 1 January 2016 and is a final tax. However, gains on the transfer of securities traded on any securities exchange licensed by Capital markets Authority are not subject to CGT. In addition, the Kenyan Income Tax Act provides some of the transactions which are exempted from CGT.

DIVIDENDS

Dividends are taxed on a Withholding Tax (WHT) basis which is a final tax. Expenses are therefore not allowable on dividend income. Dividends are tax-exempt for resident companies controlling more than a 12.5% shareholding. Dividends received by financial institutions are deemed to be income chargeable to tax. However, compensating tax (corporation tax) may arise if non-taxed income is distributed, e.g. capital gains or profits on capital allowances. This is arrived at through annual Dividends Tax Account which captures the movement of dividends received and paid and takes into consideration taxes paid by the entity. With effect from 1 January 2018, dividends paid by Special Economic Zone Enterprises, developers or operators to any non-resident person are tax-exempt.

INTEREST DEDUCTIONS

Interest incurred wholly and exclusively in the production of income is tax allowable. However, where a company is controlled by a non-resident person together with four or fewer resident persons, the interest deductibility is restricted only to the extent that the total indebtedness of the company does not exceed three times the paid-up share capital and revenue reserves or an amount of deemed interest (thin capitalisation; debt-to-equity ratio of 3:1). Effective 1 January 2015, the thin capitalisation ratio applicable to the extractive industry (petroleum, mining and geothermal companies) is 2:1.

The Commissioner of Income Tax is empowered to prescribe the form and manner in which deemed interest is to be computed. Realised foreign exchange losses are deferred as long as the company is thinly capitalised. In addition, deemed interest is subject to withholding tax at the rate of 15%.

LOSSES

Tax losses can be carried forward to be offset against future taxable income. However this is subject to a ten year limit. The tax loss is only allowable on taxable income derived from the same specific source. These sources are:

a) Income from renting or occupation of immovable property;

b) Income from employment;

c) Income from agriculture, horticulture, forestry, etc.;

d) Income from withdrawals from a registered pension/provident fund by employer;

e) Business activities.

Losses are not transferable from one entity to another.

FOREIGN SOURCE INCOME

Income that is not accrued or derived from Kenya is not assessable in Kenya except:

a) Employment income for an employee who at the time of employment was a resident person in respect of any employment by him outside or inside Kenya; and

b) Business activities carried out across borders.

RESIDENTIAL RENTAL INCOME TAX

Residential rental income tax at the rate of 10% is imposed on gross residential rental income effective 1 January 2016. This classification targets residential property owners whose turnover is less than KES 10 million annually. However, a taxpayer may opt to pay tax under the normal rates provided by the Income Tax law upon making an application to the Commissioner.

WITHHOLDING TAX ON USE OF IMMOVABLE PROPERTY

Payments made to a resident in respect of rent, premium or similar consideration for the use or occupation of immovable property is subject to withholding tax at the rate of 10% for appointed agents only, with effect from 1 January 2017.

TAX INCENTIVES

Capital deductions are granted on assets based on various classification contained in the Income Tax Act. A ten year tax holiday is available for certain designated enterprises manufacturing products for exports only (under the Export Processing Zones). At the end of the tax holiday, a reduced corporation tax rate of 25% is available.

Dividends received by Special Economic Zones (SEZ) developer, and operators licensed under the SEZ Act are exempted from tax. SEZ developers and operators are taxed at the rate of 10% during the first ten years and thereafter at 15% for the next ten years. Supply of goods and services to SEZ are VAT exempt. With effect from 1 January 2018, interest, royalties, management and professional service payments made by Special Economic Zone Enterprises, Developers and Operators to non-residents will attract a lower WHT rate of 5%

A lower corporation tax of 27%, 25% and 20%, for the first 3-5 years for companies newly listed on a securities exchange, with at least 20%, 30% and 40% respectively, of the issued share capital listed. Companies which list their shares or any other security by way of introduction enjoy a lower corporation tax rate of 25% for a period of five years. Tax exemptions are available for organisations undertaking charitable, medical, alleviation of poverty, and religious activities subject to fulfilling the conditions set by the Income Tax Act. Companies engaging in local assembly of motor vehicles will enjoy a reduced corporation rate of 15% for the first five years of operations in Kenya and be subject to a further extension of five years where a company achieves a local content equivalent to 50% of the ex-factory value of the motor vehicles.

Tax amnesty for income earned outside Kenya has been granted on principal tax, penalties and interest to taxpayers who have undeclared income outside Kenya on fulfillment of certain conditions. The deadline for filing the tax amnesty returns is 30 June 2018. Failure to file the tax amnesty returns by the due date will attract a penalty of 10%. Real estate developing companies constructing at least four hundred residential units per year are subject to corporation tax at the rate of 15% subject to approval from the Cabinet Secretary responsible for Housing. Sponsorship of Sports by companies is an allowable deduction upon obtaining approval from the Cabinet Secretary in charge of sports.

Immediate family transfers are exempted from CGT.

C. FOREIGN TAX RELIEF

Domestic tax law provides that where foreign income is subject to income tax in Kenya the foreign tax paid will be treated as a deductible expense.

Foreign tax relief is limited only to countries which have a Double Tax Treaty with Kenya. Relief is granted by way of a credit. The tax authorities do not make treaty relief mandatory. Claiming an allowance by way of a credit must be done by submitting an application to the Commissioner within 6 years or the credit will be forfeited. The credit is limited to Kenyan tax payable in respect of the foreign income or the foreign tax chargeable upon the income in respect of which the credit is to be allowed, whichever is lower.

D. CORPORATE GROUPS

Generally for tax purposes, a corporation tax rate of 30% applies to all incorporated companies irrespective of groups in Kenya. The rate is 37.5% for non-resident companies.

E. RELATED PARTY TRANSACTIONS

Related party transactions are allowable expenses if incurred wholly and exclusively in the production of income and taxed as income if earned or accrued in Kenya as business activities. In addition, any foreign exchange loss or gain with respect to net assets or liabilities purportedly established between the permanent establishment in Kenya and the non-resident person are disregarded in determining gains or profits. Companies which have related party transactions are required to prepare and document Transfer pricing Documentation, as per the Kenyan Transfer Pricing Rules effective 1 July 2006.

F. WITHHOLDING TAX

The relevant rates are as follows:

Description	Resident	Non-Resident
Artists and entertainers	–	-
Management fees	5%	20%

Management fees paid by SEZ Enterprise, Developer or Operator	5%	5%
Professional fees	5%	20%
Professional fees paid by SEZ Enterprise, Developer or Operator	5%	5%
Training fees (inclusive of incidental costs)	5%	20%
Training fees paid by SEZ Enterprise, Developer or Operator	5%	5%
Royalties	5%	20%
Royalties paid by SEZ Enterprise, Developer or Operator	5%	5%
Dividends (nil for resident shareholders with >12.5%)	5%	10%
Equipment (movable) Leasing	N/A	5%
Interest (bank)	15%	15%
Interest (Housing bond-HBI)	10%	15%
Interest on two-year government bearer bonds	15%	15%
Other bearer bonds interest	25%	25%
Interest paid by SEZ Enterprise, Developer or Operator	5%	5%
Rent - buildings(immovable)*	N/A or 10%	30%
Rent - others (except aircraft)	N/A	15%
Pensions/provident schemes (withdrawal)	10-30%	5%
Insurance commissions	10%	20%
Consultancy and agency (from 1 July 2003)	5%	20%
Contractual (from 1 July 2003)	3%	20%
Telecommunication services/Message transmission	–	5%
Natural Resource Income (with effect from 1 Jan. 2015)	5%	20%

* Withholding tax on rent paid to resident persons is only applicable if one is appointed as an agent.

G. EXCHANGE CONTROL

There are no foreign exchange controls applicable in Kenya at present, and foreign currency is freely transferable in Kenya.

The Proceeds of Crime and Anti-Money Laundering Act provides that any transaction which involves the movement of USD 10,000 or more must be supported by documentary proof of the reason of such a transfer.

H. PERSONAL TAX

The tax rates are as follows:

Annual Income (KES)	Rate
On the first 147,580	10%
On the next 139,043	15%
On the next 139,043	20%
On the next 139,043	25%
On all income over 564,709	30%

Mortgage tax relief of KES 300,000 per annum is granted on interest payments for one residential premises occupied by the taxpayer. In addition a Personal Tax relief is granted at KES 16,896 per annum.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

The withholding tax rates are as follows:

	Dividends%		Interest (%)	Royalties/ management and professional fees (%)
	Individuals, companies (%)	Qualifying companies (%)		
Non-treaty countries				
Companies	10	10	15/25[4]	20[12]
Individuals	10	--	15/25[4]	20[12]
Treaty countries:				
Canada	25	15[1]	15	15
Denmark	30	20[2]	20[5]	20
France	10	10	12	10[6]
Germany	15	15	15[5]	15
India[7]	10	10	10	10
Korea[14]	10	8[3]	12	10[13]
Norway	25	15[2]	20[5]	20
South Africa	10	10	10	10[6]
Sweden	25	15[2]	15	20
United Kingdom	15	15	15[5]	15[8]
Zambia	–[9]	–[9]	15/25[10]	20[11]

NOTES:

1. The reduced rate applies if the recipient is a company which owns at least 10% of the voting shares of the paying company during the period of six months immediately preceding the date of payment.
2. The reduced rate applies if the recipient is a company which owns at least 25% of the voting shares of the paying company during the period of six months immediately preceding the date of payment.
3. The reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the paying company.
4. Interest paid by a resident person to a non-resident company is subject to a 25% withholding tax rate in the case of interest from bearer instruments and to 15% in all other cases. The withholding tax applies to the gross amount and is a final tax. Effective 1 January 2018, interest paid by an SEZ enterprise, developer or operator to non-resident persons is subject to a reduced rate of 15%.
5. No withholding tax on interest paid by the Kenyan Central Bank or by the Government.
6. 10% for royalties and 20% for management and professional fees.
7. Effective 1 January 2018.
8. 15% for royalties and 12.5% for management fees.
9. No Kenya withholding tax due on dividends if subject to tax in Zambia.
10. If subject to tax in Kenya interest is tax-exempt in Zambia. Therefore, no reduction under the treaty and the domestic Kenyan withholding tax rate applies.
11. If subject to tax in Kenya royalties are tax-exempt in Zambia. Therefore, no reduction under the treaty and the domestic Kenyan withholding tax rate applies.
12. The WHT rate on royalties paid to a non-resident is a 20% final tax. Effective 1 January 2018, royalties paid by an SEZ enterprise, developer or operator to non-resident persons are subject to a reduced rate of 5%
13. 10% for royalties and 0% for technical services.
14. Effective 1 January 2018.

KOREA

MEMBER FIRM

City	Name	Contact Information
Seoul	Charlie (Chang-Ho) Kim	+82 2 316 4368 charlie.kim@pkf.com
Seoul	David (Min-Hyuk) Kim	+82 2 316 4674 minhyuk.kim@pkf.com
Seoul	Steve (Minhoo) Kim	+82 2 316 4436 steve.kim@pkf.com

BASIC FACTS

Full name:	The Republic of Korea
Capital:	Seoul
Main languages:	Korean
Population:	51.13 million (2018 estimate)
Monetary unit:	South Korean Won (KRW)
Internet domain:	.kr
Int. dialling code:	+82

KEY TAX POINTS

- Corporate Income Tax: Domestic corporations are taxed on their worldwide income, whereas foreign corporations are taxed only on their Korean-source income. The corporate income tax rates vary from 11% (including local income tax) to 27.5% (including local income tax) depending on the level of total taxable income for the year.
- Value Added Tax: VAT is imposed at a rate of 10% on supplies of goods and services. However, zero-rated VAT or exemption is applied to certain supply of goods and services.
- Individual Income Tax: Any person domiciled in Korea or having resided in Korea for 183 days or longer is subject to individual income tax on his/her worldwide income (i.e. Korean-sourced income and foreign-sourced income). Individuals are taxed at progressive rates from 6.6% (including local income tax) to 46.2% (including local income tax) depending on their total taxable income for the year.
- Withholding Tax: Taxes are required to be withheld at rates ranging from 2.2% to 22%, from certain cross-border payments made to non-resident individuals or corporations without a permanent establishment in Korea, unless exempted or reduced under a relevant double tax treaty.

A. TAXES PAYABLE

TAX LAWS AND REGULATIONS

Taxes in Korea are comprised of national and local taxes. While national taxes, imposed by the central government, are divided into internal taxes and customs duties, local taxes are imposed by three-tier local authorities – province, city and county. Internal taxes consist of direct taxes (individual income tax, corporate income tax, inheritance and gift tax and comprehensive real estate tax), indirect taxes (VAT, individual consumption tax, liquor tax, stamp tax and securities transaction tax) and three earmarked taxes (transportation, energy and environment tax (or TEE tax), education tax and agriculture and fishery community special tax).

Presidential Decrees can be formulated by the executive branch of the Korean legal system in order to enforce the tax laws. The Minister of Strategy and Finance also formulates Ministerial Decrees to enforce the Presidential Decree and to publish rulings and authoritative interpretations of the laws. In addition to the Presidential and Ministerial Decrees, the Commissioner of the National Tax Service (NTS) may issue

administrative orders and rules to ensure consistent application of the laws. The courts have the final authority in interpreting the tax laws. In this regard, taxpayers are not generally bound by such interpretations by the tax authorities, except for advance rulings.

CORPORATE INCOME TAX

Corporate income tax is imposed by the central government under Corporate Income Tax Law ("CITL"). There are two classifications of corporate taxpayers in Korea, i.e. Domestic Company vs. Foreign Company and Profit-making Corporation vs. Non-profit Corporation. For tax purposes, if a company has its head office or principal place of business in Korea or the place of effective management is located in Korea, the company is deemed to be a domestic company. While a domestic company is liable for taxes on its worldwide income, a foreign company is taxed on Korean-sourced income only.

Corporate income tax rates are as follows:

Taxable income (Tax base)	Tax rates (including local income tax)
Under KRW 200 million	11%
From KRW 200 million to KRW 20 billion	KRW 22 million + 22% in excess of KRW 200 million
From KRW 20 billion to KRW 300 billion	KRW 4.378 billion + 24.2% in excess of KRW 20 billion
In excess of KRW 300 billion	KRW 72.138 billion + 27.5% in excess of KRW 300 billion

Corporate taxpayers are liable for the alternative minimum tax before certain tax deductions and tax credits:

- For small and medium-sized companies: 7% of taxable income (before tax incentives); and
- For other corporations: 10% on taxable income (before tax incentives) up to KRW 10 billion, 12% of taxable income exceeding KRW 10 billion but up to KRW 100 billion and 17% of taxable income exceeding KRW 100 billion.

VALUE ADDED TAX (VAT)

VAT is a broad base consumption tax aimed at taxing the end consumers of the goods and services. If an entity or person engages in supplies of goods or services independently in the course of carrying on business, such supplies of goods or services attract VAT. Furthermore, supplies of goods or services for business purposes are VAT chargeable, regardless of whether the business aim is to make profit.

VAT taxpayers include individuals, corporations, national and local governments, associations of local authorities, any bodies of persons, and unincorporated organizations.

VAT taxpayers must file a quarterly VAT return to declare output VAT and input VAT. After filing the VAT return, VAT taxpayers will pay or receive the net VAT payable or refundable, amounting to the difference between the output VAT and the input VAT. VAT is also imposed on imported goods.

The standard VAT rate is 10%. The export of goods and the provision of certain cross-border services are zero-rated. However, zero-rated VAT is applied to certain supplies of goods and services (e.g. exports of goods and provision of eligible services to non-resident customers or clients) and an exemption is applied to certain supplies of goods and services (e.g. basic life necessities, finance and insurance services and duty-exempt goods).

Electronic VAT invoicing is required pursuant to the VAT law. If a taxpayer fails to issue the electronic VAT invoice or to report electronically to the tax authority, the relevant penalty tax shall be levied

B. DETERMINATION OF TAXABLE INCOME

The tax base of corporate income tax is defined as revenue minus expenses incurred in the operation of the business. Expenses can be deducted for tax purposes if they are incurred wholly and exclusively for producing income, unless specifically disallowed or restricted under appropriate tax laws and regulations (e.g. entertainment expenses exceeding the prescribed limits, non-business expenses, excessive or unreasonable expenses, penalties, fines, losses on valuation, etc.).

TRADING STOCK / INVENTORY

Securities can be valued using either the cost method, the weighted average cost method or the moving average cost method. Also, a taxpayer can choose the individual cost method for the valuation of bonds.

A corporation may elect one of the following methods for inventory valuation and submit a report on its valuation method by the due date. The method elected is required to be applied consistently every year unless

an application for change has been submitted three months before year-end at the latest.

1. Cost method:
   a) Individual cost method;
   b) First-in first-out method (FIFO);
   c) Last-in first-out method (LIFO);
   d) Weighted average cost method;
   e) Moving average cost method;
   f) Gross profit method.
2. Lower of cost or market price (LCM).

CAPITAL GAINS AND LOSSES

Capital gains derived by a company are regarded as assessable income that should be included in the calculation of its tax base for corporate income tax purposes, unless such capital gains are derived from capital transactions such as capital surplus or gains on reduction of paid-in capital.

However, a company's disposals of non-business purpose land or houses attract an additional corporate income tax at the rate of 10% (or 40% in case of non-registered land or houses) on top of the regular corporate income tax attributed to the capital gain already included in the tax base. Therefore, such capital gains are taxed twice under the CITL in Korea.

DIVIDENDS

Dividends paid by domestic companies in Korea are taxed at the level of the corporate recipient. However, to avoid double taxation on the dividend income earned by the corporate recipient, the prescribed portion of such dividend income is excluded from the calculation of the tax base of the corporate recipient. For instance, in case of a holding company established in accordance with Anti-trust and Fair Trade Law, its dividend income paid by its subsidiaries is not taxable to the extent of the exclusion ratio specified under CITL. Likewise, a corporation other than a holding company is not taxed on dividends paid by its subsidiaries up to the prescribed exclusion ratio under CITL.

Foreign-sourced dividends received by a domestic entity in Korea are also subject to corporate income tax. In order to avoid double taxation on the foreign-sourced dividend income, taxes imposed by foreign governments on such foreign-sourced dividends are allowed as a foreign tax credit up to the foreign tax credit limit or as tax deductible expense in computing the taxable income.

INTEREST DEDUCTIONS

Interest expenses incurred in the ordinary course of business are tax deductible. However, interest expenses are not deductible if such expenses are incurred in respect of non-business activities or are considered to be of a capital nature.

THIN CAPITALISATION RULES

Where a domestic corporation borrows funds from its foreign controlling shareholder, or from a third party under a payment guarantee provided by its foreign controlling shareholder (including the offer of a collateral etc. for the guarantee of payment) by the foreign controlling shareholder, and such borrowing exceeds twice (or six times for financial institutions) as much as the share capital contributed by the relevant foreign controlling shareholder to the domestic corporation, the portion of total interest paid and discount fee that corresponds to the excess amount over the foregoing threshold shall not be tax deductible and is re-characterized into a deemed dividend paid to the foreign controlling shareholder. The domestic corporation would furthermore be required to adjust the withholding tax which has already been withheld at the time of the payment of interest income to the foreign controlling shareholder or the third party in such a way that the additional deemed dividend is taken into account.

LOSSES

Deductions denote expenses or outgoings that decrease the net assets of a corporate taxpayer, except for return of capital and appropriation of surplus or unless otherwise stipulated under the CITL. In this respect, a loss for tax purposes is considered to be the deduction in excess of taxable revenue. Unutilised tax losses can be carried forward for up to 10 years. However, as from 2016 a company can only deduct the loss carry-forward up to 80% (70% for a fiscal year starting in the year 2018 and 60% for a fiscal year starting in the year

2019 and thereafter) of its tax base for a particular year under the CITL, except for small and medium-sized enterprises and certain qualifying companies under recovery process, etc.

FOREIGN SOURCE INCOME

As domestic corporations are subject to corporation tax on a worldwide basis, their foreign source income is also taxable. The tax treatment of foreign income is generally the same as for Korean-sourced income.

TAX INCENTIVES

Various tax incentives aimed at achieving specific national economic objectives have been provided under domestic tax law. For example, Special Tax Treatment Control Law provides various tax incentives to stimulate R&D activities including a tax credit for research and manpower development expenses and a tax credit for investment in facilities for technology and human resources development. A domestic company may be liable for the alternative minimum tax (see higher under "CORPORATE INCOME TAX") before certain tax deductions and tax credits, subject to certain exceptions.

C. FOREIGN TAX CREDIT

Where a domestic corporation pays or is liable to pay income tax abroad, the amount of tax paid or payable abroad is allowed as a tax credit against corporate income tax up to an amount equivalent to the ratio of the foreign sourced income to total worldwide taxable income, or as tax deductible expenses in computing the taxable income. If the foreign tax paid or payable for a fiscal year exceeds the prescribed foreign tax credit limit, the excess of the tax credit may be carried forward for up to 5 years.

An indirect foreign tax credit is also available. Foreign taxes paid by a qualifying subsidiary may be creditable against corporate income tax payable by a parent company, attributable to its dividend income. In this regard, a qualifying subsidiary means a corporation the shares of which are owned for 25% or more by a domestic corporation for more than six consecutive months prior to the date of dividend declaration.

D. CORPORATE GROUPS

As from tax year 2010 a consolidated tax return system is in effect, the scope of which is limited to parent-subsidiary companies with 100% ownership, subject to certain technical exceptions that only allow a 5% deviation. Sister companies may join a group indirectly through a common parent company. Under the consolidated tax regime, the parent company pays corporate tax for the group, and the subsidiaries pay their share of corporate tax to the parent company. Companies in a group assume the tax liability jointly and severally. Tax consolidation can only be elected once every 5 years.

E. RELATED PARTY TRANSACTIONS

Pursuant to the Law for Coordination of International Tax Affairs (the "LCITA") and its regulations in Korea, related party transactions must meet the arm's length principle. When a price charged between related parties is not at arm's length and the Korean tax authorities therefore consider that the corporate income tax is unreasonably reduced, they could recalculate the corporation's taxable income using what is considered to be an arm's length price or margin.

The LCITA regulates transfer pricing issues surrounding cross-border transactions with foreign related parties. Cross-border transactions are defined under the LCITA as transactions where one party or both parties are foreign entities. Therefore, if a domestic company enters into any transaction with its foreign related parties, the transaction would be subject to transfer pricing regulations in Korea. The Korean transfer pricing rules generally follow the OECD guideline whereby the price for transactions between related parties should be determined at arm's length. Therefore, if the domestic company does not recognize arm's length revenue or expenses in relation to the transactions with its foreign related parties, the transfer pricing rules would be triggered to force the domestic company to recognize the arm's length income or expenses.

F. WITHHOLDING TAX

Corporate income tax

A person paying interest income and distribution of profit from securities investment trusts to a domestic company is required to withhold the corporate income tax on such income at the rate of 14% (15.4% including local income tax). Regarding the interest from a non-commercial loan, the withholding tax rate is 25% (27.5% including local income tax).

Individual income tax

A person paying interest, dividends, business income, salary income, pension income, retirement income or other income to a resident is required to withhold the individual income tax on such income. For the reference, interest income except the interest from non-commercial loans or excess refund from a workplace mutual-aid association and dividend income except dividend of joint investment business operators are subject to withholding tax at the rate of 14% (15.4% including local income tax).

G. PERSONAL TAX

Any person domiciled in Korea or having resided in Korea for 183 days or longer is subject to individual income tax on his/her worldwide income, i.e. both Korean-sourced income and foreign-sourced income. Resident individuals are subject to the following progressive tax rates based on their taxable base. Various personal reliefs are available to resident individuals.

Individual income can be classified into global income, capital gains and severance pay under the Income Tax Law. Each of them is subject to tax under a unique tax calculation structure. Global income includes interests, dividends, business income, wages and salaries, pension income and other income.

Basic individual income tax rates are as follows:

Tax base of global income (KRW)	Tax Rates (including local income tax) (KRW)
12 million or less	6.6% of tax base
12 million - 46 million	0.792 million + 16.5% of the amount exceeding 12 million
46 million - 88 million	6.402 million + 26.4% of the amount exceeding 46 million
88 million - 150 million	17.49 million + 38.5% of the amount exceeding 88 million
150 million - 300 million	41.36 million + 41.8% of the amount exceeding 150 million
300 million - 500 million	104.06 million + 44% of the amount exceeding 300 million
In excess of 500 million	192.06 million + 46.2% of the amount exceeding 500 million

A Korean citizen is considered a tax resident in Korea if he or she normally resides in Korea with the exception of being abroad temporarily. Korean public officials working overseas and directors and personnel dispatched to foreign affiliates of a Korean resident employer are deemed tax residents in Korea.

A foreigner is considered a resident in Korea for tax purposes, if he or she resides in or undertakes employment in Korea for 183 days or more during the year. A foreigner can opt for a flat tax rate of 20.9% on Korean-sourced earned income without claiming a tax deduction for 5 years from the year of his or her first employment in Korea, provided that he or she commences his or her employment in Korea by 31 December 2018.

H. TAXATION OF NON-RESIDENTS

Corporate Income Tax

Resident corporations are taxed on their worldwide income, whereas non-resident corporations are taxed only to the extent of their Korean-sourced income. Non-resident corporations without a permanent establishment in Korea are generally subject to a withholding tax on Korean-sourced income.

	Resident corporation	Non-resident corporation
Definition	A corporation having its head office or principal office, or a place of effective management in Korea	Any corporation not regarded as a resident corporation
Taxable place	Head or principal office or a place of effective management	Permanent establishment or place of income source
Tax liability	Worldwide income	Korean-sourced income

Methods of taxation	Global taxation	Global taxation (In case of having a permanent establishment in Korea) Withholding tax (In case of having no permanent establishment in Korea)

Individual Income Tax

A non-resident is liable for tax on income derived from sources within Korea. Two methods of taxation are applied: global taxation and separate withholding taxation. Global taxation is applied to non-resident taxpayers who have a place of business in Korea or those with income from real estate located in Korea (excluding capital gains from the transfer of land or buildings). All domestic source income is subject to global taxation, except for severance pay and capital gains, all of which are taxed in the same manner as if they would be earned by a resident. Withholding taxation is applied to each domestic item of income of non-residents who do not have a place of business in Korea and do not have income from real estate located in Korea.

	Resident individual	**Non-resident individual**
Definition	Residence or domicile in Korea for more than 183 days	Any person not deemed a resident
Taxable place	Residence or domicile	Place of business (fixed base) or place of income source
Tax liability	Worldwide income	Korean-sourced income
Methods of taxation	Global Taxation Scheduled taxation for capital gains and retirement income Withholding taxation	Global taxation (In case of having a fixed base in Korea) Scheduled taxation for capital gains and retirement income Withholding taxation

Withholding Tax Rates

Withholding tax rates for non-resident corporations without a permanent establishment in Korea and non-resident individuals without a place of business in Korea are as follows:

Items of Income	**Tax rates (including local income tax) (*)**
Interest	22% (15.4% in case of interest on bonds)
Dividends	22%
Lease Income	2.2%
Business Income	2.2%
Independent Personal Services	22%
Capital Gains Income	Lesser of 11% of sales price or 22% of capital gains
Royalties	22%
Capital Gains from Securities Transaction	Lesser of 11% of sales price or 22% of capital gains
Other Income	22%

* If there is a tax treaty between Korea and the country of a non-resident, the reduced tax rate stipulated in the applicable treaty applies to such income derived by the non-resident.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Taxes are required to be withheld at applicable rates, ranging from 2.2% to 22%, from certain cross-border payments made to non-resident individuals or corporations without a permanent establishment in Korea, unless exempted or reduced under the relevant tax treaty.

As of the end of January 2018, Korea has entered into bilateral tax treaties with 93 countries globally. The chart below shows the withholding tax rates applicable under the Korea tax treaties that are currently in force. The applicable domestic withholding tax rate will apply if such a rate is lower than the reduced rate under the tax treaty or if there is no tax treaty. There are various reduced rates under the tax treaty applicable to residents of the following tax treaty countries. As for dividends, interest, and royalties, set out below are the reduced tax rates under applicable tax treaties.

	Dividends (%)	Interest[36] (%)	Royalties (%)
Domestic rates			
Companies	20[1]	14/20[1]	20[1]
Individuals	20[1]	14/20[1]	20[1]
Treaty Countries:			
Albania	5/10[2]	10	10
Algeria	5/15[2]	10	2/10
Australia	15	15	15
Austria	5/15[2]	10	2/10
Azerbaijan	7	10	5/10
Bahrain	5/10[2]	5	10
Bangladesh	10/15[3]	10	10
Belarus	5/15[2]	10	5
Belgium	15	10	10
Brazil	10/15[4]	10/15[25]	15/25
Brunei	5/10[2]	10	10
Bulgaria	5/10[5]	10	5
Canada	5/15[2]	10	10
Chile	5/10[6]	5/10/15[26]	5/10/15
China	5/10[2]	10	10
Colombia	5/10[7]	10	10
Croatia	5/10[2]	5	0
Czech Republic	5/10[2]	10	10
Denmark	15	15	10/15
Ecuador	5/10[3]	12	5/12
Egypt	10/15[10]	10/15[27]	15
Estonia	5/10[2]	10	5/10
Ethiopia[14]	5/8[2]	7.5	5
Fiji	10/15[10]	10	10
Finland	10/15[10]	10	10
France	10/15[3]	10	10
Gabon	5/15[2]	10	10
Georgia	5/10[8]	0/10[28]	10
Germany	5/15[2]	10	2/10

Greece	5/15[2]	8	10
Hong Kong	10/15[10]	10	10
Hungary	5/10[2]	0	0
Iceland	5/15[2]	10	10
India9	15	10	10
Indonesia	10/15[10]	10	15
Iran	10	10	10
Ireland	10/15[11]	0	0
Israel	5/10/15[12]	0/7.5/10[29]	2/5
Italy	10/15[10]	10	10
Japan	5/15[13]	10	10
Jordan	10	10	10
Kazakhstan	5/15[8]	10	10
Kenya[14]	8/10[15]	12	10
Kuwait	10	10	15
Kyrgyz Republic	5/10[2]	10	5/10
Laos	5/10[8]	10	5
Latvia	5/10[2]	10	5/10
Lithuania	5/10[2]	10	5/10
Luxembourg	10/15[3]	5/10[30]	5/10
Malaysia	10/15[10]	15	10/15
Malta	5/15[2]	10	0
Mexico	0/15[16]	5/15[30]	10
Mongolia	5	5	10
Morocco	5/10[2]	10	5/10
Myanmar	10	10	10/15
Nepal	5/10/15[17]	10	15
Netherlands	10/15[10]	10/15[31]	10/15
New Zealand	15	10	10
Norway	15	15	10/15
Oman	5/10[8]	5	8
Pakistan	10/12.5[18]	12.5	10
Panama	5/15[2]	5	3/10
Papua New Guinea	15	10	10
Peru	10	15	10/15
Philippines	10/25[10]	10/15[32]	10/15
Poland	5/10[8]	10	5
Portugal	10/15[19]	15	10
Qatar	10	10	5

Romania	7/10[20]	10	7/10
Russia	5/10[21]	0	5
Saudi Arabia	5/10[2]	5	5/10
Serbia	5/10[2]	10	5/10
Singapore	10/15[10]	10	15
Slovak Republic	5/10[2]	10	0/10
Slovenia	5/15[2]	5	5
South Africa	5/15[2]	10	10
Spain	10/15[10]	10	10
Sri Lanka	10/15[10]	10	10
Sweden	10/15[10]	10/15[33]	10/15
Switzerland	5/15[8]	5/10[30]	5
Tajikistan	5/10[2]	8	10
Thailand	10	10/15[34]	5/10/15
Tunisia	15	12	15
Turkey	15/20[22]	10/15[35]	10
Turkmenistan	10	10	10
Ukraine	5/15[7]	5	5
United Arab Emirates	5/10[8]	10	0
United Kingdom	5/15[23]	10	2/10
United States	10/15[24]	12	10/15
Uruguay	5/15[7]	10	10
Uzbekistan	5/15[2]	5	2/5
Venezuela	5/10[8]	5/10[30]	5/10
Vietnam	10	10	5/15

Notes:

1. Dividends received by non-residents are subject to withholding tax at 20% (22% including 10% local income tax). Interest received by non-residents is subject to withholding tax at 20% (22% including 10% local income tax). A rate of 14% (15.4% including local income tax) applies to interest on bonds issued by the central government, local government or a resident corporation. Royalties received by non-residents are subject to withholding tax at 20% (22% including local income tax).
2. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the paying company.
3. The 10% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the paying company.
4. The treaty rate is 15%. However, under the application of a most favoured nation clause based on the Brazil-Israel treaty, the rate is reduced to 10% regarding participations of at least 25% of capital.
5. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 15% of the capital of the paying company.
6. The 5% rate applies if the beneficial owner is a company that controls directly or indirectly at least 25% of the voting power in the paying company.
7. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 20% of the capital of the paying company.

8. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the paying company.
9. Effective date: 1 January 2017 (Korea); 1 April 2017 (India).
10. The 10% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the paying company.
11. The 10% rate applies if the beneficial owner is a company which controls directly or indirectly 10% or more of the voting power in the paying company.
12. The 5% rate applies if the beneficial owner is a company which holds directly or indirectly at least 10% of the paying company. The 10% rate applies if the beneficial owner is a company which holds 10% of the capital of the paying company where the latter is a Korean resident and the dividends are paid out of profits which are subject to Korean tax at a lower rate than the normal corporate tax rate. The 15% rate applies in all other cases.
13. The 5% rate applies if the beneficial owner is a company which owns at least 25% of the voting shares issued by the company paying the dividends during the period of 6 months immediately before the end of the accounting period for which the profits distribution takes place.
14. Effective date: 1 January 2018.
15. The 8% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the paying company.
16. The 0% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the paying company.
17. The 5% rate applies if the beneficial owner is a company which holds directly at least 25% of the shares of the paying company. The 10% rate applies if the beneficial owner is a company which holds directly at least 10% of the shares of the paying company. The 15% rate applies in all other cases.
18. The 10% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 20% of the capital of the paying company and the latter is engaged in an industrial undertaking.
19. The 10% rate applies if the beneficial owner is a company that, for an uninterrupted period of 2 years prior to the payment of the dividend, owns directly at least 25% of the capital stock of the paying company.
20. The 7% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the paying company.
21. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 30% of the capital of the paying company and invests not less than 100,000 USD or the equivalent amount of local currencies into the paying company.
22. The 15% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the paying company.
23. The 5% rate applies if the beneficial owner is a company (other than a partnership) which controls, directly or indirectly, at least 25% of the voting power in the paying company.
24. The 10% rate applies if the recipient is a corporation and if (i) during the part of the paying corporation's taxable year which precedes the date of payment of the dividend and during the whole of its prior taxable year (if any), at least 10% of the outstanding shares of the voting stock of the paying corporation was owned by the recipient corporation and (ii) not more than 25% of the gross income of the paying corporation for such prior taxable year (if any) consists of interest or dividends (other than interest derived from the conduct of a banking, insurance, or financing business and dividends or interest received from subsidiary corporations, 50% or more of the outstanding shares of the voting stock of which is owned by the paying corporation at the time such dividends or interest is received).
25. The 10% rate applies if the recipient is a bank and the loan is granted for a period of at least 7 years in connection with the purchase of industrial equipment or with the study, the purchase and installation of industrial or scientific units, as well as with the financing of public works.
26. The 10% rate applies to interest derived from loans granted by banks and insurance companies. However, under the application of a most favoured nation clause based on the Chile-Spain treaty, the rate is reduced to 5% regarding (i) loans granted by banks and insurance companies (ii) bonds or securities that are regularly and substantially traded on a recognized securities market and (iii) sale on credit paid by the purchaser of machinery and equipment to a beneficial owner that is the seller of the machinery and equipment. The rate is furthermore also reduced to 5% under the application of a most favoured nation

clause based on the Australia-Chile treaty regarding interest derived by a financial institution which is unrelated to and dealing wholly independently with the payer.

27. The 10% rate applies to interest paid in respect of a loan or other debt-claim for a period exceeding 3 years.
28. The 0% rate applies to (i) interest beneficially owned by the Government of Georgia (ii) interest paid in connection with the sale on credit of any industrial, commercial or scientific equipment, or paid in connection with the sale on credit of any merchandise to a Georgian enterprise and beneficially owned by a Georgian resident (iii) interest beneficially owned by a Georgian pension fund, provided that such interest is not derived from the carrying on of a business, directly or indirectly, by such pension fund.
29. The 7.5% rate applies to interest received by any bank or financial institution. The 0% rate applies, among others, to a loan made, refinanced, guaranteed or insured, or a credit extended, refinanced, guaranteed or insured by the Central Bank of Korea or the Korea Development Bank.
30. The 5% rate applies to interest paid to a bank.
31. The 10% rate applies to interest paid on a loan made for a period of more than 7 years.
32. The 10% rate applies to interest paid in respect of public issues of bonds, debentures or similar obligations.
33. The 10% rate applies if the recipient of the interest is a bank and the loan is made for a period of more than 7 years.
34. The 10% rate applies if the interest is beneficially owned (i) by any financial institution (including an insurance company) (ii) by a Thai resident and is paid with respect to indebtedness arising as a consequence of a sale on credit by a Thai resident of any equipment, merchandise or services, except where the sale was between persons not dealing with each other at arm's length.
35. The 10% rate applies to interest paid in respect of a loan or other debt-claim for a period exceeding two years.
36. Certain treaties provide for an exemption of some types of interest (but not all included in this list), e.g. interest paid to public bodies and institutions or banks or in relation to approved or state-guaranteed loans.

KUWAIT

MEMBER FIRM

City	Name	Contact Information
Kuwait	Tareq M. Bouresli	+965 222 79330 tareq@pkf.com.kw

BASIC FACTS

Full name:	Kuwait
Capital:	Kuwait City
Main languages:	Arabic
Population:	4.18 million (2018 estimate)
Monetary unit:	Kuwait Dinar (KD)
Internet domain:	.kw
Int. dialling code:	+965

KEY TAX POINTS

- Foreign corporate bodies engaged in commercial activities in Kuwait, directly or through an agent, are taxed.

- The individuals (Kuwaiti or Foreign national) and companies wholly and directly owned by Kuwaitis and companies incorporated in the Gulf Cooperation Council (GCC) countries that are wholly owned by GCC citizens (GCC entities) are not taxed.
- Tax is levied on the foreign company's share of profit, irrespective of whether distributed or not, plus Royalties and franchise, license, patent, trademark and copy right fees received by them.

A. TAXES PAYABLE

CORPORATE INCOME TAX

The Tax Decree of 1955 (Amiri Decree No 3 of 1955) as amended by Law No. 2 of 2008 and the Executive Byelaw governs taxation in Kuwait. These decrees are supplemented by Administrative orders, Executive Rules and Circulars issued by the Kuwait Tax Authority and various tax treaties with a number of foreign nations. Under the above, foreign companies described in the decree as 'bodies corporate' which carry on business or trade in Kuwait are taxable. The term 'bodies corporate' refers to an association that is formed and registered under the laws of any country or state and is recognised as having a legal existence entirely separate from that of its individual members. Partnerships fall within this definition.

Foreign companies can carry on business in Kuwait either through an agent or joint venture or as a minority shareholder in a locally registered shareholding company. Tax is levied on the foreign company's share of the profit plus any amounts receivable for interest, royalties, commissions, technical services, management fees etc. Beneficial interests held by such entities in a Kuwaiti company through nominee arrangement also are taxable. Income Tax is not payable by Companies wholly and directly owned by GCC citizens (GCC entities) according to Ministerial decision no 3 of 1989.

Upon commencement of business, foreign companies are required to register themselves with the Tax Department within 30 days and apply for a Tax Card, which needs to be renewed every year. A taxpayer may follow one calendar year comprising consecutive 12 months as the first accounting period. For the first and last accounting periods, it is possible to obtain approval for a period shorter or longer than 12 months up to a maximum period of 18 months. A tax return in the national currency Kuwaiti Dinar and in Arabic, is to be submitted to the Tax Department within 105 days from the fiscal year end, in a specified format, accompanied by audited financial statements and other specified documents. The Tax Department requires the return and the supporting statements to be certified by an accountant in practice in Kuwait who is also registered with the Ministry of Commerce and Industry and accredited by the Ministry of Finance.

If a foreign company has more than one activity in a similar line of business in Kuwait, either directly or indirectly through subsidiary companies, income from all activated is to be aggregated for tax purposes. Business losses cannot be carried forward for more than 3 years. The flat tax rate is 15% on taxable income. It is possible to pay the tax due in four equal instalments, if not paid as one deposit along with the tax return.

Field inspections are carried out by the Tax Department to verify the tax returns on a yearly basis, without exception. Following the tax inspection, a tax assessment order is issued. If this order is not acceptable, the tax payer has the option to file an objection. The taxpayer has the option to approach the appeals committee if he deems the decision of the Tax Department not to be acceptable.

Dividend tax

The 15% withholding tax previously levied on dividends distributed by fund managers, investment custodians and corporate bodies has been abolished.

Zakat

According to Law no 46 of 2006, Zakat is payable by both KSC and KSCC entities at the rate of 1% of the net profit of the company, arrived at after reducing the share of profit, representing non-GCC foreign corporate ownership. GCC entities are treated equally with Kuwaiti entities and accordingly GCC entities are taxed in the same manner as Kuwaiti entities.

Kuwait entities that the Kuwait / GCC government partially owns are liable to pay Zakat on the entire income, including the share of profit attributable to the Kuwait government shareholding. Entities that are wholly and directly owned by Kuwait / GCC government are not subject to Zakat and exempted. All companies subject to Zakat are required to submit their return by 15th of the fourth month from the end of the fiscal year.

National Labour Support Tax (NLST)

According to Law no 19 of 2000, all public Kuwaiti shareholding companies listed on the Kuwait Stock Exchange are liable to pay 2.5% of their annual net profit, excluding the share of profit attributable to a foreign corporate body and after certain allowable deductions.

Contributions to Kuwait Foundation for Advancement of Sciences (KFAS)

KSC and KSCC are required to pay 1% of their profits to the KFAS for supporting scientific activities.

Customs Duties

Imported goods to the country are subject to customs duties. As per the GCC Customs Union, entered into between GCC member states, the unified regional customs tariff for all taxable foreign imports is 5%.

B. TAX RETENTIONS

Article 37 of the By-laws and executive rules Nos. 5 and 6 of 2013 require that every business entity operating in Kuwait must comply with the following:

1. Notify the names of its contractors and sub-contractors to the Tax Department and also submit copies of contracts with them;
2. Retain 5% from each payment due to contractors and sub-contractors until they provide a tax clearance certificate issued by the Tax Department.

C. TAX INCENTIVES

(a) Leasing and Investment Companies Law No 12 of 1998 allows the formation of investment and leasing companies having their principal place of business in Kuwait, with Kuwaiti or foreign shareholders. The law grants a five-year tax holiday to non-Kuwaiti founders and shareholders of such companies, beginning on the date of establishment of the companies.

(b) The Kuwait government issued a Foreign Direct Investment law (Law No. 116 of 2013) regarding the promotion of direct investment in Kuwait. This law offers several incentives to foreign investors, of which the major ones are;

1. Ability to own or increase ownership in a Kuwaiti company to 100%;
2. Possibility to operate through a 100% owned foreign branch or representative office;
3. Income tax and custom duty exemptions.

The Law created a new authority, the Kuwait Direct Investment Promotion Authority (KDIPA) in place of the Kuwait Foreign Investment Bureau (KFIB).

(c) Businesses set up in the Kuwait free trade zone for carrying on specified operations are exempt from taxes on operations conducted in the zone and foreign entities can own 100% of such businesses.

(d) Kuwait has begun to use the build, operate and transfer (BOT) method in respect of some large infrastructure projects. Tax and tariff concessions may be built into a BOT contract.

As per circular No 48 of 2013, issued by the Tax Department regarding treatment of exempted companies, the exempted companies shall, however, comply with the provisions of submission of tax return, inspection and assessment procedures like other companies in order to be eligible for exemption.

D. TAX DEVELOPMENTS

New requirements for the submission of tax return and compliance process were introduced through Executive Rules and Circulars, which increases the disclosures, analysis and information to be submitted along with the tax return. Further tax payers are to submit a report on actual basis applying the same adjustments as per the latest assessment order, within the 3 months following the tax filing.

The Ministry of Finance is currently studying the implementation of Business Profits Tax and VAT legislation in Kuwait, anticipated to be in line with the Master framework agreement to be signed and agreed by all GCC member states.

E. PERSONAL TAX

There is no personal income tax or wealth tax in Kuwait.

F. TREATY AND NON-TREATY WITHHOLDING RATES

	Dividends%		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	0	0	n/a	n/a
Individuals	n/a	n/a	n/a	n/a
Treaty countries:				
Albania	0/10	0/5	n/a	n/a
Armenia	5	0/5	n/a	n/a
Austria	0	0	n/a	n/a
Azerbaijan	10	5	n/a	n/a
Belarus	5	0/5	n/a	n/a
Belgium	10	0/10	n/a	n/a
Brunei	0	0	n/a	n/a
Bulgaria	5	0	n/a	n/a
Canada	15	5	n/a	n/a
China	5	0	n/a	n/a
Croatia	0	0	n/a	n/a
Cyprus	0	0	n/a	n/a
Czech Rep.	5	0	n/a	n/a
Denmark	5/15	0	n/a	n/a
Egypt	10	0/5	n/a	n/a
Ethiopia	0	0	n/a	n/a
France	0	0	n/a	n/a
Georgia	5	0	n/a	n/a
Germany	15	5	n/a	n/a
Greece	5	0/5	n/a	n/a
Hong Kong	5	0/5	n/a	n/a
Hungary	0	0	n/a	n/a
India	10	0	n/a	n/a
Indonesia	10	0	n/a	n/a
Iran	5	5	n/a	n/a
Ireland	0	0	n/a	n/a
Italy	–	5	n/a	n/a
Japan	10	5	n/a	n/a
Jordan	10	5	n/a	n/a
Korea (Rep.)	5	5	n/a	n/a
Kyrgyzstan	0	0	n/a	n/a

Latvia	5	0	n/a	n/a
Lebanon	0	0	n/a	n/a
Lithuania	15	0/5	n/a	n/a
Macedonia	0	0	n/a	n/a
Malta	0	0	n/a	n/a
Malaysia	–/0	–/0	n/a	n/a
Mauritius	0	0	n/a	n/a
Mexico	0	0	n/a	n/a
Moldova	5	0/5	n/a	n/a
Mongolia	5	5	n/a	n/a
Morocco	10	2.5/5	n/a	n/a
Netherlands	10	0	n/a	n/a
Pakistan	10	10	n/a	n/a
Philippines	15	10	n/a	n/a
Poland	5	0	n/a	n/a
Portugal	10	5	n/a	n/a
Russia	5	0	n/a	n/a
Romania	1	1	n/a	n/a
Serbia and Montenegro	10	5	n/a	n/a
Singapore	0	0	n/a	n/a
Slovenia	5	5	n/a	n/a
Slovak Republic	0	0	n/a	n/a
South Africa	0	0	n/a	n/a
Spain	5	0	n/a	n/a
Sri Lanka	10	5	n/a	n/a
Sudan	5	0/5	n/a	n/a
Switzerland	15	15	n/a	n/a
Syria	0	0	n/a	n/a
Thailand	10	10	n/a	n/a
Tunisia	10	0	n/a	n/a
Turkey	10	10	n/a	n/a
United Kingdom	15	5	n/a	n/a
Ukraine	5	0	n/a	n/a
Uzbekistan	10	5	n/a	n/a
Venezuela	10	5	n/a	n/a
Vietnam	10/15	10/15	n/a	n/a
Yemen	0	0	n/a	n/a
Zimbabwe	10	5	n/a	n/a

LATVIA

MEMBER FIRM

City	Name	Contact Information
Riga	Maruta Zorgenfreija	+371 67 333 647 maruta.zorgenfreija@pkf-latvia.lv

BASIC FACTS

Full name:	Republic of Latvia
Capital:	Riga
Main languages:	Latvian, Russian
Population:	1.93 million (2018 estimate)
Monetary unit:	1 Euro (EUR) = 100 cents
Internet domain:	.lv
Int. dialling code:	+371

KEY TAX POINTS

- The new Corporate Income Tax Law (effective 1 January 2018) provides for the corporate income tax payment at the moment of the distribution of profits (including at the moment of the deemed profit distribution). Undistributed corporate profits are tax exempt. Corporate income tax (CIT) rate is 20% on the gross distributed amount or 20/80 on the net income, i.e. the taxable base subject to CIT has to be divided by a 0.8 coefficient, thus giving an effective rate of 25%. The new tax regime applies to Latvian resident companies as well as to permanent establishments of non-resident companies that are registered in Latvia.
- The general VAT rate is 21%. A reduced rate of 12% and 5% is applied to certain products and services. Intra-community supply of goods (to a customer registered as a VAT payer in another Member State) is zero-rated.
- Non-arm's length transactions with related parties are treated as a deemed profit distribution.
- Withholding tax is levied at standard rates on certain payments made by Latvian residents to non-residents. If a double tax treaty exists between Latvia and the relevant country, reduced rates or exemptions may apply.
- As from 1 January 2018 a progressive personal income tax rate is implemented in Latvia.

A. TAXES PAYABLE

COMPANY TAX

A company is resident in Latvia if it is registered, or required to be registered, in Latvia. Resident companies are taxed on profits distributed from their worldwide income. Permanent establishments of non-residents are taxed on profits distributed from income attributable to the branch.

Companies may choose the accounting and taxation period which does not necessarily have to be the calendar year and the length of the taxation (accounting) period is 12 months. Only the first accounting period can be longer than 12 months (subject to a maximum of 18 months). Taxation of corporate profits is postponed until the profits are distributed.

Shipping companies may alternatively apply tonnage tax.

CAPITAL GAINS TAX

Undistributed profits including capital gains are tax exempt.

BRANCH PROFITS TAX

Permanent establishments are treated as domestic companies, i.e. taxable income arises at the moment when the profit of the permanent establishment is transferred to the main company.

VALUE ADDED TAX (VAT)

The general VAT rate is 21%. A reduced 12% rate is applied to certain products and services such as medical goods (according to the list approved by the Cabinet of Ministers), baby food, supplies of books, mass media, inland public transportation services, hotel services (accommodation) and supplies of heating to individuals. A reduced 5% rate is charged on fresh fruit and vegetables from 1 January 2018. Exports and related services are zero-rated. Several types of supplies are VAT exempt. These include the sale of land (except development land with building permission issued after 31 December 2009) and used real estate, supply of medical services, rental of apartments to individuals, and most banking and insurance services. Intra-community supply of goods (to a customer registered as a VAT payer in another Member State) is zero-rated.

A transaction that involves a Latvian taxable person acquiring goods in Latvia from a taxable person registered in another Member State will qualify as an intra-community acquisition within the meaning of the VAT Act. When the Latvian taxable person receives the goods from a supplier, this person will charge VAT on the acquisition and will recover this amount as input tax in the same month (reverse charge accounting).

The VAT registration threshold is EUR 40,000.

There is a 50% restriction on deducting input tax on light passenger cars that are purchased, rented or imported and on their running costs including fuel and repairs (except where the car is used for passenger and carrying goods, taxi services, lease services, and some other specialised services).

VAT is not deductible on representative vehicles (cost exceeding EUR 50,000).

The following types of supplies attract reverse charge accounting if both parties to the transactions are VAT payers: timber, scrap metal, and construction service, electronic goods (smartphones, laptops, tablets, and integrated circuit devices, including microprocessors and central processing units), cereal and industrial crops, supplies of unwrought precious metals, precious metal alloys and metals clad with precious metal (including unfinished products), as well as waste precious metal and scrap precious metal. From 2018 reverse charge VAT applies also to supplies of household electronic and electrical appliances and construction materials.

FRINGE BENEFITS TAX

Most fringe benefits granted to employees are subject to payroll taxes. A few benefits are tax exempt. These include health and accident insurance premiums paid on agreements concluded by employers on behalf of their employees and contributions to private pension funds or life insurance premiums on the employee's behalf. Health and life insurance premiums and contributions to private pension plans that do not exceed 10% of gross remuneration of an employee in the taxation year are not subject to payroll taxes. Certain conditions need to be met and health and accident insurance premiums may not exceed EUR 426.86.

LOCAL TAXES

Local authorities are permitted to levy stamp duties. They may be levied on transactions such as obtaining a building permit, placements of advertisements at public locations, organising public trading events, etc.

REAL ESTATE TAX

Real estate tax is paid by Latvian and foreign companies and individuals that have title (registered with the Land Registry) or legal possession of real estate in Latvia, i.e. land, buildings and engineering structures - roads, bridges, pipelines, communication lines, power station structures, fencing, etc. The standard rate of real estate tax applicable to land, buildings (except residential buildings) and constructions is 1.5% of the cadastral value. The local authorities have the right to set the rate of real estate tax within a range of 0.2 - 3%. If the local authority fails to announce a different rate by 1 October for the subsequent year, the standard rate of 1.5% will apply for that subsequent year.

From 2014 the local authorities, when issuing binding regulations, have the right to apply a 3% tax rate for buildings that exceed certain construction works' duration, starting from the next month after the construction term expires until the month when the building acceptance document is signed. Tax is calculated on the cadastral value of land, buildings and engineering structures. Some classes of real estate are exempt from tax such as state or municipal real estate used for performing certain functions. A progressive rate has been set for residential houses and any parts of non-residential buildings that are functionally used for living and not used in a trade or business:

- 0.2% of cadastral values up to EUR 56,915;
- 0.4% of cadastral values exceeding EUR 56,915, but not exceeding EUR 106,715;
- 0.6% of cadastral values exceeding EUR 106,715.

A double rate of 3% (standard rate 1.5% plus additional rate 1.5%) applies to uncultivated land capable of agricultural use. If such property, in addition, is not maintained in accordance with regulatory requirements, the local authority can set a rate of up to 4.5% consisting of a maximum allowable rate of 3% plus an additional rate of 1.5% for uncultivated land.

OTHER TAXES

Stamp Duty is payable on registration of title to real estate with the Land Book at 2% of the purchase price (or cadastral value if higher), up to a maximum of EUR 42,686.

B. DETERMINATION OF TAX BASE

From 1 January 2018 corporate income tax will be paid on the following:

Profit distribution:

- declared (calculated) dividends, including interim dividends:
- payments treated as dividends (this is applicable to certain types of entities such as co-operative societies, partnerships, permanent establishments);
- deemed dividends (if share capital has been increased by capitalizing retained earnings, and later share capital is reduced and paid to the shareholders), including any surplus assets on winding-up.

Deemed profit distribution:

- non-business expenses;
- doubtful debts (subject to special rules);
- non-arm's length transactions with related parties;
- interest payments in excess of allowed interest (on loans other than loans from financial institutions);
- loans to related parties (with several exemptions);
- liquidation quota.

Non-business expenses include excess costs incurred on representation and staff sustainability events. Allowed expenses of this category (in aggregate for the financial year) are capped at 5% of the total gross employment pay on which national social insurance contributions have been paid in the preceding financial year. The respective expenses have to be recorded separately from other expenses.

Excess interest payments arise where the associated liabilities (to lenders other than credit institutions) exceed four times the shareholders' equity at the beginning of the tax year, less any revaluation reserve and any other reserves not made as a result of profit.

Providing loans to a related party will be considered a profit distribution, except for the parent's loans to a subsidiary; short-term loans for up to 12 months; a loan not exceeding a loan received from an unrelated party or not exceeding certain level of registered share capital; or where the lender has no retained earnings at the beginning of the year.

The CIT rate is 20% of the taxable base. Before applying the rate to the taxable base for the tax period, the taxable base shall be divided by a coefficient of 0.8, thus giving an effective tax rate of 25%.

In accordance with the transitional provisions, companies will be entitled to distribute profit showed on the balance sheet as at 31 December 2017 to corporate shareholders without the application of new CIT for an unlimited period of time. If the shareholders are individuals, for a period of 2 years (from 1 January 2018) a 10% personal income tax will continue to apply to dividends from pre-2018 profits; after that period the rate to be applied is 20%.

LOSSES

Tax losses accumulated under the previous CIT regime (until 31 December 2017) can be used to reduce tax payable on dividends. The tax credit is capped at 50% of the amount of tax calculated on the dividends; the period in which these tax losses can be used is no longer than 5 years.

E. RELATED PARTY TRANSACTIONS

Non-arm's length transactions with related parties would be treated as deemed profit distribution.

F. WITHHOLDING TAX

Withholding tax is levied on the following payments made by Latvian residents to non-residents.

Management and consulting services	20%
Sale of real estate	3% of sale proceeds (also includes income from sale of shares of companies where real estate comprises more than 50% of company's total assets)

Note: All payments to companies registered in tax havens, except payments for purchases of goods and purchases of public securities registered in EU or EEA countries, attract 20%, unless specifically agreed with the tax authorities. However, the mentioned purchases shall be performed at market prices to apply for an exemption.

The rates given above are standard rates. If a double tax treaty exists between Latvia and the relevant country, reduced rates or exemptions may apply. A Latvian company paying the income to a non-resident company can apply these exemptions/lower tax rates only if the recipient of income has submitted the valid residence certificate stating that the recipient is a resident in that country (certificate to be approved by tax authorities) before the actual payment is made. A residence certificate should be approved by the local State Revenue Service office and is valid tor five fiscal years.

G. EXCHANGE CONTROL

There is no exchange control in Latvia.

H. PERSONAL TAX

Changes made as of 1 January 2018 to the personal income tax measures include new progressive income tax rates as follows:

20% - for annual income up to EUR 20,004;

23% - for part of annual income which exceeds EUR 20,004 but does not exceed EUR 55,000;

31.4% - for part of annual income, which exceeds EUR 55,000.

Tax in respect of salaries, bonuses and most other types of payments made by Latvian companies is withheld at source and remitted to the tax authorities. If the recipient of income is registered as a sole trader, he/she is responsible for calculating and paying income tax.

Capital gains are taxed at a rate of 20%. A capital gain is the difference between the sales price and the acquisition cost of a capital asset, or the difference between any surplus assets received on a company's liquidation and the original investment, or the down payment on a sale that is not completed. Capital assets include shares, investments in partnerships, and other financial instruments, investment fund certificates, debt instruments, real estate and intellectual property.

Non-resident individuals shall pay tax on income (capital gain) from selling real estate and other capital assets, except publicly traded financial instruments. However, a disposal of shares in a company is deemed to be a disposal of real estate (and thus subject to 20% tax) when real estate comprises more than 50% of the company's total assets either during the year of disposal or in the previous year. The proportion of real estate is calculated at the beginning of the year.

Benefits from the private use of company vehicles are not subject to income tax provided the merchant pays light corporate vehicle tax on cars owned or held. The taxable amount depends on the engine capacity only. If light corporate vehicle tax is paid, car related expenses (fuel, maintenance, rent) can be treated as a deductible expense also for corporate income tax purposes.

SOCIAL INSURANCE CONTRIBUTIONS

Social insurance contributions are paid by both the employer and employee. The total rate for resident employees is 35.09% of gross employment income (including salary, bonuses, benefits in kind etc.), 11% of which is paid by the individual (withheld from gross salary) and 24.09% by the employer. Special rules apply to Latvian residents employed by foreign companies, foreign nationals employed by foreign companies (performing work in Latvia) and self-employed individuals.

In 2018 the income subject to social insurance contributions is capped at EUR 55,000. Solidarity tax is charged on income that exceeds the cap (at the same rate as social insurance contributions). Solidarity tax payments go towards healthcare, social insurance, and personal income tax payments (to cover progressive income tax rate for salaries exceeding EUR 55,000).

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Latvia has tax treaties with the following countries: Albania, Armenia, Austria, Azerbaijan, Belarus, Belgium, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, India, Italy, Ireland, Israel, Kazakhstan, Korea, Kuwait, Kyrgyzstan, Lithuania, Luxembourg, Macedonia, Malta, Mexico, Moldova, Montenegro, Morocco, Netherlands, Norway, Poland, Portugal, Qatar, Romania, Russia, Serbia, Singapore, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Tajikistan, Turkey, Turkmenistan, Ukraine, United Arab Emirates, United Kingdom, United States and Uzbekistan. Please note that the treaty has been concluded between Latvia and the former Serbia and Montenegro.

Management and consulting fees in general attract 20% withholding tax (from 2018) while a zero rate is applied if DTT exemption applies (residence certificate submitted to the Latvian company paying income to non-resident).

LEBANON

MEMBER FIRM

City	Name	Contact Information
Beirut	Elie Chartouni	+961 1493220 (ext. 101) eliechartouni@pkflb.com
Beirut	Georges Chartouni	+961 1493220 (ext. 100) georgeschartouni@pkflb.com

BASIC FACTS

Full name:	Lebanese Republic
Capital:	Beirut
Main languages:	Arabic
Population:	6.1 million (2018 estimate)
Monetary unit:	Lebanese Pound (the LBP is pegged to the USD since 1999)
Internet domain:	.lb
Int. dialling code:	+961

KEY TAX POINTS

- Income tax in Lebanon is levied on the territoriality principle, so that all income derived from Lebanon is subject to tax, but all income derived from abroad is exempt.
- Generally, companies (as well as branches of foreign companies) are subject to a flat 17% income tax on profits.
- Contractors with the government for civil works, oil refineries, insurance companies and transport companies, if subject to taxation, are taxed on “lump sum profits”.
- Holding companies are exempt from income tax on profits and are subject to only an annual lump sum tax on capital and reserves. Such tax is not to exceed USD 3,333 per annum.
- Offshore companies are exempt from income tax on profits and are subject only to an annual lump sum tax of USD 667.

A. TAXES PAYABLE

COMPANY TAX

The tax year runs from 1st January to 31st December. However a company may use a financial year which is different from the calendar year with the authorization of the tax administration. Companies are requested to submit their tax returns for the year ending 31st December by 31st May of the following year, together with payment of tax due. Companies which were authorized by the tax administration to use a financial year which is different from the calendar year must submit their tax return within a period of five months from the close of their financial year.

CAPITAL GAINS TAX

Capital gains tax on the sale of fixed assets is normally computed at a rate of 15%.

BRANCH PROFITS TAX

Branches of foreign companies are liable to the same income tax rate of 17% as Lebanese companies in respect of their profits realised in Lebanon. Profits earned by branches of foreign companies are deemed to be distributed dividends and are subject to 10% distribution tax on the amount of the profit after deduction of income tax.

VALUE ADDED TAX (VAT)

Subject to certain exceptions, VAT applies on imports and to each taxable natural person or legal entity that provides goods or services in the course of an independent economic activity in Lebanon and whose turnover exceeds USD 66,350 (equivalent to LBP 100 million) during four consecutive quarters. A taxpayer may choose to register for VAT even if his turnover is below this threshold. The standard VAT rate is 11%. The VAT law requires any person, who does not have a residence or an elected domicile in Lebanon to appoint a representative with the approval of the tax authority prior to undertaking any delivery of goods or provision of services within the Lebanese territory, regardless of its turnover.

FRINGE BENEFITS TAX

There is no fringe benefits tax in Lebanon.

LOCAL TAXES

There are no local taxes in Lebanon.

STAMP DUTY

Stamp duties are payable on all deeds and contracts, at the rate of 0.4% of the value of amounts contained in such deeds and contracts. Contracts and deeds signed by an offshore company in Lebanon and related to its activities abroad are exempt from the stamp duty.

TAXATION OF PUBLIC CONTRACTORS

All contractors awarded public works settle tax based on the total amounts collected from the government. The rate of deemed profit approved by the tax authorities is 10% on amounts collected.

SOCIAL SECURITY - NSSF

All employees are required to be registered with the National Social Security Fund. Contributions are made by both the employer and the employee to this Fund on the basis of income. Contributions are divided into three sections: End of Service Indemnity, Family Allowances and sickness and maternity. Although in respect of foreign nationals the company makes family and sickness and maternity contributions, the employees do not benefit from them, except in the case of the following nationalities: British, French, Belgian and Italian.

Social security contributions for local personnel are payable as follows:

a) End of Service Indemnity: 8.5% on total monthly salaries. (payable by the employer)

b) Family Allowances: 6% on the monthly salary with a ceiling of USD 1,000 per employee (payable by the employer).

c) Sickness and maternity: 11% on monthly salary with a ceiling of USD 1,667 per employee (8% as company's share and 3% as employee's share).

As for expatriates no end of service indemnity contributions are to be paid, but the family allowances and sickness and maternity are to be paid, as described above.

B. DETERMINATION OF TAXABLE INCOME

Taxable profits consist of all revenues earned by the enterprise after deduction of all charges necessary for carrying out the business.

DEPRECIATION

The amount of annual depreciation of fixed assets is fixed by the Ministry of Finance. Depreciation of land and goodwill is not acceptable for tax purposes.

STOCK / INVENTORY

Inventory of goods is valued at cost for tax purposes.

DIVIDENDS

Income tax on distribution of dividends is generally levied at source at a rate of 10%.

INTEREST DEDUCTIONS

Interest on business loans is normally deductible.

LOSSES

Losses incurred in any one year may be carried forward for three years.

FOREIGN SOURCED INCOME

Income tax in Lebanon is territorial in general. Only profits realised in Lebanon and income derived from an activity in Lebanon is subject to Lebanese income tax.

INCENTIVES

The Lebanese tax system has instituted tax exemptions on certain activities or income. There are two types of tax exemptions.

Permanent tax exemptions include those in respect of:

- Educational establishments. Hospitals, orphanages, asylums;
- Agricultural investors;
- Sea and air transport companies, and provided there is a reciprocal agreement, foreign companies belonging to countries where Lebanese companies are operating;
- Public institutions that do not compete with private establishments;
- Banks offering long and medium-term credits: these banks are exempt from income tax for a period of seven years, as from the date of incorporation of the bank. As from the eighth year, the tax exemption is limited to an income equal to 4% of the capital.

Temporary tax exemptions: The Lebanese tax system has instituted temporary tax exemptions mainly for newly established industries if they are set up in one of the development areas designated by the government. In addition, certain industrial activities are exempt when they relate to the economic development of the country and they fulfil certain legal requirements.

TAXATION BASED ON TURNOVER

Certain enterprises are not taxed on the actual net profits realised but apply a percentage of the annual turnover to arrive at their taxable profits. This is the case for:

- Insurance companies;
- Contractors, in respect of sums received from work undertaken for the account of governmental institutions.

TAX ON INTERESTS RECEIVED

Interest received from bank deposit accounts, certificates of deposit, Lebanese treasury bills, debentures, etc. is subject to a tax of 7%.

C. FOREIGN TAX RELIEF

There are no unilateral measures for the avoidance of double taxation.

D. CORPORATE GROUPS

Corporate groups are not generally recognised in Lebanon.

E. RELATED PARTY TRANSACTIONS

The tax authorities have the right to modify the amount and conditions of transactions carried out between related parties on the basis of the amount and conditions that would have prevailed in similar transactions between two independent parties and under competitive conditions. Parties are related where one of the parties has the power to determine the other party's financial, economic and organizational activities.

F. WITHHOLDING TAX

Remuneration paid to non-residents in consideration for services rendered in Lebanon are subject to a withholding tax at a rate of 7.5%. This rate is reduced to 2.25% when the sums paid relate to commercial activities.

G. EXCHANGE CONTROL

There are no restrictions concerning the repatriation of profits, income and capital nor are there any restrictions on the convertibility of currency. Residents can freely import and export national banknotes. They may own, deal in, export and import gold. Residents may own foreign currencies and foreign securities, and may maintain bank balances abroad. Non-residents can freely import and export national banknotes. They may maintain foreign currency accounts with banks in Lebanon.

H. PERSONAL TAX

Residents, whether Lebanese or foreign, are taxable on income derived from Lebanon or from Lebanese sources only. Self-employed Individuals are bound to submit their tax returns, together with payment of tax due for the tax year end on 31st December, by 31st January if they are taxed on lump sum profits and by 31st March if they are taxed on actual profits. Tax rates on income from personal independent services (basis of lump sum profits) are as follows:

Band (in USD)	Rate on band
0 – 6,000	4%
6,001 – 16,000	7%
16,001 – 36,000	12%
36,001 – 69,333	16%
Over 69,333	21%

Regarding payroll income tax, the employer shall withhold the tax from the salary of its employees and shall pay it on their behalf on a quarterly basis. This obligation applies to individuals, establishments, companies and associations that pay retirement pensions or life annuities. Rates of taxes on wages and salaries are applied after family deductions as follows:

Band (in USD)	Rate on band
0 – 4,000	2%
4,001 – 10,000	4%
10,001 – 20,000	7%
20,001 – 40,000	11%
40,001 – 80,000	15%
Over 80,000	20%

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends%		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	0/10[1]	0/10[1]	7/7.5/10[2]	7.5[3]
Individuals	10	--	7/10	7.5
Treaty countries:				
Algeria	15	15	10	10
Armenia	10	5[4]	8	5
Bahrain	0	0	0	–
Belarus	7.5	7.5	5	5
Bulgaria	5	5	7	5
Cyprus	5	5	5	0
Czech Republic	5	5	0	10
Egypt	10	10	10	5
France	0	0	0	–
Italy	15	5[5]	0	0
Jordan	10	10	10	10
Kuwait	0	0	0	5
Malaysia	5	5	10	8
Malta	5	5	0	5
Morocco	10	5[6]	10	10/5
Oman	10	5	10	10
Pakistan	10	10	10	7.5
Poland	5	5	5	5
Qatar	0	0	0	0
Romania	5	5	5	5
Russia	10	10	5	5
Senegal	10	10	10	10
Syria	5	5	10	18
Tunisia	5	5	5	5
Turkey	15	10[7]	10	10
Ukraine	15	5[8]	10	10
United Arab Emirates	0	0	0	5
Yemen	10	10	5	7.5

NOTES:

1. Dividends distributed by Lebanese resident companies to non-resident companies are subject to a 10% final withholding tax. The 5% reduced withholding tax rate is no longer applicable with effect from 26 October 2017. Dividends distributed by holding companies and offshore companies are exempt from withholding tax.

2. Interest on bank deposits or bonds is subject to a 7% withholding tax while other interest is subject to a 10% withholding tax, unless a treaty applies. Interest paid to a non-resident is subject to a 7.5% withholding tax.
3. Royalties paid to a non-resident are subject to a 7.5% withholding tax, unless a treaty applies.
4. The 5% reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the equity capital of the dividend-paying company.
5. The 5% reduced rate applies if the beneficial owner is a company which has owned at least 10% of the capital of the dividend-paying company for a period of at least 12 months preceding the date the dividends were declared.
6. The 5% reduced rate applies if the beneficial owner is a company which holds directly at least 10% of the capital of the dividend-paying company.
7. The 10% reduced rate applies if the effective (beneficial) owner is a company (other than a partnership) which holds directly at least 15% of the capital of the dividend-paying company.
8. The 5% reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 20% of the capital of the dividend-paying company.

LESOTHO

MEMBER FIRM

City	Name	Contact Information
Maseru	Adache Sunday	+266 22 32 9799 admin.lesotho@pkf.com

BASIC FACTS

Full name:	Kingdom of Lesotho
Capital:	Maseru
Main languages:	English, Sesotho
Population:	2.26 million (2018 estimate)
Monetary unit:	Basotho Loti (LSL)
Internet domain:	.ls
Int. dialling code:	+266

KEY TAX POINTS

- A company is liable to tax separately from its members, and dividends are only taxable if they are from unqualified income. A manufacturing company is taxed at a special rate of 10% on profits whilst a non-manufacturing company is taxed at a standard rate of 25% on profits.
- Capital gains and losses: A taxable gain or loss on disposal of an asset is the difference between its adjusted cost base and proceeds. No tax implication arises from the disposal of assets, such as a private residence or motor vehicle, provided they are not used in the production of income subject to tax.
- A branch of a non-resident company in Lesotho is subject to tax at the standard rate of tax of 25% on repatriated income in addition to income tax on the chargeable income of the branch.
- VAT is a broad based tax levied on the supply or consumption of goods or services including supplies to the government. It is also levied on imported goods and services. Only registered persons can operate VAT and registration may be on a compulsory, mandatory or voluntary basis. The VAT registration threshold is LSL 850,000. There are four rates of VAT; 0%, 5%, 14% (standard rate) and 15%.

- Fringe Benefits Tax (FBT) is imposed on employers who provide their employees with fringe benefits. The Income Tax Act specifically identifies certain fringe benefits, all other benefits fall under the definition of employment income hence taxable to employees.
- Lesotho is a member of the Southern African Customs Union (SACU) which links all members by a single tariff and no customs duty applies between them, i.e. the SACU is treated as a single customs territory.
- Taxable business income is determined after the off-set of allowable deductions such as capital allowances and business expenses and available tax losses.
- Personal tax is based on residency. An individual is a resident if they have a place of abode in Lesotho, are present in Lesotho for more than 182 days in any consecutive period of twelve months (which includes all or part of the year of assessment), are an official of the Lesotho Government posted overseas during the year of assessment or have a resident lifestyle.

A. TAXES PAYABLE

The national government administers taxes through the Lesotho Revenue Authority (LRA) and levies may be charged by both the national government and district councils.

COMPANY TAX

A company is defined as a body corporate or unincorporated, whether created or recognized under the law in force in Lesotho or elsewhere, but does not include partnership or trust. A company is liable to tax separately from its members, and dividends are only taxable if they are from unqualified income. A manufacturing company is taxed at a special rate of 10% on profits whilst a non-manufacturing company is taxed at a standard rate of 25% on profits.

CAPITAL GAINS TAX

A taxable gain or loss on disposal of an asset is the difference between its adjusted cost base and proceeds (see below under 'capital gains and losses').

Personal assets

No tax implication arises from the disposal of assets, such as a private residence or motor vehicle, provided they are not used in the production of income subject to tax.

Special situations

A number of special situations are identified in the Act in respect of which special rules apply.

1. Loss on disposal to an associate

Where an asset is disposed of at a loss to an associate, the loss is not recognized for tax purposes. In such a situation, the asset is deemed to have been sold by the disposer and acquired by the buyer for its adjusted cost base at the date of disposal.

2. Asset depreciation under the pooling method

Gains and losses do not normally arise where assets are depreciated using the pooling method. However, there is a required treatment for three particular situations.

- Where, after disposal, there is a credit balance on the pool, then that credit balance is treated as a gain and forms part of business income.
- Where, after all the assets in a pool have been disposed of, a debit balance remains, then that debit balance is treated as a loss and is an allowable deduction against business income.
- Where the balance in a pool is less than LSL 500 and there have been no additions to the pool during the year, then that balance is an allowable deduction against business income.

3. Transfer between spouses and former spouses

Where an asset is transferred between spouses or between former spouses as part of a divorce settlement, a taxable disposal has not arisen. In such cases the (former) spouse is deemed to have acquired the asset at its adjusted cost base to the other (former) spouse as at the date of transfer. Correspondingly, the (former) spouse transferring the asset is deemed to have disposed of it for its adjusted cost base at the date of transfer.

4. Involuntary conversion and re-investment

Special treatment is available for situations when an asset is involuntarily disposed of and a similar asset is acquired. Such situations cover, for example, compensation under an insurance policy for the destruction of an asset or a payment for the compulsory acquisition of an asset.

If the proceeds are less than the adjusted cost base, then the loss is allowable. The new asset is deemed to have been acquired at its actual cost. Please note:

- If the full amount of the proceeds is re-invested in a new asset, no chargeable gain arises and the new asset is deemed to have been acquired for the adjusted cost base of the asset disposed of.
- If the full amount of the proceeds is not re-invested in a similar asset then the un-invested proceeds to the extent that they form part of any gain are taxable. The newly acquired asset is deemed to have been acquired at the adjusted cost base of the asset disposed of.

5. Transfer of assets on death

Where an asset is transferred to a personal representative or beneficiary on the death of a taxpayer a disposal for tax purposes is not deemed to have arisen. In such a situation, the personal representative or beneficiary is deemed to have acquired the asset for its market value at the date of death or its adjusted cost at the date of death, whichever is higher.

6. Contribution of asset to partnership

Where a taxpayer transfers an asset to a partnership and part of the contribution of capital to the partnership and the taxpayer`s interest in the partnership exceeds 50% after the contribution of the asset then no gain or loss is deemed to have arisen on the disposal of the asset. The taxpayer is deemed to have disposed of the asset for its adjusted cost base at the date of transfer and the partnership is deemed to have acquired it for that amount.

BRANCH PROFITS TAX

A branch of a non-resident company in Lesotho is subject to tax at the standard rate of tax of 25% on repatriated income (branch remittance tax) in addition to the 25% corporate income tax on the chargeable income of the branch. Repatriated income is the chargeable income of the branch minus:

- Lesotho income tax paid on that chargeable income;
- Any profits reinvested in the branch; and,
- Every repatriation of moneys by the branch is treated for tax purposes as having been made first out of the branch income, notwithstanding that it may be treated otherwise in the records of the branch.

VALUE ADDED TAX (VAT)

Prior to July 2003, a Sales Tax was in operation and this contributed to the Government Budget until 30 June 2003. From 1 July 2003 the Sales Tax ceased and was replaced by Value Added Tax (VAT) in accordance with the VAT Act (passed by Parliament in 2001). VAT is a broad based tax levied on the supply or consumption of goods or services including supplies to the government. It is also levied on imported goods and services and referred to as a 'destination based tax' because it is levied at the place where the consumption of service occurs.

Supplies subject to VAT must be made by a registered vendor and they must not be an exempt supply, i.e. a small businesses not registered for VAT cannot levy VAT on supplies to the final consumer. Only VAT registered persons can operate VAT, i.e. charge VAT on their sales invoices. Registration for VAT purposes can either be on a compulsory, mandatory or voluntary basis. The VAT registration threshold is LSL 850,000.

1) Compulsory VAT registration is required within 14 days where a person conducts business in Lesotho and it is clear that within a 12 month period their turnover of taxable supplies will exceed LSL 850,000. However, the following persons are required to register for VAT purposes, regardless of the threshold:

   a. National, regional or public authorities who carry on enterprises;

   b. Auctioneers; and,

   c. Persons carrying on an enterprise outside Lesotho whose goods or services are consumed in Lesotho.

2) Mandatory registration: The Commissioner of VAT can direct a person to register for VAT when their turnover exceeds the registration threshold, i.e. it is mandatory for them to register because the annual turnover is the determining factor.

3) Voluntary registration: VAT registration can be applied for where the turnover is less than the registration threshold. The Commissioner of VAT can approve such a registration at his discretion. Entrepreneurs often opt to voluntarily register for VAT purposes in order to recover input VAT paid on purchases.

Suppliers of exempt services such as banking services, educational services, etc. cannot register for VAT even if the annual turnover exceeds the threshold. If the supplier provides both the exempt and taxable services, the Commissioner will consider the taxable supplies. The VAT tax period is one month. VAT is payable or claimable on or within twenty days after the end of the month. There are four VAT rates in Lesotho:

a) 0% for exports of goods and services and on maize meal, maize (grain), bread, milk, beans, peas, agricultural inputs (fertilizers, seeds and livestock feed, un-malted sorghum), hens eggs and paraffin intended for use as fuel for cooking, illuminating or heating;

b) 5%: utilities e.g. telephone and electricity services;

c) 14% (standard rate): other supplies of goods and services supplied or imported; and,

d) 15%: alcohol and tobacco products.

VAT may be accounted for on either an accrual (or invoice) basis or a cash (payment) basis. Restrictions to claim input VAT apply to:

a) Expenses for private use;

b) Expenses incurred prior to two months before registering for VAT;

c) Vendor on cash basis but who has not paid the expense;

d) Entertainment of customers and clients in restaurants, theatres and night clubs;

e) Staff refreshments such as coffee, tea and other snacks;

f) Catering services acquired for staff canteens and dining room;

g) Subscription fees for sporting or recreational clubs;

h) Christmas lunches and parties, including hire of venues;

i) Beverages, meals and other hospitality and entertainment supplied to customers and clients at product launches and other promotional events and etc.

By way of exception to the above, the input tax incurred in relation to vendors who are in the business of supplying entertainment and meals and refreshments for organizers of seminars and similar events may however be claimed. Penalties for non-compliance and fraud: there are two types of additional tax or fines for failing to make a return or to pay by due date as well as acts of fraud. There are fines which are imposed by Commissioner of Vat and those imposed by courts. Some penalties for non-compliance and fraud are shown below:

Infringement	Penalty / Additional tax
1. Late submission of a return	Additional tax of 22% per month or part thereof of the VAT payable
2. Late payment of VAT	Additional tax of 22% per month or part thereof of the outstanding VAT amount
3. Failure to file a return or pay	An offence which is liable on conviction to a fine
4. Incorrect or false return or other declaration	Criminal offence which is liable on conviction to a fine or up to 2 years in prison
5. Fraudulent evasion	Criminal offence which is liable on conviction to a heavy fine or up to six years in prison

FRINGE BENEFITS TAX

Fringe Benefits Tax (FBT) is imposed on employers who provide their employees with fringe benefits. The Income Tax Act specifically identifies fringe benefits as; car, housing, utilities, domestic assistance, meal or refreshment, medical, loan, debt waiver and excessive superannuation contributions. All other benefits will then fall under the definition of employment income hence taxable to employees. Certain benefits provided by an employer are however exempt, such as:

a) Meals or refreshments provided in a canteen, cafeteria, or dining room operated by or on behalf of the employer solely for the benefit of the employees and which is available to all non-casual employees on equal terms.

b) Medical fringe benefit available to all non-casual employees on equal terms.

c) A fringe benefit relating to exempt employment income.

d) A fringe benefit, the value of which is so small as to make accounting for it unreasonable or administratively impractical.

e) Provision of a security guard.

f) Housing fringe benefit to the extent it is in excess of 20% of an employee's remuneration for the year of assessment in which the benefit is provided.

g) Fringe benefits provided to a domestic assistant.

For the purpose of meals and refreshments and medical fringe benefits, a non-casual employee is defined as an employee who does not meet any of the following two conditions:

a) An employee who is employed under a single contract, arrangement or understanding which is for a fixed period of less than one month. However, if the contract is subsequently renewed, such that one has been employed for more than one month from the commencement of the original contract, that person is a non-casual employee; or,

b) An employee who works for less than 15 hours per week over the course of a month.

The total of all taxable values provided to an employee in the year of assessment is divided by 60% to gross it up to a taxable amount. FBT is 40% of the taxable amount and is an allowable deduction at the level of the employer. Employers are required to make returns and payments of FBT within 14 days after every quarter.

LOCAL TAXES

Local taxes in Lesotho are sometimes referred to as domestic taxes. These include VAT already mentioned above, pay-as-you-earn (PAYE) and corporate income tax (CIT). PAYE is charged on employment income and CIT is charged on company profits.

OTHER TAXES – CUSTOMS DUTY

The Southern African Customs Union (SACU) consists of Botswana, Lesotho, Namibia, South Africa, and Swaziland. The SACU Secretariat is located in Windhoek, Namibia. SACU was established in 1910, making it the world's oldest Customs Union. Negotiations to reform the 1969 Agreement started in 1994, and a new agreement was signed in 2002. The new arrangement was ratified by SACU Heads of State.

The Economic structure of the Union links the Member states by a single tariff and no customs duties between them. The Member States form a single Customs territory in which tariffs and other barriers are eliminated on substantially all the trade between the Member States for products originating in these countries and there is a common external tariff that applies to non-members of SACU, which is shared according to the revenue sharing ratio.

INTEREST RECEIVABLE

Interest payable to a resident of Lesotho by a resident of Lesotho, other than an individual, is subject to a withholding tax of 10%.

B. DETERMINATION OF TAXABLE INCOME

CAPITAL ALLOWANCES

Tax depreciation can be claimed on the capital cost of premises (normally limited to industrial premises) and equipment including those for non-subsistence farming. The two methods of claiming tax depreciation (capital allowances) are the Single Asset Method or the Pooling Method. Declining Balance Depreciation Rates:

Group	Assets	Rate
1	Automobiles; taxis; light general purpose trucks; tractors for use over-the-road; special tools and devices.	25%
2	Office furniture; fixtures, and equipment computers and peripheral equipment and data handling equipment; buses; heavy general purpose trucks; trailers and trailer mounted containers; construction equipment.	20%
3	Any depreciable asset not included in another group.	10%

4	Railroad cars and locomotives and railroad equipment; vessels, barges, tugs and similar water transportation equipment; industrial buildings; engines and turbines; public utility plant.	5%

Single Asset Depreciation

The single asset method is similar to the reducing balance method of accounting and applies where a taxpayer has not elected for pooling to apply. No matter whether a pooling election has been made, single asset depreciation will apply to depreciable assets that are only partly used in the production of income that is subject to tax, and to assets in group 4.

Pooling of assets

Where pooling of assets applies, the depreciation allowance is calculated separately for each pool by applying the rate of depreciation for the pool against the balance of the pool at the end of year of assessment. Where consideration is received on the disposal of assets during a year of assessment and the amount exceeds the closing balance of the pool, the excess consideration is treated as a gain from the disposal of fixed assets and included in gross taxable income, i.e. it is treated as business income.

If no assets have been added to the pool during the year of assessment, and the closing balance of the pool is less than LSL 500, the taxpayer is permitted to write off the pool balance as a deduction.

Single Asset Method	Pooling Method
Depreciation allowance is granted for the period during the year that the asset is in use, i.e. dates when the fixed assets were purchased and disposed of must be kept.	The assets are depreciated on the basis that they were acquired exactly half way through the year.
This method is always applicable to Group 4 assets and to all other assets when pooling has not been elected for.	It only applies when it is elected for. Once elected for, the election is irrevocable. It cannot be applied to Group 4 assets.
When the asset is disposed, a gain or loss may occur which will form part of the business income or a deduction against the business income respectively.	Gains and losses do not arise on disposal as the proceeds are deductible from the pool. However where all the assets are disposed and a balance remains, the balance is an allowable deduction. If the balance of the pool is a credit, then it forms part of the business income in the year in which it arises.
It requires the maintenance of detailed asset registers.	It does not require the maintenance of detailed asset registers.
It can be applied to assets both fully and partially used in the production of income, subject to an apportionment of the amount attributable to the production of income.	It cannot be applied to assets partially used in the production of income.

Farming Assets

Tax depreciation can be claimed on assets of non-exempt farming activities. The method depends on when the asset was acquired and whether an election has been made by the taxpayer, although farm buildings may be treated separately.

STOCK / INVENTORY

A cash-basis taxpayer may calculate the cost base of trading stock on the prime-cost or absorption-cost method, and an accrual-basis taxpayer must calculate the cost base of trading stock on the absorption-cost method. The value of trading stock on hand at the end of the year of assessment is the lower of its cost base or market value at that date. Where particular items of trading stock are not readily identifiable, a taxpayer may account for the trading stock on the first-in-first-out (FIFO) method or the average-cost method.

CAPITAL GAINS AND LOSSES

Depreciable Business Assets

The adjusted cost base of depreciable business assets is the tax written down value on the date of disposal. Where the proceeds are less than the tax written down value, the loss is an allowable deduction against Business Income.

Depreciable business assets – non-depreciable

Non-depreciable business assets, which may include office buildings, fall into two categories.

a) Non-depreciable business assets held at 1 April 1993:

The adjusted cost base of the asset is deducted from the proceeds. In the case of such assets, the adjusted cost base is the higher of original cost or market value as at 1 April 1993. Where the proceeds exceed the adjusted cost base, then the gain forms part of business income. Where the proceeds are less than the adjusted cost base, the loss is an allowable deduction. However, the loss is only allowable to the extent that there is an actual loss. Thus, if the proceeds exceed the original cost but not the value as at 1 April 1993, the loss is not an allowable deduction. This is a no gain, no loss situation.

b) Non- depreciable assets acquired after 1 April 1993:

The adjusted cost base of the asset is deducted from the proceeds. The only adjustments to cost base are capital improvements. Where the proceeds exceed adjusted cost base, then that gain forms part of business income. Where the proceeds are less than the adjusted cost base, then that loss is an allowable deduction against business income.

Farming assets – depreciable and non-depreciable

The tax legislation now distinguishes between commercial farming (not exempt from income tax) and subsistence farming (exempt from income tax). The tax treatment of such disposals would be like other asset except for the following transitional provisions:

- The cost base of any farming asset disposed which was purchased before 31 March 1996 is equal to its market value on 31 March 1996. This applies to trading stock and other assets. This is to ensure that the individual is only taxed in respect of the gain or loss accruing after the removal of the exemption, i.e. from 31 March 1996.

  It is important to note that while the market value as at 31 March 1996 is taken as the cost base for disposals of commercial farming assets, the adjusted cost base as at 31 March 1996, arrived at by assuming that the single asset method of depreciation has been applied since acquisition of the asset, is taken for depreciation purposes. For the purpose of disposal, the cost base would again depend on whether the asset is depreciable or not:
- For depreciation assets, gains are calculated as the proceeds less the tax written down value taking account of notional allowances for pre 1 April 1996 assets.
- For non-depreciable assets, the higher of the market value as at 1 April 1996 and original cost is used as the cost base for disposal purposes.

The tax treatment of these assets is similar to business assets except that the 1 April 1993 date is substituted for the 1 April 1996.

Investment assets – immovable property

Such investment assets fall into two categories:

a) Land and buildings giving rise to rental income; and,

b) Shares in companies whose primary assets consist of investments in immovable properties.

Determining whether land or buildings are investment assets or business assets depend on whether rental income is being derived from the asset. These assets are grouped into two categories; those held at 1 April 1993 and those acquired after 1 April 1993. For assets held at 1 April 1993 there is a different calculation method to establish the cost base. If the asset has been held for more than twelve months, then the adjusted cost of the asset can be increased for the effects of inflation between 1 April 1993 and the date of disposal. Where the proceeds exceed the adjusted cost base, there is an allowable loss which can be offset against any gains arising from the disposal of any investment asset (movable or immovable). Any unutilised loss can

be carried forward for set-off against future gains. However, the amount of the loss that is allowed is restricted to the extent that the loss is an actual loss. It is therefore necessary to make a comparison between the proceeds and the original cost. If, on this basis, there is a profit, then the loss is not allowable. If there is a loss, only the actual loss will be allowable.

Investment assets – not immoveable property

For purposed of calculating the tax implications on the disposal of these assets, they are divided into two categories:

a) Investment assets held at 1 April 1993

The adjusted cost base (higher of original cost or market value as at 1 April 1993) of the asset is deducted from the proceeds. Where the proceeds exceed the adjusted cost base, the gain forms part of property income. Where the proceeds are less than the adjusted cost base, then there is an allowable loss.

Such loss can be offset against any gains arising from the disposal of any investment asset (movable or immovable). Any unutilized loss can be carried forward for set-off against future gains. However, the amount of the loss that is allowed is restricted to the extent that the loss is an actual loss. It is therefore necessary to make a comparison between the proceeds and the original cost. If on this basis there is a profit, then the loss is not allowable.

b) Investment assets acquired after 1 April 1993

The treatment of such disposals is straight-forward. Where the proceeds are less than the original cost then the loss is an allowable loss. Such loss can be offset against any gains arising from the disposal of any investment asset (movable or immovable). Any unutilized loss can be carried forward for set-off against future gains.

DIVIDENDS

A resident company which pays a dividend is liable to pay advance corporation tax (ACT) at the rate of 25/75 of the dividend payment except to the extent that the distribution is made out of qualified income (manufacturing Income subject to the 10% special rate and dividends received from another resident company). ACT is an advance payment of the company's income tax liability on its distributed profits and is not an additional tax. A company may credit ACT against its income tax liability, including instalments of income tax. A resident company must, within seven days of paying dividends, file a return of ACT stating:

a) The amount of dividends paid;

b) ACT payable; and,

c) The amount of ACT which has been satisfied by way of set-off in accordance with Section 87(4).

Where there has been no set-off of ACT, it must be paid within seven days of the dividend payment. This payment can be carried forward indefinitely for set-off against future tax liability. A dividend paid by a resident company is not included in the gross income of a resident individual. This in effect means that the maximum rate of tax on a manufacturing dividend is 10% and on a non-manufacturing dividend it is 25%. It also permits passage of dividends between resident companies without any further liability to taxation.

Redemption of shares

On redemption of shares, a company may purchase a certain proportion of shares from each shareholder or from a certain number of shareholders. If the former approach is adopted then the redemption is on pro-rata basis otherwise not on a pro-rata basis. Where the redemption is on a pro-rata basis, the gains or losses are treated normally. However, where the redemption is not on pro-rata basis, the gain is treated as a distribution to the shareholders and therefore the company has to account for ACT like on ordinary dividends.

Disguised dividends

There may be a number of transactions between a company and a member of the company or an associate of a member, which are, in substance, a distribution and as such will be treated as a dividend for the purpose of ACT. Where the transaction is with an associate of a member, the dividend is treated as having been paid to the member and not the associate.

Dividend stripping

Dividend stripping occurs where a company, just before it is to pay dividends out of its qualified income (which

does not attract ACT), is acquired by another company. The acquiring company receives the dividends and then subsequently sells the acquired company at a loss. The Commissioner has the discretion to treat a dividend paid as part of a dividend stripping transaction and not paid out of qualified income, in which case the taxpayer will be liable to ACT in respect of the dividends.

INTEREST DEDUCTIONS

Thin capitalization

Where a resident company (not principally engaged in a money-lending business) has a debt-to-equity ratio in excess of 3 to 1, the Commissioner may disallow a deduction for the interest paid on that part of the debt in excess of the aforementioned ratio, regardless of the lender, but cannot re-characterize the payment as a dividend.

LOSSES

Individuals

Where business income of an individual taxpayer is exceeded by deductions relating to that income, the loss (being the amount of the excess):

- May not be deducted against other income of the taxpayer but shall be carried forward; and,
- May be deducted in determining the chargeable business income in subsequent years of assessment.

Where property income of an individual taxpayer is exceeded by deductions relating to that income, the loss (being the amount of the excess):

- May not be deducted against other income of the taxpayer but shall be carried forward; and,
- May be deducted in determining chargeable property income in subsequent years of assessment.

Companies

Where the taxpayer is a company, the excess of the deductions allowed over the taxpayer's gross income shall be carried forward and may be deducted in determining chargeable income in subsequent years of assessment. Where manufacturing income of a resident company is exceeded by the deductions relating to that income, the loss (being the amount of the excess):

- May not be deducted against other income of the company but shall be carried forward; and,
- May be deducted in determining the chargeable manufacturing income in subsequent years of assessment.

Assessed losses are deductible from chargeable income and may be carried forward indefinitely until fully absorbed. A final year loss incurred upon the completion of a long-term contract may be carried back and relieved against the income of the preceding year of assessment. Where there has been a change of 50% or more in the underlying ownership or control of a company, the carry-forward of a loss, deduction or credit ceases to be available, unless the company:

- continues to conduct the same business; and
- does not engage in a new business or investment, except with the approval of the Commissioner General, for a period of 3 years after the change.

Losses on disposal of business assets

A loss arising from the disposal of a business asset, whether or not the asset was on capital or revenue account, is allowed as a deduction.

Unutilised capital losses on disposal of investment assets

Losses on disposal of investment assets are only allowed to the extent of gains derived by the taxpayer from the disposal of investment assets by the taxpayer. Any unutilized losses in a year of assessment can be carried forward indefinitely for future set-off against chargeable gains arising on disposal of investment assets.

FOREIGN SOURCED INCOME

Resident companies are subject to tax on a worldwide basis. Non-resident companies are taxed on Lesotho-sourced income only. Therefore, income derived abroad by a resident company is taxed as domestic income. An exception applies to foreign dividends, which are not exempt like domestic dividends, but are included in the taxable base. Relief is granted for foreign taxes paid on repatriated income.

Foreign-sourced income from employment income in a foreign country derived by a resident individual is exempt from income tax if the income is chargeable to tax in the foreign country. The table below illustrates how certain individuals are taxed on foreign and Lesotho sourced-income.

Individual	Employment income	Business income	Property income	Other income
Resident citizens and permanent residents	Worldwide except if sourced and taxed abroad	Worldwide	Worldwide	Worldwide
Diplomat residents	Foreign source taxable if exempt	Lesotho source only	Lesotho source only	Lesotho source only
Lesotho diplomats	Foreign service allowance is exempt	Worldwide	Worldwide	Worldwide
Expatriates	Worldwide	Worldwide (except foreign disposal)	Worldwide (except foreign disposal)	Worldwide
Non-resident	Lesotho source only	Lesotho source only	Lesotho source only	Lesotho source only

INCENTIVES

There are several incentives relating to taxation in Lesotho, namely:

- The manufacturing tax rate is reduced to 10%;
- The deduction of pension contributions from the gross income which is before tax and its exemption when receiving the payment;
- The exemption of dividends to a resident individual from a resident company;
- A tax exemption for subsistence farming by a resident individual;
- An interest deduction to the individual as specified in the legislation (sections 27 and 158).

C. FOREIGN TAX RELIEF

A resident taxpayer is entitled to a foreign tax credit against their liability to Lesotho income tax in respect of any foreign income tax borne directly or indirectly by the resident on foreign-sourced income subject to Lesotho tax. The foreign tax credit is calculated by applying the average rate of Lesotho income tax to the foreign-source income reduced by any deduction properly allocated to that income. The calculation is made separately for business income and for other income.

Foreign income tax borne by:

- A partnership is treated as borne by partners;
- A trustee (where the income on which the trustee was assesses is included in the gross income of a beneficiary under this Order) is treated as borne by the beneficiary;
- A beneficiary (where the income on which the beneficiary was assessed is included in the income of a trustee under this Order) is treated as borne by the trustee.

Where a resident company is entitled to both a credit for advance corporation tax and a foreign tax credit, the foreign tax credit shall be applied first. For the purpose of the above, the average rate of Lesotho income tax is the percentage that the Lesotho income tax, before the foreign tax credit, is of chargeable income of the taxpayer and in the case of a taxpayer with both business and other income, the average rate of tax is to be calculated separately for both categories of income. Foreign income tax includes foreign withholding tax but does not include a foreign tax designed to raise the foreign tax level on the income so that the taxation of the country of residence of the taxpayer is reduced.

D. CORPORATE GROUPS

There is no group taxation in Lesotho. A company is liable to tax separately from its members, and dividends are only taxable if they are from unqualified income. A manufacturing company is taxed at a special rate of 10% on profits. A non-manufacturing company is taxed at standard rate of 25% on profits.

E. RELATED PARTY TRANSACTIONS

Transfer pricing

The Commissioner has broad discretion to distribute, apportion, or allocate income, deductions, or credits between associated taxpayers to prevent tax evasion or to clearly reflect the income of such taxpayers. This includes adjusting the income arising from the transfer of intangible property between associates so that it is commensurate with the income attributable to the intangible property.

Controlled Foreign Companies

Lesotho does not have CFC legislation.

F. WITHHOLDING TAX

Dividends, interest, royalties and management fees are subject to a final withholding tax at 25% of the gross amount, subject to the application of a double tax treaty. For interest, royalties and management fees paid by manufacturing companies subject to a concessional corporate tax rate, the withholding tax rate is 15%. Regarding technical fees, Lesotho-sourced service contract income (i.e. a contract other than an employment contract, under which the primary purpose is the performance of services whether or not goods are provided which give rise to Lesotho-sourced income) is subject to a final 10% withholding tax on the gross amount.

G. PERSONAL INCOME TAX

Personal tax is based on residency. An individual is a resident if they:

- Have a place of abode in Lesotho;
- Are present in Lesotho for more than 182 days in any consecutive period of twelve months which includes all or part of the year of assessment;
- Are an official of the Lesotho Government posted overseas during the year of assessment;
- Have a resident lifestyle.

Resident individuals are, in general, taxed at the following rates (effective 1 April 2016):

Chargeable income (LSL)	Tax rate (%)
Up to 58,680	20
In excess of 58,680[1]	30

1. Personal tax credit of LSL 6,960

Interest

The first LSL 500 of interest derived from a single savings account with a registered financial institution resident in Lesotho by a resident individual is exempt from income tax. As the Lesotho branch of a non-resident financial institution is deemed to be a resident company under Section 6(2), an account held with such a branch qualifies for the exemption. An account held with a foreign branch of a non-resident financial institution does not however qualify for exemption, and the interest paid on such an account is fully taxable with a credit for any foreign tax (such as withholding tax) paid on the interest.

H. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends%		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	0/25	0/25	15/25	15/25
Individuals	0/25	--	25	15/25
Treaty countries				
Mauritius	10	10	10	10[3]

South Africa[1]	15	10[2]	10	10
United Kingdom	10	10	10	10

NOTES:

1. The tax treaty is effective from 26 June 2016 with respect to withholding taxes and from 1 April 2017 with respect to other tax matters.
2. The reduced rate applies if the beneficial owner is a company which owns at least 10% of the capital of the paying company.
3. 0% rate for technical services.

LIBERIA

MEMBER FIRM

City	Name	Contact Information
Monrovia	Nim'ne Mombo	+231 886 835 784 nemombo@pkf.com.lr

BASIC FACTS

Full name:	Republic of Liberia
Capital:	Monrovia
Main languages:	Liberian English
Population:	4.84 million (2018 estimate)
Monetary unit:	Liberian Dollar (LRD)
Internet domain:	.lr
Int. dialling code:	+231

A. TAXES PAYABLE

COMPANY TAX

Resident versus non-residentv

For tax purposes, the Revenue Code of Liberia ('The Code') distinguishes between residents and non-residents. It has no distinguishing provisions for taxation of citizens versus non-citizens. Therefore, a resident alien and a resident citizen are subject to the same Liberian tax. Similarly, a non-resident alien and a non-resident citizen are also subject to the same Liberian taxation.

Distinguishing features – resident vs non-resident

Whereas the global income of a resident person (legal or natural), is subject to Liberian taxation regardless of source, only the Liberia-sourced income of a non-resident person is subject to Liberian taxation. The foreign-sourced income of a non-resident is not taxed in Liberia. Moreover, whereas for a resident taxpayer, income tax determination is as variously specified in the Code, the Liberia-sourced income of a non-resident person is taxed only by way of withholding tax at source at specified rates.

Tax Identification Number (TIN) required

Every resident taxpayer, whether an individual or a legal person, is required to have a Tax Identification Number (TIN), which is obtainable from the Liberia Revenue Authority (LRA). A resident taxpayer who provides services is required to provide the service provider's TIN to each service recipient. As more fully later explained below, the service recipient is authorized to withhold tax from the service provider. The service recipient is then required to file an appropriate withholding tax return in which the TIN is used to identify each service provider from whom taxes have been withheld.

Company tax

Corporate income tax is 25% flat on net taxable income.

Quarterly advance payments and Minimum Tax required

Where annual turnover is USD 5 million or more; or is reasonably expected to be USD 5 million or more per annum, corporate income tax is required to be paid in four quarterly instalments calculated at 2% of the gross sales (turnover) per quarter.
Where annual turnover is less than USD 5 million but greater than USD 200,000 per annum, or is reasonably expected to fall within that range, corporate income tax is computed at 4% of turnover per quarter. A taxpayer in this category is referred to as a 'small taxpayer'. The turnover tax is in lieu of and constitutes the only income tax required of such a 'small taxpayer.
A taxpayer with annual turnover of USD 200,000 or less is classified as a 'petty trader'. The income tax required of petty traders consists of a fixed amount established by statute or regulation.

Overpayments resulting from quarterly advance payments

In the case of taxpayers with annual turnover of USD 5 million or more, any excess tax paid resulting from the required quarterly payment is creditable against other non-income tax liability, if any, for the current tax year. Where no such other tax liability applies, at the election of the taxpayer, any excess tax paid is either refundable or creditable against future tax liabilities, provided that no such tax credit can be applied in excess of the minimum tax (see below) required for the year.
Where the taxpayer desires a refund, a written claim for such refund is required. In that case, per the Code, the refund is required to be made within 90 days following the taxpayer's claim for a refund. In the absence of a written claim for refund, any excess tax paid becomes creditable against future tax payments, subject to the minimum tax explained below. Unused excess tax credits for any tax year may be carried forward to future periods for up to a maximum of five years. Beyond that time limit, a taxpayer may either request a refund for the remaining unusable tax credit for a specific tax year or lose the credit.

Minimum tax

For taxpayers with annual gross income (turnover) of USD 5 million or more, the quarterly advance payments calculated at 2% of quarterly turnover constitutes the minimum tax payable for the tax year, even in cases of zero taxable income. Therefore, tax credits or tax refunds that would otherwise arise in the case of an excess payment arising from the quarterly advance payments mentioned above, cannot exceed the required minimum tax.

CAPITAL GAINS AND LOSSES

There are no special tax rates for capital gains and losses. All such gains and losses are included in the standard calculation net taxable income (or net operating loss) for the tax year.

BRANCH PROFITS TAX

Not applicable in Liberia. Therefore, in practice, a branch operation would normally be set up in Liberia as a subsidiary of a foreign corporation. In the case of a domestic corporation, each branch location is required to obtain an annual license. However, one single consolidated tax return is required for corporate income tax (CIT) purposes.

GOODS & SERVICES TAX (GST)

Goods Tax – General rule

Except for those that are specifically identified in the Code as exempt supplies, an excise tax applies at 10% in the case of goods manufactured in Liberia. Also except for those specifically identified in the Code as exempt supplies, import duty applies at specified rates in the case of goods imported into Liberia. All exports are duty free.

ECOWAS Trade Liberalization Scheme

Currently being rolled out. As its name indicates, the Scheme is designed to liberalize and therefore promote trade among member states of the Economic Community of West African States (ECOWAS). As part of its rollout in Liberia, goods manufactured in an ECOWAS member state are exempt from import duty and also the ECOWAS Trade Levy (ETL).

Service Tax

Except where specifically declared exempt by the Code, a service tax applies in respect of a supply of ten specific categories (listed below) of services in connection with the carrying on of a business. The service tax is calculated at 10% of the consideration payable for such supply, in connection with supply of the following services:

4) Electricity services;
5) Telecommunications services;
6) The provision of water for a fee;
7) Services supplied in carrying on the business of a hotel or similar facility (including board, lodging, and incidental services), and restaurant meals, beverages, and other services supplied on the premises of a hotel;
8) Services supplied in carrying on the business of a restaurant or café (including supplies of meals orbeverages), and supplies of take-away meals by a restaurant, café, supermarket or similar supplier;
9) Gambling services:
    a) in a casino;
    b) lottery ticket sales;
    c) betting at a track or off-track betting establishment; or
    d) drawings or other games of chance conducted by telecommunications suppliers or other similarsuppliers;
10) Sale of tickets by international transport services (air, land and sea);
11) Services of a travel agency or travel arranger, including the issuing of tickets;
12) Sporting or game arranger services, including the issuing of tickets; and
13) Other services (specified in regulations) in the sectors of air travel, vehicle rental, communications, automotive repair services, professional services (excepting medical services), and port-related services.

B. DETERMINATION OF TAXABLE INCOME

Corporate Income Tax (CIT) is calculated on taxable income derived in accordance with either US Generally Accepted Accounting Principles (US GAAP) or International Financial Reporting Standards (IFRS). Owing to Liberia's historical ties to United States of America, until recent times (starting 2011 for the banking sector) US GAAP has over the years prevailed in Liberia, as the national comprehensive accounting standard. The Liberian Institute of Certified Public Accounting (LICPA) is in the process of transitioning accountants in the Liberian private sector from US GAAP to IFRS. Currently, except as otherwise specified in the Code, either US GAAP or IFRS is acceptable for tax purpose.

A corporation is required to use accrual-basis accounting. Other legal person (e.g. partnerships and trusts) as well as individuals are generally free to use cash basis or accrual basis accounting, at the taxpayer's choice, provided that the chosen method of accounting may not be subsequently changed without the prior written permission of the Commissioner General of the Liberia Revenue Authority (LRA). However, natural persons as well as partnerships and trust, may be required to use accrual basis accounting for a tax year in which business income 'exceeds the amount specified in Regulations'.

DIVIDENDS

As a general rule dividends are taxable to the recipient. However, a cash dividend received by one domestic Liberian corporation from another domestic Liberian corporation is tax exempt. The exemption does not apply if the dividend is received by virtue of redeemable shares that the recipient has in the domestic corporation that has paid the dividend; or if such dividend is received 'in a dividend stripping arrangement as defined in regulations'.

EXCLUSIONS FROM GROSS INCOME

Sickness, disability, or death benefits

Payments received by a taxpayer on account of illness of or injury to self or another; or on account of the death of a natural person to whom the recipient is related, are excluded from income of the recipient. Payments qualifying for this exclusion include amounts paid as proceeds of health insurance or disability insurance or benefits; as damages for or in settlement of a claim of damages for injury to a natural person; or as proceeds of a life insurance policy or as a death benefit. This exclusion applies to the amount received

regardless of whether amount is received as a lump sum or as part of a series of annuity payments.

Tax-exempt government obligations

Interest on an obligation issued by the Republic of Liberia and declared by the Government to be a taxexempt obligation is excluded from the income of the holder of the obligation.

Personal-use property.

Gains on the sale of personal-use property, are excluded from income up to USD 1,600,000. Excess, if any, is included in gross taxable income.

DEDUCTIBLE BUSINESS EXPENSES

A taxpayer is permitted a deduction for the ordinary expenses of producing income during a tax year. Among others, these principally include:

Investment incentives

The Revenue Code of Liberia provides a range of investment incentives that cover exemptions from import duties and also permit a number of accelerated depreciation on qualifying assets. In general the incentives apply primarily to the mining, agricultural and renewable energy sectors. Also in general, investment incentives include exemption from import duties of specified asset categories, usually for up to five years during the initial establishment period of a qualified business operation. They additionally include accelerated depreciation up to an aggregate of 30% of the cost of a qualifying asset in the year such asset is put into operation. The adjusted tax cost of the asset is then depreciated on an asset-by-asset basis or put into an appropriate asset category for subsequent additional depreciation, as further discussed below under Depreciation and Amortization.

Qualification for such incentives requires certification for the purpose by the National Investment Commission (NIC), which is required by the Code to appropriately coordinate with the Liberia Revenue Authority (LRA) and the Ministry of Finance and Development Planning (MOFD) in reaching an appropriate determination regarding each application for the investment incentives provided in the Code. Tax incentives to be granted in respect of investments valued USD 10 Million or above, require prior approval by the National Legislature Liberia and also requires that the President of Liberia signs into law the resulting official ratification of the National Legislature of Liberia.

Cost of sales

Inventory of trading stock

To avail of inventory cost deduction provisions in the Code, a taxpayer is required to maintain proper books of account wherein inventory valuation is consistent and in accordance with US GAAP. For inventory items that are specifically identifiable, specific identification valuation of such inventory is required. For inventory items that are not readily identifiable, the standard methods of inventory valuation under US GAAP (including FIFO, LIFO, average cost) are acceptable for tax purposes. Period-end inventory is required to be valued at the lower of cost or market value.

Once chosen, a standard inventory valuation method may not later be changed for the same or a similar category of inventory except with the prior written permission of the Liberia Revenue Authority (LRA). A deduction is allowed for the cost of inventory sold during the tax year.

Other standard operating costs of sales are also deductible.

Depreciation and amortization

The Code permits a deduction of depreciation or amortization for depreciable or amortizable property used in a business. For this purpose, the Code recognizes three categories of depreciable assets: (1) Tangible Moveable Property (2) Tangible Fixed Property and (3) Intangible property. Assets classified as Tangible Fixed Property and Intangible property are depreciable under the straight-line line method on an asset-by-asset basis over a 15-year period. Special rules for concessionaires. Those rules are substantially consistent with the preceding except that the period of amortization/depreciation may be shorter in some cases.

Assets classified as Tangible Movable Property are divided into two subcategories: heavy duty machinery and light duty machinery. Heavy duty machinery includes items such as tractors and earthmoving equipment, airplanes, ships, badges, heavy trucks (more than 5 tons empty weight) telecommunication towers, power support towers, buses for 20 or more passengers, power generators (hydro or fuel driven) for a defined

community; and similar equipment. Light duty machinery includes items such as passenger automobiles, office furniture, computers, printers, telephones, passenger vans or buses for fewer than 20 passengers, light trucks (less than 5 tons empty weight), and similar equipment. Tangible moveable assets that do not clearly fall into the category of light machinery are classified as heavy machinery for the depreciation purpose.

For tax purposes each subcategory of heavy duty machinery and light duty machinery constitutes a distinct depreciation pool. A depreciation expense for the heavy duty machinery is calculated at 30 % of the adjusted tax cost of entire pool of heavy duty tangible machinery. A depreciation charge for the pool of light duty machinery is similarly calculated at 40% each year.

In each case the adjusted depreciation base of the pool is comprised of the preceding depreciation base reduced by the depreciation amount for the current year, per the foregoing, and increased by the adjusted tax bases of additions made to the base during the tax year. That base may be further adjusted by the tax adjusted bases of disposals during the year reduced by recoveries from insurance or from sale of the asset, provided that such recoveries may not reduce the adjusted cost of the asset below zero.

Business losses

A deduction is allowable for losses incurred and sustained by a business during the tax year, including a loss from the disposition of property used in a business, provided that the loss is limited to the extent of any compensation covered by insurance or otherwise by proceeds from disposal of such property.

Net operating loss carried forward

Net operating loss incurred in one tax year is carried forward up to but not beyond the fifth tax year following the initial year of operating loss.

Bad debts

A bad debt expense deduction is allowable for a bona fide business indebtedness that is determined to be uncollectible and is written off the taxpayer's books during the tax year. However, except for commercial banks operating in Liberia, where regulations issued by the Central Bank of Liberia are pertinent and applicable, no deduction is allowed for a general provision for doubtful accounts.

Business interest expense

Interest expense on business indebtedness for the interest cost attributable to a tax year is deductible for such tax year, whether paid or accrued during that year. However, deduction for interest payable to any person other than a resident bank is limited to the amount of interest received plus 50% of taxable income excluding interest income.

Non-cash benefits provided by an employer

Technically includable, at market value in excess of USD 100,000, in the annual taxable gross income of an employee, who is then taxed on a progressive scale with maximum marginal tax rate at 25%. However, in practice, the market value provision is not enforced owing to practical difficulties concerning determination of market value in certain cases and also related difficulties having to do with uniform application of such valuation in other cases.

Charitable Contribution Deduction

The Code permits a deduction for charitable contributions made to a qualifying charity as defined in the Code. The deduction is limited to an amount not in excess of 15% of the taxpayer's taxable income (computed before reduction for charitable contributions but after inclusion of any gain on the property transfer).

C. FOREIGN TAX RELIEF

For resident taxpayers only, a foreign income tax credit is available for a foreign tax that is an income tax paid or due (in the case of accrual basis taxpayers) to a foreign government for income that is not sourced from Liberia. However, the tax credit cannot exceed the Liberian tax amount that would otherwise have been required. Per the Code, the creditor is available only where the foreign tax paid or due is either an income tax or one imposed in lieu of an income tax. Because the tax is subject to determination of that precondition, it is in practice available on a country-by-country basis, the onus being on a tax payer who desires the credit to show that the foreign tax in question meets the precondition mentioned above. That aside, the tax credit applies without regard to whether a double taxation or any other special tax treaty exists between Liberia and

such foreign government.

D. CORPORATE GROUPS

There is no group taxation in Liberia. The transfer of losses between group members is not allowed.

E. RELATED PARTY TRANSACTIONS

Clear arm's length transactions are acceptable under the Code. However, where the Commissioner General (CG) of the Liberia Revenue Authority (LRA) determines that a taxpayer's treatment of a related-party transaction in the accounting records of the taxpayer is NOT on an arms-length basis, the Commissioner is authorized, under the Code, to 'reconstitute' such related-party transaction as the Commissioner deems fit under the circumstance in order to show the true underlying economic value(s) for a Liberian taxpayer; and thereby the tax consequence(s) of such related-party transaction(s). If not satisfied with the tax result of such restructuring by the CG, a taxpayer may appeal the Commissioner's decision to the Board of Tax Appeal (BOTA). Either party may, if it so decides, appeal BOTA's decision to the Tax Court and, if need be, thereafter to a superior Court of Liberia.

A draft transfer pricing regulation is in circulation for public hearing and comments but is not yet in force.

F. WITHHOLDING TAX

On payments to service providers

As part of advance payment of annual income tax liability, every service recipient (other than an employer), who pays a service provider any amount in excess of USD 1,000 in a year or reasonably expects to pay such service provider more than USD 1,000 in a year for service(s) received or to be received from such service provider, is required to withhold a service tax on the payment, including advance payments, made to the service provider. The service recipient who makes a taxable payment to a service provider is, by law, designated a withholding agent of the Liberia Revenue Authority (LRA). A fine of between USD 200,000 and USD 500,000 may apply to a service recipient who fails to withhold the tax as required. However, the tax is on the service provider and is deductible from the final annual tax liability of the service provider.

The withholding tax rates applicable are indicated in the table below. The amount withheld is required to be paid over to the Liberia Revenue Authority (LRA) not later than ten calendar days into the next calendar month following the calendar month in which the tax was withheld. An appropriate withholding tax return is required to accompany payment to the LRA.

On personal income of employees

Withholding tax applies to salaries and wages that meet or exceed a specified threshold. Personal income is taxed on a progressive scale, with the maximum marginal rate at 25%.

Other withholding taxes

Withholding taxes are also imposed on all payments to non-employees for services that exceed or are reasonably expected to exceed a specified annual threshold. In particular, withholding taxes apply for all payments of dividends, gambling winnings, interest, rents, royalties and the acquisition price (in a property transfer transaction) of an investment in Liberia, etc. The tax rates applicable are indicated in the table below:

		Withholding tax rates	
		Resident	Non-resident
Item	**Description**	%	%
1	Acquisition price of an investment in Liberia (property transfer)	10	15
2	Dividends	15	15
3	Gambling winnings	20	20
4	Interest	15	15
5	Licence fees	15	--
6	Rents	10	15

G. EXCHANGE CONTROL

Dual Currency Regime

- Liberia has a dual currency regime. The US dollar (USD or US$) circulates widely in the national economy alongside the Liberian dollar (LD or L$). Both are official currencies of Liberia. Exchange rates between the two national currencies are market determined.
- Unless otherwise specifically stated, tax rates indicated in the Revenue Code of Liberia are for Liberian dollar amounts. Taxes are payable in both currencies. Tax on US dollar income is generally payable in US dollars while tax on Liberian dollar income is also generally payable in Liberian dollars. However, where cross currency equivalent dollar conversion is required, the prevailing market exchange rate, as published by the Central Bank of Liberia, is used.

Currency Control

- Dual currency regime, Liberian dollar (LD or L$) together with US dollar (USD or US$).
- No currency restrictions
- There is no currency control in Liberia except that only the Central Bank of Liberia imports foreign currency. Moreover, travellers are not allowed to take more than ten thousand US dollars out of the Country on the traveller's person. No corresponding restriction applies to Liberian dollars. Otherwise, there is no restriction on movement of currency into and out of the country via the banking system. There are also no restrictions on repatriation of profits or other funds, provided such transfers are made via the banking system.

H. PERSONAL TAX

An individual is considered resident in Liberia for the entire year of assessment if that individual:

- has a normal place of abode in Liberia and is present in Liberia at any time during the year of assessment;
- is present in Liberia for more than 182 days in a 12-month period that ends during the year of assessment; or
- is an employee or an official of the government of Liberia posted abroad during the year of assessment.

The following standard income tax rates plus base amounts apply, in general, on the taxable income of individuals:

Taxable income (LRD)	Base amount (LRD)	Tax rate (%)
Up to 70,000	0	0
70,001 – 200,000	0	5
200,001 – 800,000	6,500	15
In excess of 800,000	96,500	25

Inheritance and Gift Tax

There is no inheritance tax and also no gift tax in Liberia.

Gifts and Transfers By Death

Property received in a donative transfer or transfer by death is also excluded from the income of the recipient.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)		Interest (%)	Royalties (%)
	Individuals, companies	Qualifying companies		
Domestic rates				
Companies	5/15	15	0/5/15	15
Individuals	5/15	--	0/5/15	15
Treaty countries				

Germany	15	10[1]	10/20[2]	10/20[3]

Notes:
1. The 10% rate applies if the recipient is a company which itself, or jointly within a partnership with other companies, holds at least 25% of the capital of the dividend-paying company.
2. The 10% rate applies if the recipient is a bank or other financial institution.
3. The 20% rate applies to payments made as consideration for the use of, or the right to use, any copyright, excluding cinematographic films or tapes for television or broadcasting, or any trademark (trade name). The 10% rate applies to payments in all other cases.

LIBYA

CORRESPONDENT FIRM

City	Name	Contact Information
Tripoli	Dr. Tarek Mohamed Brigh	+218 91 32 36 465 t_brig@hotmail.com

BASIC FACTS

Full name:	State of Libya
Capital:	Tripoli
Main languages:	Arabic
Population:	6.41 million (2017 estimate)
Monetary units:	Libyan Dinar (LYD)
Internet domain:	.ly
Int. dialling code:	+ 218

KEY TAX POINTS

- Companies are subject to corporate tax at a rate of 20% applied to their taxable income and Jehad tax at 4% of taxable income.
- Employment (salaries and wages) tax is calculated on an employee's base salary plus any allowances at a maximum rate of 10%. Other taxes levied on personal income include a Jehad tax at 3% of taxable salary income and a Solidarity Fund contribution at 1% of taxable salary income.
- Social security contributions (INAS) are payable by all employees working in Libya whether local or foreign, based on gross income with a total of 15% (3.75% employee contribution, 11.25% employer contribution).
- Capital gains are treated as ordinary business income and taxed at the general corporate income tax rate of 20%.
- Libya does not impose any Value Added Tax (VAT).

A. TAXES PAYABLE

In Libya, any income resulting in Libya from any assets existent therein, whether material or immaterial or from any activity or work therein, will be subject to tax. The latest income tax law has been issued on 28 January 2010 listed under number (7) of the year 2010. The new law has come into force as from 28 April 2010, replacing the old Income Tax Law no (11) of 2004.

COMPANY TAX

Income derived from Libya and abroad for the national companies and branches of foreign companies in Libya, whatever the type of their activity or purpose might be, are subjected to corporate tax. Companies shall be understood as general companies and private joint-stock companies. Branches of foreign companies

shall be understood as the aspects of activity and capitals as performed by foreign companies in Libya, whatever their organization or legal status may be. Companies are liable to corporate income tax on their profits stemming from any business they carry on in Libya. They are subject to 20% corporate tax and 4% Jehad tax on taxable income.

In some cases where a foreign company is not registered in Libya, a deemed profit tax (mostly 20% to 60% of total income) may apply and be taxed at the general corporate income tax rate of 20%. Deemed profit tax may apply to companies that do not record their books and accounts in accordance with local regulations.

CAPITAL GAINS TAX

Capital gains are treated as ordinary business income and taxed at the general corporate income tax rate of 20%. Proceeds of sale of any business asset and liquidation proceeds received during the tax period are included in business profit.

BRANCH PROFITS TAX

Income from branches held by foreign companies registered in Libya are calculated and taxed on the same basis of corporate income tax at 20%.

VALUE ADDED TAX (VAT)

Libya does not impose any VAT.

FRINGE BENEFITS TAX

In general, cash benefits paid to employees are added to their salary and taxed accordingly. There are, however, some exceptions such as travel allowances, telephone allowance, fuel allowance and the use of a company car.

LOCAL TAXES

A special tax (Jehad tax) is imposed on wages, companies, duties on certain business activities, and some customs duties. This tax is payable under Law No. 44/1970 and is levied on personal income at 3% and corporate profits at 4%.

OTHER TAXES

Certain legal transactions are subject to registration duties. These include:

STAMP DUTY

Stamp duty is due on certain transactions at varying rates as well as fixed duties under the Libyan Stamp Duty Law No. (12) of (2004) and its amendment No. (8) of (2010). A contract negotiated in Libya must be registered with the Tax Department within 60 days of signing the contract. Contracts are subject to a 1% Stamp Tax on the value of the contract plus 0.05% on the 1% Stamp Tax.

CUSTOMS AND EXCISE DUTY

Customs, excise and other taxes may be charged by the Customs and Excise Department.

B. DETERMINATION OF TAXABLE INCOME

CAPITAL ALLOWANCES

Generally, expenses incurred wholly and exclusively for the purpose of the business are deductible. However, specific rules apply in respect of certain categories. For example, the general expenses or fees for services or interests or commissions charged by the foreign company to its branch in Libya shall be only considered in the amount deemed necessary for achieving the purposes of the branch and at a maximum of (5%) of the administrative expenses approved by the Tax department. Provisions and reserves are not permissible deductions for tax purposes.

DEPRECIATION AND AMORTISATION

Depreciation of assets used in business activities must be computed at a maximum annual percentage. For tax purposes, the straight-line method is normally adopted, and depreciation rates shall not exceed the following:

Description	Annual Rate of Depreciation (%)
Buildings with machinery installed on it	3
Other Buildings	2
Passenger Vehicles	20
Trucks	10
Vessels	4
Ferries and fishing boats	4
Aircrafts	8
Furniture for offices, houses, stores	10
Furniture for hotels cafes, restaurants and hospitals	20
furniture for camps outside cities	20
Office machineries	10
Electric generators	15
Computers and related equipment	20
Computer programs	10
Other machineries	15
Start-up fees (at establishing the company) are normally amortized within the next five years	20

STOCK / INVENTORY

Inventories are mostly valued at cost and calculated on a FIFO basis. However, the method chosen must be applied consistently. Inventory reserves are not permissible deductions for tax purposes.

CAPITAL GAINS AND LOSSES

As mentioned above, capital gains and losses are usually taxable as ordinary income.

DIVIDENDS

Dividends received from other companies will be subject to tax at the tax rate applicable to business income and is considered as “other income in P&L statement”.

INTEREST DEDUCTIONS

Interest payable is generally tax deductible on an accruals basis. However, interest payable on taxes, fines and penalties is not deductible. Also, interest derived from loan finance received from shareholders is not deductible.

LOSSES

Losses of fiscal year may be carried forward up to five years if the Tax Department certifies the loss. Losses may not be carried back.

FOREIGN SOURCE INCOME

The tax authorities levy taxes on resident companies on all profits arising from foreign sources in the same way as income from local sources. Except for income raised for persons as salaries.

TAX INCENTIVES

In 2010, the Libyan authority promoted Libyan and foreign companies to invest in Libya. Law No. 9/2010 aims at the promotion of national and foreign capital investment, with the purpose of setting up investment projects, within the scope of the state’s general policy and the objectives of economic and social development, in order to particularly ensure achievement of the following goals:

- Technically upgrade and qualify Libyan cadres and elevate their efficiency, in order to acquire advanced skills in addition to opening employment opportunities.
- Endeavour to introduce know-how and technology and thereof inserted into the Libyan economy.

- Contribution towards setting up, developing or rehabilitating economic, service and production units, in a manner that assists such units to compete and be introduced into the world markets.
- Achievement of development in the relevant area.
- Increase and diversify income sources.
- Control energy consumption.
- Utilize locally available raw material

The investment project, subject to the provisions of this Law, shall enjoy the main following privileges:

- Exemption of the machinery, equipment and apparatuses necessary for the execution of the project, from all taxes, customs duties, import fees, service charges and other fees and taxes of a similar nature.
- Exemption of the investment project from income tax for any activity, for the first 5 years.
- Exemption of commodities produced for export, from production tax, customs duties and such charges imposed on exports.
- Exemption of stamp duty payable in accordance with the effective legislation.
- Other exemptions are available for certain projects and some nationalities companies.

However, the Executive Regulation of this Law shall decide the conditions and rules necessary for the execution of invested companies.

C. CORPORATE GROUPS

There is no group basis tax option in Libya. Each company has to submit its tax returns separately including the holding company.

D. RELATED PARTY TRANSACTIONS

Related party transactions negotiated at arm's length are treated the same as non-related party transactions.

E. EXCHANGE CONTROL

Foreign companies are able to transfer distributable annual net interests and revenues achieved by the foreign capital invested in the project. However, transfer abroad is regulated by the Central Bank of Libya and subject to authorisation from the bank.

F. PERSONAL INCOME TAX

Resident and non-resident individuals are subject to tax only on their Libyan salaries (income). Other sourced income (other than registered as a company) is taxed according to its source. Tax on income (personal or partnership) from agriculture is levied at a flat rate of 0%, income on commercial and professional activities is subject to 15% tax, income from industry and crafts is taxed at 10% and partnership income is taxed at 10%.

SALARIES AND WAGES TAX

The salaries and wages tax is calculated on the base salary plus any allowances and taxed as follows:

- Allowance: 1,800 LYD for a single person, 2,400 LYD for a married person, plus 300 LYD for every child (per annum);
- the tax rate is calculated after the personal allowance deductions and employee contribution of INAS deductions. The rates are 5% for the first 12,000 LYD per annum and 10% for the above amount;
- Other taxes levied on personal income include Jehad tax at 3% of taxable salary income, and Solidarity Fund at 1% of taxable salary income.

SOCIAL SECURITY CONTRIBUTIONS (INAS)

The contributions are payable by all employees working in Libya whether local or foreign, based on gross income with a total of 15% (3.75% employee contribution and 11.25% employer contribution).

G. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Non-treaty countries				
Companies	0	0	0	0
Individuals	0	--	0/5	0
Treaty countries:				
Algeria	–[1]	–[1]	–[1]	–[2]
Egypt	–[2]	–[2]	–2	–[2]
France	10	5	0	0/10
India	–[1]	–[1]	–[1]	–1
Malta	15	5	5	5
Mauritania	–[1]	–[1]	–[1]	–[2]
Morocco	–[1]	–[1]	–[1]	–[2]
Pakistan	–[2]	–[2]	–[2]	–[2]
Serbia	10	5	10	10
Singapore	10	5	5	5
Slovak Rep.	–[1]	–[1]	10	5
Sudan	–[2]	–[2]	–[2]	–[2]
Syria	10	5	10	12
Tunisia	–[1]	–[1]	–[1]	–[2]
United Kingdom	0/15[3]	0/15[3]	0	0
Ukraine	15	5	10	10

Notes:
1. No limitation on the withholding tax rate under the tax treaty.
2. Domestic withholding tax rate applies. Income is subject to tax in the source country only.
3. 15% if the dividends are paid by a property investment company to a beneficial owner of the other state and the latter is other than a pension scheme.

LUXEMBOURG

MEMBER FIRM

City	Name	Contact Information
Luxembourg	Olivier Martin	+352 24 14 34 1 o.martin@alliance-revision.lu

Luxembourg	Bishen Jacmohone	+352 24 14 34 1 b.jacmohone@alliance-revision.lu
Hobscheid / Luxembourg	Nancy Devillet	+352 39 58 42 nancy.devillet@afcbenelux.eu
Hobscheid / Luxembourg	Detlef Xhonneux	+352 39 58 42 detlef.xhonneux@afcbenelux.eu

BASIC FACTS

Full name:	Grand Duchy of Luxembourg
Capital:	Luxembourg
Main languages:	French, German, Luxembourgish
Population:	589,342 (2018 estimate)
Monetary unit:	1 Euro (EUR) = 100 cents
Internet domain:	.lu
Int. dialling code:	+352

KEY TAX POINTS

- Luxembourg resident companies are subject to tax on their worldwide income. Non-resident companies are taxable in Luxembourg only on certain Luxembourg-sourced income.
- As of 2018, corporate income tax is levied at a rate of 18% if the taxable income exceeds EUR 30,000 (15% if the taxable income is less than EUR 25,000 and EUR 3,750 plus 33% of the taxable income between EUR 25,000 and 30,001). The corporate tax rate is increased by a surcharge for the employment fund.
- Luxembourg resident companies and non-resident companies having a permanent establishment in Luxembourg are also subject to municipal business tax, which is payable at rates that vary depending on the municipalities.
- VAT is applied on the supply of goods and services within Luxembourg and on the supply to non- VAT registered persons or entities within the EU.
- Capital gains are in principle regarded as ordinary business income and are taxed at the normal income tax rates. Exemptions and roll-over relief apply in some cases.
- Net worth tax is charged on companies' business assets, after deductions.
- In certain cases, foreign income tax may be credited against domestic income tax up to the amount of the domestic tax.
- Profits and losses of Luxembourg group companies may be pooled (tax integration) under certain conditions.
- Transactions by a company with shareholders and related parties must be at arm's length.
- In general, withholding tax is levied on dividends paid by resident companies. Dividends paid to companies covered by the EC Parent-Subsidiary Directive are exempt. Withholding tax is charged under certain conditions on interest paid to individuals but not to companies. No withholding tax is charged on royalties.
- Resident individuals pay tax on their worldwide income. Non-resident individuals are only taxable on specific Luxembourg-sourced income.
- Inheritance tax and gift tax rates vary according to the degree of relationship and the value inherited/ received.

A. TAXES PAYABLE

COMPANY TAX

Luxembourg resident companies are subject to income tax on their worldwide income. Relief from taxation might be available for certain types of income either based on Luxembourg internal tax law or based on double tax treaties concluded by Luxembourg. A company is considered resident in Luxembourg if it has

its registered office or its central administration in Luxembourg. Non-resident companies are taxable in Luxembourg only on certain Luxembourg-sourced income. Income tax is composed of corporate income tax and municipal business tax. For 2018, the aggregate income tax rate amounts to 19.26% (16.05% if the taxable income is less than EUR 25,000 and EUR 4,012.5 plus 35.31% if the taxable income is between EUR 25,000 and EUR 30,001).

Municipal business tax is levied at a rate varying between 6.75% and 12.6% depending on the municipality where the company has established its business. For companies established in Luxembourg City, municipal business tax is levied at 6.75% of their taxable income. Companies established in Luxembourg City are thus taxed at a combined income tax rate of 27.08%.

As of tax year 2018, the minimum net worth tax due by a resident company amounts to EUR 4,815 if its financial fixed assets, receivables owned on related companies and on companies in which it has a participating interest, securities and cash all together exceed 90% of the total balance sheet and EUR 350,000. In all other cases, the minimum net worth tax varies between EUR 535 and EUR 32,100 depending on the total balance sheet (see detail below)

Balance sheet total as at fiscal year end	**Total minimum net worth tax (EUR)**
Does not exceed EUR 350,000	535
Exceeds EUR 350,000 without exceeding EUR 2,000,000	1,605
Exceeds EUR 2,000,000 without exceeding EUR 10,000,000	5,350
Exceeds EUR 10,000,000 without exceeding EUR 15,000,000	10,700
Exceeds EUR 15,000,000 without exceeding EUR 20,000,000	16,050
Exceeds EUR 20,000,000 without exceeding EUR 30,000,000	21,400
Exceeds EUR 30,000,000	32,100

The minimum net worth tax is in addition reduced by the corporate income tax due for the previous tax year before deduction of tax credits available (except for companies having opted for the depreciation deferral for which the reduction is limited to the corporate income tax due for the previous tax year after deduction of tax credits available). The minimum net worth tax may, however, not be reduced below the net worth tax that would be due by applying the standard net worth tax rate to the company's taxable net wealth. The minimum net worth tax is also applicable to securitization companies, venture capital investment firms and pension funds.

The net worth tax rate applicable is 0.05% for the portion of taxable net wealth that exceeds EUR 500 million. For the portion of taxable net wealth up to 500 million, net worth tax will continue to be calculated at the rate of 0.5%.

CAPITAL GAINS TAX

Capital gains are in principle regarded as ordinary business income and are taxed at the normal income tax rates. Exemptions and roll-over relief apply in some cases.

BRANCH PROFITS TAX

No special tax is levied on branch profits. Luxembourg branches of non-resident companies are subject to corporate income and municipal business tax at the same rates as Luxembourg resident companies.

Luxembourg branches of non-resident companies are only taxed on the income attributable to the Luxembourg branch. Relief from taxation might be available for certain type of income based on Luxembourg internal tax law.

SPECIAL REGIMES AND MEASURES

- **Family Wealth Management Company (Société De Gestion De Patrimoine Familial)** A family wealth management company (société de gestion de patrimoine familial or 'SPF') is exempt from corporate income tax, municipal business tax and net worth tax, but is subject to an annual subscription tax of 0.25% calculated on its share capital and share premiums. The activities of the SPF are limited to holding and

managing certain financial assets. The SPF may not carry out any trade or business. Finally, the shares of the SPF may, with certain limited exceptions, only be owned by individuals.

- **Holding Companies**
  Holding companies (société de participations financières or abbreviated Soparfi) are fully taxable Luxembourg resident companies that take advantage of the provisions of the participation exemption (see below: taxation of capital gains and dividends).
- **Investment Funds**
  Investment funds include the common investment fund (FCP), the Investment Company with variable capital (SICAV) and the Investment Company with fixed capital (SICAF). Investment funds may be used both for undertakings for collective investments in transferable securities (UCITS) or alternative investments funds (AIF). Investment funds are subject to the approval and supervision of the financial sector supervising authority, i.e. the "Commission de Surveillance du Secteur Financier" (CSSF). Investment funds are exempt from income tax and net worth tax. Investment funds are, however, subject to:
- An annual subscription tax of 0.01% or 0.05% calculated on a quarterly basis on the value of shares held by institutional investors or private investors respectively;
- VAT on intra-community acquisition of goods (if exceeding EUR 10,000);
- VAT on purchased services not linked to the management of the fund.

A decision rendered by the Court of Justice of the European Union (case C-275/11 – GfBK dated 7 March 2013) has confirmed the position traditionally adopted in Luxembourg, i.e. the VAT exemption is applicable to investment advisory services rendered by third parties to an investment management company relating to investments in transferable securities. Further to the implementation of the "AIFM" Directive in local law, the VAT exemption also applies:

- To the management entities of Alternative Investment Funds (AIF); and,
- To entities (i) established within the EU similar to entities benefiting from the VAT exemption regime in Luxembourg and (ii) under the supervision of an organism similar to the CSSF or to the "Commissariat aux Assurances".

Certain double tax treaties signed by Luxembourg apply to investment funds incorporated as a SICAV or SICAF. An investment fund constituted as a FCP does not benefit from double tax treaties.

Specialized Investment Fund

Compared to the traditional investment funds, the Specialized Investment Fund (SIF or Fonds d'Investissement Spécialisé) has greater flexibility with regard to its investment policy and less regulatory constraints due to the fact that it is reserved for professional or well-informed investors. There are no initiator/promoter requirements. SIFs are also subject to the agreement and supervision of the CSSF. SIFs are exempt from income tax and net worth tax. SIFs are, however, subject to:

(i) An annual subscription tax of 0.01% calculated on a quarterly basis on the net asset value of the fund;

(ii) VAT on intra-community acquisition of goods (if exceeding EUR 10,000);

(iii) VAT on purchased services not linked to the management of the fund.

Securitization Vehicle

Securitization vehicles (organismes de titrisation) are used to convert assets, liabilities and risks into transferable securities. A securitization structure typically involves an originator, the vehicle and the investors. The originator transfers assets and/or risks of any type to the vehicle. The vehicle issues securities and uses the funds collected to pay for the purchase of the assets. Two types of structures are available:

(a) The securitization fund, which is subject to similar rules as investment funds, except that no subscription tax is levied;

(b) The securitization company, which is a fully taxable entity that qualifies for the application of tax treaties and EU directives.

Only securitization vehicles issuing securities to the public on a continuous basis have to be authorized and are supervised by the CSSF to carry out their activities. For securitization companies, any commitments to investors or creditors, such as the payment of dividends or interest, qualify as a tax deductible expense. This leads, in most cases, to full tax neutrality. Since 2016, securitization companies are subject to the minimum net worth tax.

Distributions of proceeds by a securitization vehicle to its investors qualify as interest payment for Luxembourg income purpose no matter whether the securities owned by the investors qualify as equity or debt and consequently are not subject to withholding tax. Securitization vehicles are subject to VAT:

(i) On intra-community acquisition of goods (if exceeding EUR 10,000);

(ii) On purchased services not linked to the management of the securitization vehicle.

- **Venture Capital Company**

  A venture capital company (société d'investissement à capital risque or 'SICAR') is a specific vehicle for collecting venture capital from professional or well-informed investors. A SICAR can be set up as a tax transparent limited partnership or as a non-transparent corporate entity. SICARs are approved and supervised by the CSSF. SICARs may invest in assets with high-risk/increased return perspectives.

  They are subject to few restrictions but may have a flexible investment policy with no diversification rules or leverage restrictions. Umbrella SICARs are able to create multiple investment compartments with specific investment policies. SICARs set-up in the form of corporate entities are fully taxable entities and qualify for the application of tax treaties and EU Directives. SICARs are exempt from subscription tax and income tax on any income from securities (dividends, capital gains) and from cash held for future qualifying investments. As from 2016, SICARs are subject to the minimum net worth tax. Non-resident beneficiaries are exempt from tax in Luxembourg on income derived from these companies.

  SICARs are subject to VAT:

  (i) On intra-community acquisition of goods (if exceeding EUR 10,000);

  (ii) On purchased services not linked to the management of the SICAR.

- **Special limited partnership (société en commandite spéciale or abbreviated SCSp)**

  The law transposing the AIFM Directive into domestic law, has introduced the special limited partnership (société en commandite spéciale or 'SCSp') as a new legal entity into Luxembourg company law. The SCSp is designed to take over the simplicity of the Anglo-Saxon limited partnership, namely: flexibility, confidentiality, limited investor liability and tax transparency. The SCSp is a limited partnership formed between a general partner (GP) who has unlimited liability, and one or more limited partners (LPs) whose liability is limited to the amount of their contribution to the partnership.

  From a Luxembourg company law perspective the SCSp has no legal personality. The absence of legal personality means that the SCSp is not subject to the same Luxembourg company law requirements as other entities, with the result that it is not required to file financial statements with the company registry. In addition limited partnerships are not required to disclose investor identity or the investors' contributions in the SCSp.

  The SCSp is transparent for Luxembourg corporate income and net worth taxes. As a consequence, the SCSp is, in principle, not subject to corporate income tax. Instead, the partners are subject to income tax on their share in the profits of the SCSp. Non-resident partners in an SCSp are, however, only taxable in Luxembourg on their share in the profits of the SCSp if the activity of the SCSp qualifies as a commercial activity within the meaning of the Luxembourg income tax law. If the activity of the SCSp qualifies as a commercial activity, the SCSp is in addition subject to Luxembourg trade tax.

  The SCSp follows the standard VAT rules (please see below), unless the SCSp is incorporated as an investment fund, a SIF, a Securitization vehicle or a SICAR. In this latter case, the same rules apply as above. The activity carried out by investments funds incorporated under the legal form of a Luxembourg SCSps (or even a SCSs) does not qualify as a commercial activity within the meaning of the Luxembourg income tax law, unless at least one of the limited partners is a corporate entity that owns an interest of at least 5% in the SCSp (or SCS).

- **Reserved Alternative Investment Fund (RAIF)**

  The Reserved Alternative Investment Fund (RAIF or Fonds d'Investissement Alternatif Réservé) has similar flexibility as the SIF. However, unlike an SIF, the RAIF is not subject to the approval of the CSSF. Instead it needs to be managed by an authorized alternative investment fund manager (AIFM). The absence of approval from the CSSF substantially reduces the time to market a RAIF from its launch. RAIFs are reserved to well-informed investors.

  If the constitutional documents of an RAIF foresee and the RAIF effectively invests exclusively into risk-capital, the RAIF is taxed in the same way as a venture capital company. In this case, the RAIF's auditor must confirm the investment in risk capital.

  In all other cases, the RAIF is exempt from income and net worth tax. However, it is subject to an annual

subscription tax of 0.01% calculated on the net asset value of the RAIF. In certain cases, the RAIF may be exempt from subscription tax.

Moreover, the RAIF is subject to VAT:

(iii) On intra-community acquisition of goods (if exceeding EUR 10,000);

(iv) On purchased services not linked to the management of the securitization vehicle.

- **Shipping Register**

  In addition to specific and general incentives, shipping companies are in principle, only subject to aggregated corporate income tax (19.26% for 2018 and subsequent years) if taxable income exceeds EUR 30,000) and enjoy simplified rules with respect to social security and wage tax.

VALUE ADDED TAX (VAT)

VAT applies to the supply of services and goods made by a taxable person in Luxembourg, intra community acquisitions of goods from another Member states realized by a taxable person or by a nontaxable legal entity and to importations of goods from outside the European Union no matter whether the importation is made by a taxable or non-taxable person. A taxable person is any person who carries out an independent economic activity on a regular basis, regardless of the aim, the results or the location of the activity.

A taxable person carrying out an economic activity in Luxembourg should register for Luxembourg VAT within 15 days from the beginning of its economic activity. There is no threshold for the VAT registration. Similarly, non-taxable legal entities realizing intra-community acquisitions of goods (if exceeding EUR 10,000) are required to register for VAT. No VAT grouping is available under Luxembourg VAT law.

Taxable persons registered for VAT in Luxembourg are required to file each year an annual VAT return. In addition, they will be required to file monthly VAT returns if, during the previous tax year, the amount of the turnover and the amount of goods and services acquired for which they are liable to the payment of Luxembourg VAT under the reverse-charge mechanism exceed EUR 620,000. If, during the previous tax year, the amount of these transactions is comprised between EUR 112,000 and EUR 620,000, they will be required to file quarterly VAT returns. The standard VAT rate is 17%. The reduced rates are 3%, 8% and 14%. In principle, a taxable person may deduct 100% of input VAT paid or declared from the output VAT collected on its turnover. No deduction is, however, available if the goods and services purchased are used for the supply of services which are exempt from VAT and which do not give right to a deduction of input VAT. In this latter case input VAT may not be recovered at all.

The deductibility of input VAT has to be determined based on the “real use” method. This means that when a VAT taxable person that carries out operations that give right to recover input VAT and operations that do not give right to recover input VAT, he has to determine for each expense that he incurs to which activity that expense relates. Thus, input VAT paid on expenses that are related to the activity that gives right to recover input VAT can be recovered for the full amount. On the other hand, input VAT on those expenses that are related to the activity that does not give right to recover input VAT cannot be recovered at all. Expenses that are not directly attributable to either activity should be apportioned between the different activities based on the most accurate allocation keys such as:

- Turnover subject to VAT versus turnover not subject to VAT;
- Surface used to generate turnover subject to VAT versus surface used to generate turnover not subject to VAT.

For those expenses, which cannot be apportioned between either activities, the general pro-rata method continues to be applicable. From 1 January 2011 onward, all VAT audits performed by the Luxembourg VAT authorities are supposed to be based on electronic documents available in an electronic audit file (“Fichier audit informatisé AED” or FAIA). The FAIA is based on the 2005 OECD SAF-T recommendation.

The FAIA is an electronic file that should contain all the information pertaining to the economic activity of a taxable person. The FAIA aims at ensuring an easier, smoother and cheaper process for the audit of accounting information and documentation by Luxembourg VAT authorities. Upon request from the Luxembourg VAT authorities, any taxable person that has an electronic accounting system should be able to provide the Luxembourg VAT authorities with the FAIA. Due to some enforcement constraints, the effective implementation of FAIA has been delayed in practice but might be enforced more widely going forward. Taxable persons that are registered for VAT under a simplified regime, taxable persons having a turnover lower than EUR 112,000 and taxable persons carrying out a “reasonable” number of transactions (i.e. approx. 500 transactions per year) are not subject to FAIA.

Since 1 January 2015, Luxembourg introduced the Mini-One-Stop-Shop (MOSS) allowing any taxable person supplying telecommunication services, television and radio broadcasting services and electronic services to non-taxable persons located in EU Member States, to declare and to pay VAT in relation to these supplies via a web-portal in the Member State in which they are identified. This simplification measure is optional. The registration must be made by the taxable person itself but day-to-day management in relation to VAT MOSS may be delegated to a service provider.

VAT FREE ZONE

Luxembourg has a temporary VAT exemption regime providing for VAT neutral treatment of transactions concerning goods stored in specific locations.

TAX REPRESENTATIVE

Under certain circumstances, a tax representative can be appointed in Luxembourg by taxable persons established outside the EU.

OTHER TAXES

There is no stamp or registration duty on the transfer of shares or goodwill in Luxembourg. Other Luxembourg taxes include:

- Non-resident companies are subject to net worth tax only on certain Luxembourg assets (branch located in Luxembourg; real estate located in Luxembourg).
- A subscription tax is payable by SPFs (0.25%) and investment funds (0.05% or 0.01%, see also above).
- Gift taxes are due on donations, inheritance taxes under certain circumstances upon successions.
- Registration duties are due on real estate transfers, Registration duties range from 7% to 10% depending on the municipality where the real estate property is located.
- As of 2017, no registration duties are due anymore upon the transfer of receivables.
- Contributions to the share capital of a company are subject to a lump sum registration duty of EUR 75.
- Real estate located in Luxembourg triggers land tax.

B. DETERMINATION OF TAXABLE INCOME

The taxable income of a company corresponds to the difference between the taxable income and allowable deductions. All business expenses are, in principle, deductible. Expenses linked to exempt income based on Luxembourg internal rules are deductible to the extent that they exceed exempt income.

DEPRECIATION

Methods available are the straight-line depreciation and the declining balance at rates reflecting useful life of the relevant asset. Land may not be depreciated. Buildings and intangible assets may only be depreciated by the straight-line method.

As of 2017, a tax payer can opt, upon request, to defer (part of) the depreciation until the end of the depreciation period of the asset. The depreciation period corresponds to the useful lifetime of the asset.

STOCK / INVENTORY

Inventory includes raw materials, work in progress, finished goods and real estate bought for resale. Valuation is at the lower of production or purchase cost and market value. Accepted valuation methods include FIFO, LIFO and any other method if justified and applied consistently.

CAPITAL GAINS AND LOSSES

In principle, capital gains from the sale of business assets are taxed at the ordinary income tax rate. There is a roll-over-relief available for profits realized upon the sale of real estate or non-depreciable assets. Capital losses are tax deductible. Capital gains/losses generally correspond to the difference between the sales price reduced by ancillary costs relating to the sale and the book value of the asset being sold.

Capital gains from the sale of substantial shareholdings are tax exempt. Substantial shareholdings are shareholdings of at least 10% or of an acquisition cost of at least EUR 6,000,000, which are continuously held for 12 months. The exemption applies to shareholdings in subsidiaries that are within the scope of the EU Parent-Subsidiary directive (2011/96/E), or that are incorporated as fully taxable companies that are subject

to an income tax which is comparable to Luxembourg corporate income tax (i.e. the income tax amounts to at least 9.5% (9% as of 2018) and is calculated on a taxable base which is determined in a similar way as the income subject to Luxembourg corporate income tax).

Capital gains realized upon the disposal of shares of substantial shareholdings remain taxable for an amount corresponding to the sum of the expenses related to the shareholding and any write-down recorded on the shareholding that reduced the tax base of the company in the year of disposal or in the previous financial years. This rule is known as the "recapture rule".

Until 30 June 2021, an 80% exemption applies to the capital gain realized upon the sale of certain qualifying intellectual property rights acquired before 1 July 2016 (please refer to section below for more details regarding the grandfathering period). A recapture mechanism provides that capital gains remain taxable up to the sum of the expenses which were deducted from the taxable income in prior years.

INCOME FROM INTELLECTUAL PROPERTY

Based on the existing Luxembourg intellectual property (IP) regime, a partial exemption (80%) applies to the net income (i.e. gross royalty income less economically relating expenses) derived from the qualifying IP rights. This partial exemption also applies to capital gains realized upon the disposal of qualifying IP. Qualifying IP rights are in addition exempt from Luxembourg net worth tax. Qualifying IP rights include copyrights on software, patents, trademarks (including "service marks"), domain names, designs, and models. Literary or art copyrights, plans, formulas, trade secrets and similar rights are disallowed for the partial exemption.

The existing tax exemptions available for qualifying IP rights are abolished as from 1 July 2016 for Corporate Income Tax and Municipal Business Tax and as from 1 January 2017 for Net worth tax. However, during a grandfathering period that will end on 30 June 2021, IP qualifying for the existing tax exemptions continues to benefit from the current tax exemptions if the IP has been acquired before 1 January 2016. Qualifying IP acquired after 31 December 2015 but before 1 July 2016 may also benefit from the current tax exemptions for IP, if the IP is acquired from an unrelated party or if the IP already qualified for the current Luxembourg tax exemptions for IP or for a similar foreign IP regime before its acquisition.

During the grandfathering period, the Luxembourg tax authorities will spontaneously inform relevant foreign tax authorities of the identity of any taxpayer benefiting from the current IP regime in connection with IP rights acquired or created after 6 February 2015. The spontaneous information exchange will be limited to countries with which Luxembourg has concluded double tax treaties.

LIMITATION OF CORPORATE TAX DEDUCTIBILITY OF 'GOLDEN HANDSHAKES'

Voluntary departure indemnities or dismissal indemnities above EUR 300,000 are not tax deductible for employers.

DIVIDENDS

In principle, dividends received constitute a fully taxable income. However, dividends from substantial shareholdings are tax exempt. Substantial shareholdings are direct shareholdings of at least 10% or an acquisition cost of at least EUR 1,200,000, which are continuously held for at least 12 months (the 12 month holding period can also be met prospectively). The exemption applies to all dividends from subsidiaries that are within the scope of the EU Parent-Subsidiary Directive (2011/96/EU) or that are incorporated as a fully taxable company subject to an income tax comparable to Luxembourg corporate income tax (i.e. the income tax amounts to at least 9% and is calculated on a taxable base which is determined in a similar way as the income subject to Luxembourg corporate income tax).

Since 2016, Luxembourg no longer exempts dividend distributions received by a Luxembourg company from shareholdings in EU companies qualifying for the EU Parent Subsidiary Directive if such distributions are treated as a tax deductible expense in the hands of the paying EU Company. Luxembourg neither exempts dividend distributions received from EU companies qualifying for the parent subsidiary if the dividend is derived through a structure that is considered to be abusive within the meaning of the Council Directive 2015/121/EU.

Expenses, including interest expenses and write-downs, in direct economic relation with the shareholding out of which the exempt dividend is paid will be non-deductible for tax purposes up to the amount of exempt dividend derived during the same financial year. On the other hand, expenses exceeding the amount of the exempt dividend received from such shareholding during the same financial year remain deductible for tax purposes. Such excess may create tax losses that can be carried forward. Dividends from fully taxable companies in which the recipient does not have a substantial shareholding are 50% tax exempt.

INTEREST DEDUCTIONS

Interest on loans that finance investments intended to generate taxable income is deductible without any limitation, to the extent that the interest rate is at arm's length. Interest associated with exempt income is deductible only to the extent that it exceeds such exempt income. Even though there are no formal thin-capitalization rules provided for by the Luxembourg tax law, the Luxembourg tax authorities, in principle, require an 85-to-15 debt-to-equity ratio for the financing of shareholdings owned by Luxembourg companies. In the case this ratio would not be respected, the Luxembourg tax authorities could disallow interest paid on the portion of the debt exceeding the 85-to-15 ratio.

LOSSES

Losses incurred until the tax year 2016 may be carried forward indefinitely. Losses incurred as of the tax year 2017 may be carried forward for 17 years. No carry-back is allowed.

FOREIGN SOURCE INCOME

Foreign-sourced income is generally taxable under domestic law, unless it is exempt from Luxembourg income tax based on a double tax treaty concluded by Luxembourg or based on internal Luxembourg tax law. Foreign-sourced income that is typically exempt from Luxembourg income tax based on double tax treaties concluded by Luxembourg includes business profits attributable to permanent establishments located in a treaty country, as well as income derived from real estate properties located in a treaty country. Luxembourg has no CFC ('controlled foreign company') legislation.

TAX INCENTIVES

A tax credit is available for qualifying capital expenditures. The investment tax credit is calculated as follows as of 2017:

a) 13% of the difference between the value of total depreciable fixed tangible assets other than real estate and the average value of such assets during the last five years;

b) 8% on investments up to EUR 150,000 in such assets during the tax year and 2% on investments exceeding EUR 150,000. For investments linked to environmental protection or adaptations enabling the hiring of disabled persons, the rates are 9% and 4% respectively.

As from 2018, some types of environment friendly cars have expressly been declared eligible to investment tax credit.

Unused investment tax credits may be carried forward for 10 years. Other incentives are available for various investments, company creations, company reorganizations, research and development activities, creation and development of innovative industrial or service-providing businesses and investments in view of the protection of the environment. Incentives may be granted in various ways such as capital grants and subsidies, loans from the national investment bank, interest subsidies, promotional assistance, tax exemptions and state guarantees, as well as access to fully equipped land, at low cost, in certain business parks.

Acquisition of software (if not acquired from an associated entity) entitles to a separate tax credit of 8% of the acquisition cost up to EUR 150,000 in a given tax period and 2% for investment exceeding EUR 150,000. The tax credit is limited to 10% of the tax liability of the year during which the acquisition has been made.

Incentives for film production are available by way of selected financial incentives granted through the Luxembourg film fund. The transferrable audio-visual certificates incentive is not available anymore.

The investment in the development of new products, the launching of the production phase and the initial marketing thereof may benefit from the issuance of venture-capital certificates. Venture-capital certificates are issued to investors providing funds to companies realizing qualifying investments. Venture-capital certificates provide its holder with a tax credit of 30% of its nominal amount without exceeding 30% of the holder's taxable profit. Venture capital certificates may be assigned once.

Hiring unemployed individuals was incentivized by way of a tax credit of 15% calculated on the monthly salary paid to qualifying hires over a period of 36 months after hiring. This incentive remains available until 31 December 2019.

Incentives for vocational training consist of a tax credit of 10% or a subsidy of 14.5% of qualifying expenses such as planning, evaluation, travel, catering and registration fees. Other incentives include export financing (Ducroire).

C. FOREIGN TAX RELIEF

Foreign income tax may be credited against domestic income tax up to the amount of the domestic income tax. If the foreign tax exceeds domestic income tax, the excess is generally deductible from taxable profits. No relief is available for the income tax paid by the distributing company on the profits distributed as a dividend to a Luxembourg company. In general, Luxembourg tax treaties provide for an exemption of the income derived from foreign permanent establishments or from foreign real estate.

D. CORPORATE GROUPS

Luxembourg resident affiliates can combine their respective tax results. A tax consolidation group may be formed under certain conditions by a Luxembourg company or a Luxembourg permanent establishment of a non-resident company with its direct or indirect Luxembourg subsidiaries. As from the fiscal year 2015, a tax consolidation group may also be formed between the Luxembourg subsidiaries and permanent establishment(s) of a fully taxable resident or non-resident parent company, without including the parent company into the tax consolidation. As a result, sister companies which are owned by the same direct or indirect parent company can form a tax consolidation in Luxembourg. The tax consolidation remains subject to various conditions. These conditions did not materially change compared to the conditions under which the previous tax consolidation regime was available.

In the case of a tax consolidation, each tax payer is subject individually to the net worth tax. However, the cumulated minimum net worth tax due by the companies that are part of the tax consolidated is capped at EUR 32,100.

E. RELATED PARTY TRANSACTIONS

Transactions by a company with its shareholders and related parties have to be at arm's length. If transactions between related parties are not at arm's length, they may give rise to hidden profit distributions. Luxembourg tax law defines the arm's principle in the same way as article 9 of the OECD Model Tax Convention. The arm's length principle is required to be met for all intra-group transactions, whether the related parties are resident abroad or resident in Luxembourg. Luxembourg tax law also extends the general documentation and substantiation requirements to the documentation and substantiation of intra-group transactions. As of 2017, Luxembourg tax law includes specific provisions on how to determine the at arm's length remuneration applicable to intra-group transactions. The approach to determine the at arm's length remuneration is in line with the principles of the amended Transfer Pricing guidelines issued by the OECD.

It also continues to be possible to obtain confirmation from the Luxembourg tax authorities on the at arm's length character of intra-group transactions. However, in order to obtain a binding clearance from the Luxembourg tax authorities it is required that the company requesting the clearance meets certain organizational and economic substance requirements.

F. THIN CAPITALISATION RULES

Luxembourg tax law does not contain any specific thin-capitalization rules, except for SPFs. In principle, a company's debt financing is not limited to a percentage of its paid-in capital. In practice, however, the tax authorities may challenge debt/equity ratios exceeding 85/15 for companies engaged in holding activities and/or group financing activities not complying with the arm's length principle.

G. CHAMBER OF COMMERCE FEE

Membership of the Chamber of Commerce is mandatory for all Luxembourg commercial companies and branches. The fee is based on taxable profits (before losses carried forward) and ranges from 0.025% to 0.20%. The minimum annual contribution amounts to EUR 70 (partnerships and limited companies) and EUR 140 for any other corporation (due even by companies in a loss position). Holding companies listed as such must pay a lump-sum contribution of EUR 350.

H. WITHHOLDING TAX

DIVIDENDS

Dividends paid by special purpose vehicles such as SPFs, investment funds and SICARs are not subject to withholding tax. Dividends paid by fully taxable companies are subject to a 15% withholding tax. The withholding tax on dividends may be reduced by applicable tax treaties. Dividends paid to companies (or its Luxembourg permanent establishments), which:

(i) Are within the scope of the EU Parent-Subsidiary directive; or, which are;

(ii) Fully taxable at an income tax comparable to Luxembourg corporate income tax and are resident in treaty countries or member countries of the Espace Economique Européen (EEE); are exempt from withholding tax if at the date when the dividends are put at its disposal, the beneficiary holds or commits itself to hold a direct shareholding representing at least 10% of the share capital of the distributing company or an acquisition price of at least EUR 1.2 million for a period of at least 12 months. Since 2016, the withholding tax exemption may be denied in the case of a Luxembourg company distributing dividends to a qualifying company resident in another Member State, if the dividend distribution is paid within the context of a structure that is considered to be abusive within the meaning of the Council Directive 2015/121/EU.

An indirect shareholding through a Luxembourg or foreign partnership comparable to a Luxembourg partnership is deemed to be held directly.

INTEREST

Interest payments are, in principle, exempt from withholding tax. Further to the EU Savings Directive (2003/48/EC) interest paid to individuals resident in the EU has however been subject to a 35% withholding tax until 2015, unless the recipient agreed to an exchange of information. Since 1 January 2016, the withholding tax on interest payments to individuals is replaced by an automatic exchange of information. Interest paid by Luxembourg paying agents to individuals resident in Luxembourg is subject to a 20% final withholding tax as of 2017.

ROYALTIES

In general, Luxembourg does not levy withholding tax on royalties, except on income from the copyright of literary or artistic work.

I. MISCELLANEOUS

AUTOMATIC EXCHANGE OF INFORMATION ON INTEREST PAYMENTS

Luxembourg applies the automatic exchange of information with respect to interest payments made by a Luxembourg paying agent to individuals or residual entities within the meaning of the EU Savings Directive that are resident in another EU member state or in an associated territory. The automatic exchange of information covers interest payments made on or after 1st January 2015. The first exchange of information has taken place in 2016.

Luxembourg also adheres to the Foreign Account Tax Compliance Act (“FATCA”). As a consequence thereof, the Luxembourg tax authorities automatically exchange information with the IRS on financial assets owned by US citizens or US tax residents with Luxembourg financial institutions. The information being exchanged is collected by the Luxembourg tax authorities from Luxembourg financial institutions.

COUNTRY BY COUNTRY REPORTING

In 2016 Luxembourg transposed into domestic law the EU Directive implementing the Country by Country reporting obligations. Thus, Luxembourg companies, which are part of a multinational group, may under certain circumstances be required to file a Country by Country report with the Luxembourg Tax Authorities for the fiscal years starting from 2016. If a Luxembourg company belongs to a multinational group that exceeds the threshold for Country by Country reporting, it will be required to notify the Luxembourg tax authorities which entity of the multinational group will be the reporting entity.

ADVANCE TAX CLEARANCE

Under specific circumstances, it is possible to obtain a confirmation from the Luxembourg Tax Authorities for the interpretation of specific provisions of the Luxembourg tax law. Effective from 1 January 2015, the advance tax clearance or tax ruling practice is formalized in Luxembourg tax law. In order to be valid, the advance tax clearance request must contain certain minimum information. Advance tax clearances are available for both companies and individuals. An advance tax clearance will be valid for a maximum period of 5 years.

Advance tax clearances requested for a company will be reviewed and commented by an advance tax clearance commission. As of 1 January 2015, the request of an advance tax clearance may also trigger a fee that is payable to the Luxembourg Tax Administration. Such fee ranges between EUR 3,000 and EUR 10,000 depending on the volume and the technical complexity of the request. An anonymous executive summary of the advance tax clearance may be published in the annual report of the Direct tax authorities. Subject to certain conditions, companies carrying out an intra-group financing activity may continue to

obtain Advance Pricing Agreements confirming the remuneration to be realized on the considered financing activity. The advance pricing agreements follow the same rules as the advance tax clearance. Going forward, Luxembourg tax authorities exchange information on cross-border advance tax clearances and advance pricing agreements with foreign tax authorities.

ISLAMIC FINANCE

A circular issued by the Luxembourg tax authorities provides guidance with regard to the tax treatment of certain Islamic finance instruments. A circular has also been issued by the Luxembourg VAT Administration. Special Purpose Vehicles incorporated in the framework of “murabah” and “ijara” contracts qualify as taxable persons for VAT purposes.

ABUSE OF LAW

Under the abuse of law provisions, the tax authorities may challenge fictitious or abnormal transactions and schemes that are entered into for the sole purpose of avoiding taxes.

J. PERSONAL TAX

Individuals resident in Luxembourg pay income tax on their worldwide income. Individuals are considered to be resident in Luxembourg if they have their domicile or their habitual abode in Luxembourg. Based on Luxembourg internal law the latter is the case if the individual has been present in Luxembourg for more than six months. In case a double tax treaty applies, residence is determined with reference to the rules provided for by the relevant double tax treaty. Non-resident individuals are only taxable on certain specific Luxembourg-sourced income.

The tax base consists of assessable income less certain special allowable deductions. Assessable income includes: business income, income from agriculture and forestry, income from self-employment, employment income, pensions and annuities, income from investments and savings, rental income and other income, including capital gains. Since 2010, highly qualified workers which are hired on the international labour market may, during a five year period, benefit from certain tax exempt compensations.

As of 2017, interest earned by resident taxpayers on certain savings is subject to a 20% final withholding tax.

Capital gains are taxable as other income if they derive:

- From any assets held less than six months prior to disposal;
- From the sale of shareholdings in Luxembourg companies exceeding 10%;
- From the sale of real estate located in Luxembourg, except if the real estate constitutes the taxpayer's main residence.

The law transposing the AIFM Directive into domestic law has also formalized the rules applicable to the taxation of income from carried interest realized by certain employees of an alternative investment fund (AIF) or of its management company. Income from carried interest realized by certain employees of an AIF or of its management company is taxed as “Other income” at 25% of the global tax rate applicable to that individual’s taxable income (i.e. at a maximum of 11.445%). To benefit from this tax regime, the individual may not have been a Luxembourg tax resident or subject to income tax in Luxembourg on its professional income during a five year period preceding the implementation of these provisions.

Income tax due on employment income is withheld at source. Similarly income tax is withheld at source on dividends paid by Luxembourg companies. The final amount of income tax due for a particular tax year is to be paid after the notification of a tax assessment by the tax authorities. Income tax due for a particular year is fixed by taking into account tax credits for foreign income taxes, income tax withheld at source in Luxembourg and advance tax instalments paid for the relevant year. Advance tax instalments are paid on a quarterly basis and are fixed based on the balance remaining due according to the latest income tax assessment.

Income tax is calculated based on progressive income tax rates. The rates indicated below exclude a 7% contribution to the employment fund. The contribution to the employment fund is increased to 9% in case the taxable income exceeds EUR 150,000 for taxpayers taxed at the tax classes 1 and 1a or exceeds EUR 300,000 for tax payers taxed at the tax class 2.

Taxable Income(EUR)	Marginal Rate (Class 1)
0 - 11,265	0%
11,265 – 13,137	8%

13,137 – 15,009	9%
15,009 – 16,881	10%
16,881 – 18,753	11%
18,753 – 20,625	12%
20,625 – 45,897	increase of 2% per slice of EUR 1,944
45,897 – 100,002	39%
100,002 – 150,000	40%
150,000 – 200,004	41%
Above 200,004	42%

On extraordinary income, income tax is calculated at preferential tax rates. Extraordinary income includes, for instance, income from the sale of businesses, capital gains on substantial shareholdings sold after more than six months of purchase, one off payment of (supplementary) pension benefits (entered into by employee) and capital gains on real estate located in Luxembourg and sold after more than two years. Capital gains on substantial shareholdings sold after more than six months after their purchase are taxed at half the global income tax rate. The global income tax rate corresponds to the effective income tax rate arising on a taxpayer's total taxable income. Therefore half the global income tax rate does not exceed 22.89% (including the contribution to the employment fund). Capital gains realized on real estate properties located in Luxembourg and sold after more than two years are subject to 25% of the global income tax rate if the capital gain is realized during the period starting on 1 July 2016 and ending on 31 December 2018.

From a tax point of view, individual resident taxpayers are allocated to 2 different tax classes. The allocation to the relevant class depends upon the marital status.

Marital Status	Age Below 64 on 1 Jan	Age Above 64 on 1 Jan
Single**	1 or 1a	1a
Married*	2	2
Legal partnership***	2	2
Separated**	1 or 1a	1a
Divorced**	1 or 1a	1a
Widow**	1 or 1a	1a

* Class 2 continues to apply for the year when the marital status has changed and for the three following years; as of 2018, spouses may opt to be taxed individually, in which case each spouse will be taxed in class 1 with his/her relevant portion of income.

** 1 applies without children, 1a with children.

** As of 2018, partners may opt to be taxed individually, in which case each partner will be taxed in class 1 with his/her relevant portion of income. As a reminder, the partnership must have been in existence for 12 months and the withholding tax on salary is carried out according to class 1 or 1a (without or with child(ren) respectively).

For class 1, the general tax rates apply.

For class 2, the total income of both spouses is split into 2 halves, each half is taxed at the income tax rates applicable to class 1 and income tax thus calculated is multiplied by 2.

A lower taxation applies for class 1a with a maximum advantage of EUR 1,515 compared to the taxation in class 1.

As of tax year 2018, non-resident married taxpayers are in principle taxed in tax class 1. They may elect to be treated as resident taxpayers (taxed at a rate which is determined by taking into account their worldwide income less deductions and allowances), provided that one of the following conditions is met:

- More than 50% of the household's professional incomes is Luxembourg-source (for Belgian citizens only);
- More than 90% of the global income of one of the spouses is Luxembourg-sourced;

- The foreign income of the Luxembourg taxpayer does not exceed EUR 13,000.

In that case, the non-resident couple may choose between:

- Individual taxation (class 1): spouses may opt to be taxed individually, on their own income or on a re-allocation of household income;
- Collective taxation (class 2): spouses are taxed on the sum of their global world income.

TAX CREDITS AND CHILD BONUSES

Tax credits are available to individuals deriving income from self-employment, employment income or pensions and annuities. As of 2017, the employee tax credit varies depending on the taxable income of the individual. The maximum tax credit available amounts to EUR 600 (for a taxable income of EUR 40,000).

In addition a tax credit is available for single taxpayers who are taxed in tax class 1a. As of the year 2017, this single parent tax credit varies between EUR 750 and EUR 1,500 depending on the taxpayer's taxable income.

There is a monthly child bonus of EUR 76.88 per child under the age of 21 or above such age in case of students. Contributions for social security coverage are indicated in the table below (valid as from 1 January 2018).

Social Contributions in %	Private Sector Workers	
	Worker	Employer
Paid by:		
Illness	3.05	3.05
Pension	8.00	8.00
Accident	–	1.00
Old age care	1.4	–
Mutual Insurance	–	0.46 -2.95
Health check	–	0.11
Total	12.45	12.52 - 15.01

Notes:

A minimum monthly wage applies in Luxembourg. It amounts to EUR 1,998.59 (EUR 2,398.30 for qualified workers). Wages are linked to the inflation index. The current inflation index has been fixed in January 2017 (index = 794.54). The new index will apply when inflation exceeds 2.5%. Contributions are levied on the actual professional income which cannot be lower than the minimum wage. No contributions are levied on the portion of the professional income which exceeds five times the minimum wage. This ceiling does not apply to Old Age care. Old Age care is levied on all assessable income.

K. INHERITANCE TAX

Inheritance tax is due in Luxembourg if the deceased has been resident in Luxembourg. Inheritance tax is due on all net assets allocated to the heirs, except on real estate property located abroad and in certain cases on movable assets located abroad, no matter where the heirs are resident. Inheritance tax rates vary depending on the degree of relationship existing between the deceased and the heirs:

Transfer	Nominal Rate in the Limit of Compulsory Portion
In direct line between descendants and ancestors	Exempt
Between spouses with/without living descendants	5%
Between sisters and brothers	6%
Between uncles or aunts and nephews or nieces, between adopter and the adoptee	9%

Between granduncles or grandaunts and grandnephews or grandnieces, between the adopter and the descendants of the adoptee	10%
Between other relatives and non-related persons	15%

In principle, inheritance tax rates are increased depending on the value allocated to the heirs. The increase of the inheritance tax rates varies between 10% (i.e. for a taxable value received by an heir amounting between EUR 10,000 and EUR 20,000) and 220% (for a taxable value allocated to an heir exceeding EUR 1,750,000).

L. GIFT TAX

Gift tax may be levied on gifts made during an individual's lifetime. Gift tax is due if the gift is made through a notarial deed in front of a Luxembourg notary or, if the gift is made in front of a foreign notary, where the transfer takes place in Luxembourg. The gift tax rates range from 1.8% to 14.4% depending on the degree of relationship between the donor and the donee. For gift tax purposes, the fiscal residence of the beneficiary and the donor are irrelevant.

M. TREATY AND NON-TREATY WITHHOLDING TAX RATES

The below table reflects the lower of the tax treaty rate and the rate under Luxembourg domestic income tax law. Dividend distributions to companies resident in treaty countries are in principle covered by the Luxembourg participation exemption regime (specific conditions to be met, see also under section F).

	Dividends[1] (%)	**Interest [2] (%)**	**Royalties [3] (%)**
Non-treaty countries:	15	0	0
Treaty countries:			
Andorra	15/5/0	0	0
Armenia	15/5/0	0	0
Austria	15/5/0	0	0
Azerbaijan	10/5/0	0	0
Bahrain	10/0	0	0
Barbados	15/0	0	0
Belgium	15/10/0	0	0
Brazil	15/15/0	0	0
Brunei	10/0	0	0
Bulgaria	15/5/0	0	0
Canada	15/5/0	0	0
China	10/5/0	0	0
Croatia	15/5/0	0	0
Czech Republic	10/5/0	0	0
Denmark	15/5/0	0	0
Estonia	10/5/0	0	0
Finland	15/5/0	0	0
France	15/5/0	0	0
Georgia	10/5/0	0	0
Germany	15/5/0	0	0

Greece	7.5/0	0	0
Guernsey	15/5/0	0	0
Hong Kong	10/0	0	0
Hungary	15/5/0	0	0
Iceland	15/5/0	0	0
India	10/0	0	0
Indonesia	15/10/0	0	0
Ireland	15/5/0	0	0
Isle of Man	15/5/0	0	0
Israel	15/10/5/0	0	0
Italy	15/0	0	0
Japan	15/5/0	0	0
Jersey	15/5/0	0	0
Kazakhstan	15/5/0	0	0
Korea (South)	15/10/0	0	0
Laos	15/5/0	0	0
Latvia	10/5/0	0	0
Liechtenstein	15/5/0	0	0
Lithuania	15/5/0	0	0
Macedonia	15/5/0	0	0
Malaysia	10/5/0	0	0
Malta	15/5/0	0	0
Mauritius	10/5/0	0	0
Mexico	15/5/0	0	0
Moldova	10/5	0	0
Monaco	15/5/0	0	0
Morocco	15/10/0	0	0
Netherlands	15/2.5/0	0	0
Norway	15/5/0	0	0
Panama	15/0	0	0
Poland	15/5/0	0	0
Portugal	15/0	0	0
Qatar	10/5/0	0	0
Romania	15/5/0	0	0
Russia	15/10/0	0	00
San Marino	15/0	0	0
Saudi Arabia	15/5/0	0	0
Serbia	15/10/0	0	0
Seychelles	10/0	0	0

Singapore	15/0	0	0
Slovak Republic	15/5/0	0	0
Slovenia	15/5/0	0	0
South Africa	15/5/0	0	0
Spain	15/0	0	0
Sri Lanka	10/7.5/0	0	0
Sweden	15/0	0	0
Switzerland	15/5/0	0	0
Taiwan	15/10/0	0	0
Tajikistan	15/0	0	0
Thailand	15/5/0	0	0
Trinidad and Tobago	10/5/0	0	0
Tunisia	10/0	0	0
Turkey	15/5/0	0	0
Ukraine	15/5	0	0
United Arab Emirates	10/5/0	0	0
United Kingdom	15/5/0	0	0
United States[4]	15/5/0	0	0
Uruguay	15/5	0	0
Uzbekistan	15/5/0	0	0
Vietnam	15/10/5	0	0

Notes:

5. For dividends, the lower rate is applicable subject to specific conditions and generally if the recipient holds at least 25% or 10% of the share capital of the distributing company. EU Directive 2011/96/EU provides for the exemption of dividends to qualifying shareholders.
6. Luxembourg does, in principle, not levy withholding tax on interest.
7. Luxembourg abolished withholding tax on royalties from 1 January 2004 (except on income from the copyright of literary or artistic work).
8. The “limitations of benefits clause” in the US treaty (1996) is in many aspects more favourable than in other new US treaties.

MACEDONIA

MEMBER FIRM

City	Name	Contact Information
Skopje	Nikolaki Miov	+389 70 205 583 n.miov@pkf.mk
Skopje	Kristina Tilic	+389 70 383 052 kristina@novakonsalting.mk

BASIC FACTS

Full name:	Republic of Macedonia
Capital:	Skopje
Main languages:	Macedonian
Population:	2.08 million (2018 estimate)
Monetary unit:	Macedonian denar (MKD)
Internet domain:	.mk
Int. dialling code:	+389

KEY TAX POINTS

- Companies resident in Macedonia are subject to tax on their worldwide income. Non-resident companies are subject to tax on Macedonian-sourced income only.
- There is no separate capital gains tax except for individuals, who pay 10%.
- A transfer pricing regime imposes record-keeping requirements and provides for income to be adjusted on an arm's length basis.
- VAT is applied on the supply of goods and services in Macedonia by a taxable person, subject to exemptions. The standard rate is 18% and a reduced rate of 5% applies to specific goods and services.
- Personal income tax rate is 10% payable by individuals on employment income. Resident individuals are subject to income tax on their worldwide income while non-residents are liable to tax on Macedonian-sourced income only.
- Green field investments Technological–Industrial Development Zones heavily exempt from taxes and other benefits: Zero-rated personal and corporate income tax for up to the first 10 years (10% thereafter), no VAT and customs duties for export production, subsidy of up to EUR 500,000 towards building costs, land lease for up to 99 years at attractive concessionary rates, free connection to utilities, Green Customs Channel expediting exports to the EU, advantageous location, access to pan-European corridors 8 and 10, railroad, and international airport.
- Brown field investments may benefit from some tax exemptions on employees for about two years.

A. TAXES PAYABLE

COMPANY TAX

Profit tax is paid by resident legal entities both on the profit arising from the activities performed on the territory of Macedonia and from income generated abroad. A legal entity is considered to be a resident if registered in accordance with Company Law, or if it has a head office on the territory of Macedonia. Residents are taxed on the profit they generate both in-country and abroad, while non-residents are taxed only on the profit they generate from business activities on the territory of Macedonia.

The tax year for profit tax purposes is the calendar year. The corporate income tax rate is 10%. Companies are required to make monthly advance tax payments based on the previous year's income. Corporate tax returns should be submitted to the Public Revenue Office no later than 28/29 February of the following year at the latest, after the year for which taxation is performed. The tax returns may be submitted by 15th of March, if the taxpayer has submitted the annual accounts with the Central Registry of Republic of Macedonia in an electronic form. Tax is payable in aggregate by 31 March.

Companies that perform economic activities, except for banking, financial, insurance activities and games of chance and entertainment games and whose overall revenue generated in the last three years from any source does not exceed MKD 3 million on an annual basis, shall calculate but will not pay annual tax on total revenue amounting to 1% of the amount of earned total revenue presented in the income statement in the Annual statement for the previous calendar year. For total revenue of up to MKD 6 million the company may voluntary apply for payment of 1% of this amount as corporate tax.

The users of a Technological Industrial Development Zone can benefit from a corporate income tax exemption within the framework of state assistance under the conditions and procedure established by the law for Technological Industrial Development Zones.

There are no specific or separate taxes added by the municipalities for business enterprises in Macedonia.

CAPITAL GAINS TAX

There is no specific tax treatment for capital gains or losses at the level of business enterprises, i.e. any such gains or losses will be included in the profit or loss for the year and taxed if such profits are distributed. When making a sale of shares an individual is obliged to pay 10% tax on capital gains. The basis for the calculation of tax is 70% of the difference between cost and sales value of the shares (for details see below under 'Capital gains and losses').

BRANCH PROFITS TAX

Branches of non-resident companies are subject to 10% profit tax, like resident companies. There is no branch remittance tax in Macedonia.

SALES TAX / VALUE ADDED TAX (VAT)

The following sales are subject to Macedonian VAT: sales of goods and services for consideration in the country within the business activities of the taxpayer and import of goods.

The tax rates are as follows:

- Standard rate: 18%;
- Reduced rate: 5%.

VAT credit is the amount to be deducted from VAT that should be paid on the supplies made in a certain VAT period. The VAT credit refers to the VAT on supplies made by other VAT registered businesses to the taxpayer and to VAT paid upon the import of goods. The right to a VAT credit is available in case the following conditions are cumulatively met:

- The taxpayer uses supplied goods or rendered services for the purpose of its business activity; and
- The taxpayer is able to present an invoice from the supplier issued in accordance with the VAT law or a customs declaration appropriately recorded in its accounting.

No right to a VAT credit exists in respect of the following purchases:

- Procurement or import of goods and services for VAT exempted sales;
- Procurement, production, and import of bicycles, motor vehicles with less than 4 wheels, passenger cars and services related to their utilization;
- Hospitality expenses;
- Transportation of passengers;
- Procurement or import of refrigerators, audio and video appliances, carpets and art works used for equipping office space;
- Hotel or other type of accommodation and food expenses.

Taxpayers without headquarters or fixed establishments in Macedonia that do not perform any VAT applicable sales in the country may be refunded for VAT paid on their procurements in Macedonia upon their request. Tax exemptions and incentives: For donations given in the public activities; and tax exemption on the supply of goods and services for the purpose of implementation of projects funded by foreign donors and by IPA funds.

Registration threshold for VAT: taxpayers are obliged to register for VAT purposes in case the total taxable sales during the calendar year exceed MKD 1,000,0000 (EUR 16,260) or they may choose to register at the beginning of the business activity or at the beginning of each calendar year. If they decide to stay out of the VAT system, they are taxed as final consumers and do not have the right to a VAT refund.

PAYROLL TAXES

Payment of the following social security contributions are to be made on gross salary by the employer, in addition to personal income tax of 10%:

- Pension fund: 18,00%;
- Health insurance: 7,30%;
- Insurance in case of unemployment: 1,20%;
- Occupational and work related illness: 0,50%.

Overall one third of the average gross salary is required to be withheld by the employer and paid for specific funds and taxes. Social security contributions are not levied if they exceed twelve average monthly salaries.

OTHER TAXES

Real estate transfer tax (RETT) at a rate of 2% to 4% is determined by the Council of the relevant municipality or the Skopje City Council. Property tax is levied on owners of immovable property at a rate of 0.10% to 0.20% on the market value of the property determined by the Commission established by the Council of a specific municipality or by the City Council.

FRINGE BENEFITS TAX

In general, fringe benefits are taxable as amounts paid to the employee in cash. A company has the responsibility to pay the income tax on account of the employee. The tax rate is 10%.

B. DETERMINATION OF TAXABLE INCOME

The taxable income of a company is determined by ascertaining assessable income and then subtracting all allowable deductions. The basis for calculating the tax payable is determined as the difference between total revenue and total expenditure of the taxpayer, in amounts determined in accordance with accounting regulations and accounting standards including:

- Employees' related expenditures such as: organized transportation to/from work, food provided to employees, business trip allowance, field allowance, family separation allowance, one-off severance payment, retirement allowance, annual holiday allowance, anniversary awards etc. are tax deductible up to the amount prescribed by the law and the applicable Collective Agreements;
- The premiums paid for insurance of the tax payer's business property and all kinds of compulsory non-life insurance determined by law.

Non-deductible expenses for tax purposes, such as stated below, increase the tax base:

- Expenses that are not connected with a business activity;
- Costs for representation;
- Write-off on unpaid receivables;
- Difference between transfer and market price achieved between related parties;
- The interest on loans received for the purposes of conducting the Company's business activity is fully tax deductible, provided it does not fall under the thin capitalization rules. Under these rules, if the total amount of the loans received from a shareholder that owns at least 25% of the capital in the company (which is not a bank or a financial organization) during a tax period exceeds theamount of three times its share, the interest referring to these loans shall not be tax deductible (debt-to-equity ratio of 3:1). This shall not apply to newly established entities in the first three years of operation, including the year of establishment;
- Withholding tax, borne as a cost by a Macedonian taxpayer;
- Cash and tax penalties and penalty interest for late tax payments and cost of enforced collection;
- Hidden payments of profits. Delivery of certain products and services of the partners or shareholders or persons connected to them at a price lower than the market , including lower interest on approved loans, payments for goods and services received by the partners orshareholders or persons connected to them, at prices higher than the market and enabling the acquisition of gains of the partners or shareholders or persons connected to them;
- Shortage of assets which are not caused by extraordinary events (theft, fire or other natural disasters), which are not on cost of the salary of the responsible person;
- Donations shall be recognized as tax deductible up to the limit of 5% of the overall revenue, and sponsorships in the amount of 3% of the overall revenue, according to the conditions and the rocedure set out in the Law on Donations and Sponsorships in Public Activities;
- Interest on loans for purchasing cars, furniture, carpets, pieces of fine and applied art and other decorative items;
- Cost of dispersing and scattering on assets over amounts determined by law.

Special rules apply in respect of the categories listed below.

DEPRECIATION

The annual depreciation/amortization expense is recognized for tax purposes in accordance with the applicable accounting standards. Generally the straight-line method of depreciation is used.

STOCK/INVENTORY

Inventory includes raw materials, work-in-progress, finished goods and payments on account. Each item of inventory must be valued at acquisition cost or cost of production. All valuation methods (FIFO, LIFO, average prices) are accepted.

CAPITAL GAINS AND LOSSES

Capital gains are treated as ordinary taxable income.

DIVIDENDS

Dividends received from other Macedonian resident companies are included in the tax base, unless a withholding tax has been levied. With effect from 31 January 2014, dividends paid to resident companies are subject to a withholding tax at a rate of 10%. Before that date, such dividends were not subject to withholding tax. Other payments to resident companies are not subject to withholding tax. Dividends paid to non-resident companies are subject to a final withholding tax of 10%, unless a double tax treaty provides for a lower rate.

INTEREST DEDUCTIONS

Interest on loans granted between related parties at arm' length (except for loans granted by banks or other financial institutions) is recognized for tax purposes. In case the taxpayer cannot produce satisfactory evidence that the interest on related parties loans is on an arm's length basis, the interest income/expense from these loans will be determined for tax purposes by applying EURIBOR plus 1% (SKIBOR plus 1% for loans extended in MKD). Penalty interest between related parties is not recognized for tax purposes (except penalty interest incurred with regards to a bank or other financial institutions). Interest on loans granted by direct shareholders holding at least 25% of a company's share capital ("qualifying shareholder") is considered non-deductible for profit tax purposes should the loan amount exceed threefold the amount of the equity attributable to that shareholder (debt-to-equity ratio of 3:1). The same rule applies to loans granted by a third party, while guaranteed by a qualifying shareholder or granted in relation to a deposit provided by the qualifying shareholder to the third party. The amount which is not recognized for tax purposes is the amount of interest on the part of a loan which exceeds threefold the amount of the equity attributable to the qualifying shareholder. The thin capitalization rules do not apply to loan facilities granted by direct shareholders which are banks or other financial institutions, as well as loan facilities granted by direct shareholders to newly established entities in the course of the first three years of their establishment.

LOSSES

As from 1 January 2015, losses may be carried forward for a period of 3 years. The taxpayer carrying forward losses can exercise this right subject to approval from the tax authorities. A written request must be submitted by 31 March of the year following the year in which the losses were incurred. Prior to that date, losses could not be carried forward for tax purposes.

FOREIGN SOURCED INCOME

Resident companies are subject to profit tax on their worldwide income and capital gains.

INVESTMENT ALLOWANCE/INCENTIVES

The tax base for income tax is decreased for the amount of realized investments from the profits (reinvested earnings) for development, i.e. investment in tangible assets (property, facilities and equipment) and intangible assets (patents and computer software) intended to expand the activity of the taxpayer. Exception: investments in passenger cars, furniture, carpets, audio visual devices, appliances (white goods), pieces of fine and applied arts and other investments that serve for administrative purposes.

A taxpayer that is obliged, in accordance with the Law on Registration of Cash Payments, to introduce and use approved equipment for registering cash payments, shall be granted a reduction in the calculated corporate income tax for the procurement of up to ten fiscal machines, in the amount of their value.

C. FOREIGN TAX RELIEF

Unilateral relief from double taxation is granted under the form of a foreign tax credit. Foreign taxes (withholding tax and income/profit tax) paid on dividends/profits from a foreign branch may be credited against the Macedonian profit tax due, limited to the level of this Macedonian tax. A tax credit is also allowed for foreign tax paid on dividends received from a foreign subsidiary. The double taxation relief provided by a tax treaty (usually also a credit) supersedes domestic relief.

D. CORPORATE GROUPS

There is no possibility for parent and subsidiary companies to be recognised as a group for corporate tax consolidation purposes. However, grouping is possible for VAT purposes. Two or more entities may be registered as one based on relations from ownership, management and organisation.

E. RELATED PARTY TRANSACTIONS

Transactions between related parties are recognised for tax purposes at arm's length, i.e. should transactions deviate from the market level, the differences could lead to additional income being assessed or an expense being disallowed for tax purposes. For the purpose of determining the market level, as per the Profit Tax Law the comparative uncontrolled price method or the cost plus method could be used.

Taxpayers, at the request of the Public Revenue Office, are obliged to present satisfactory information and evidence to substantiate whether related party transactions have been performed at arm's length. Furthermore, interest on loans granted between related parties (except for loans granted by banks or other financial institutions) is recognised for tax purposes at arm's length. In case the taxpayer cannot produce satisfactory evidence that the interest on related parties loans is on an arm's length basis, the interest income/expense from these loans will be determined for tax purposes by applying EURIBOR plus 1% (SKIBOR plus 1% for loans extended in MKD).

Penalty interest between related parties is not recognized for tax purposes (except penalty interest incurred with regards to a bank or other financial institutions). The definition of related parties for tax purposes is the one as per the Trading Company Law

F. WITHHOLDING TAX

Legal entities resident in Macedonia, registered for carrying out an activity, as well as a foreign legal entity having a branch in Macedonia are obliged, when paying certain types of income to a foreign legal entity, to withhold tax and to pay the tax withheld to the revenue authorities simultaneously with the payment of the income. Withholding tax is applied to the following outbound payments: dividends, interest, royalties, income from entertainment or sporting activities in Macedonia; income from management, consulting, financial services, services related to research and development, income from insurance or reinsurance premiums, income from telecommunication services between Macedonia and a foreign country and income from the lease of immovable property in Macedonia.

Tax shall not be withheld on the following payments: transfer of the profit of the permanent establishment/branch of a foreign legal entity in Macedonia, for which profit tax has been previously paid (no branch remittance tax), revenue from interest on debt instruments issued and/or guaranteed by the Macedonian Government, the National Bank of Macedonia and banks or other financial institutions acting as a representative of the Macedonian Government, income from interest on deposits in a bank located in Macedonia and income from intermediation or consulting regarding government securities on the international financial market.

The withholding tax rate is 10% and is levied on the gross income, subject to the application of a double tax treaty.

G. EXCHANGE CONTROL

There are no exchange control requirements.

H. PERSONAL TAX

Personal income tax is payable by Macedonian resident individuals on their worldwide income, excluding the tax-exempt income. Non-resident individuals are required to pay tax on Macedonian sourced income only. A person is considered a Macedonian tax resident if he/she stays continuously or intermittently on the territory of Macedonia for 183 days or more within any 12-month period. The tax-exempt income consists of certain employment related expenses, awards, scholarships granted by the Government, damages, alimony, certain types of interest etc. and is exhaustively listed in the Personal Income Tax Law.

The taxable income comprises of the following types of revenues: personal earning, income from a selfemployed activity, income from property and property rights, income from copyrights and industrial property rights, capital revenues, capital gains, gains from games of chance and other income.

The tax base is the positive difference between the gross taxable income obtained throughout the taxable year and the deductions allowed in the Law on Personal Income Tax, such as the following:

- Mandatory social contributions for pension and disability insurance, health insurance and for employment, excluding the contributions paid by farmers upon their cadastral income;

- Contributions for voluntary pension and disability insurance paid by the taxpayer;
- The annual personal exemption which amounts to MKD 90,372 (1.469 euro) for 2018;
- Administrative fees and other public revenues paid out of the taxpayer's income.

The personal income tax rate is 10% and the tax year is the calendar year.

Income from salary

Collective bargaining agreements are negotiated between the representative labour unions and the Government for the general collective agreement for the public sector and between the representative labour unions and representative employers association for the general collective agreement for the commercial sector. These two collective agreements represent the two pillars under which industry branch and employer level collective agreements can be negotiated and signed. Collective agreements define a minimum salary for each professional activity. Salaries are computed and paid at least once a month. Social contributions and personal taxes are withheld by the employer along with the payment of salaries to employees. As of January 2018, the average monthly net salary was MKD 23,143 (about EUR 376).

Income property and property rights

A statutory deduction of 25% of gross rent for unfurnished and 30% for furnished premises is given to account for income-generating expenses. Alternatively, taxpayers can opt for itemized deduction instead of availing the standard deduction.

Income from copyrights and industrial property right

Based on the type of the original work different statutory deductions are given from 25 % for forms of performance art related to popular music up to 60% for sculptors. Alternatively, taxpayers can also opt for itemized deduction instead of availing the standard deduction.

Capital gains for individuals

These refers to the gains from sales of securities, shares of capital and real estate, i.e. the difference between their sales price and purchase price. The tax base is 70% of the earned capital gains. Capital gains are subject to 10% tax payable in advance. Capital losses from the sale of securities could be offset against capital gains in the next three years. Capital gains from sales of immovable property sold after three years as of the acquiring date are not subject to tax.

Gains from games of chance for individuals

They refer to:

- income from games of chance and other prize games (TV quizzes, competitions, etc..) are taxable income, the tax is payable on the total gain at a 10% tax rate. The tax is not paid in case the single realized gain is under MKD 5,000 (c. euro 81,0); and
- income from games of chance from casino, betting and slot machine clubs are taxable income.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies[1] (%)		
Domestic rates				
Companies	10	10	10	10
Individuals	10	--	10	10
Treaty countries:				
Albania	10	10	10	10
Austria	15	0[2]	0	0
Azerbaijan	8	8	8	8
Belarus	15	5	10	10

Belgium	15	10	15	10
Bosnia and Herzegovina	15	5	10	10
Bulgaria	15	5	10	10
China	5	5	10	10
Croatia	15	5	10	10
Czech Republic	15	5	0	10
Denmark	15	5	0	10
Estonia	5	0	5	5
Finland	15	0[2]	10	0
France	15	0[2]	0	0
Germany	15	5[2]	5	5
Hungary	15	5	0	0
India	10	10	10	10
Ireland	10	0/5	0	0
Italy	15	5	0/10	0
Kazakhstan	15	5	10	10
Kosovo	5	0	10	10
Kuwait	0	0	0	15
Latvia	10	5[2]	5	5/10
Lithuania	10	0[2]	10	10
Luxembourg	15	5	0	5
Moldova	10	5	5	10
Montenegro	15	5	10	10
Morocco	10	10	10	10
Netherlands	15	0[2]	0	0
Norway	15	10	5	5
Poland	15	5	10	10
Qatar	0	0	0	5
Romania	5	5	10	10
Russia	10	10	10	10
Saudi Arabia	5	5	5	10
Serbia	15	5	10	10
Slovak Republic	5	5	10	10
Slovenia	15	5	10	10
Spain	15	5[2]	5	5
Sweden	15	0	0/10	0
Switzerland	15	5	0/10	0
Taiwan	10	10	10	10
Turkey	10	5	10	10
Ukraine	15	5	10	10
United Arab Emirates[4]	5	5	5	5
United Kingdom	15	0/5[3]	0/10	0

Notes:

1. Unless stated otherwise, the reduced rate applies in case the recipient company (in)directly holds at least 25% of the capital or the voting power of the distributing company.
2. The reduced rate applies in case the recipient company (in)directly holds at least 10% of the capital or the voting power of the distributing company.

3. The 5% rate applies if the holding is at least 10% of the capital. The 0% rate applies if the recipient is (a) a company that has owned shares representing at least 25% of the capital of the Macedonian company continuously for at least 12 months or (b) a pension scheme.
4. Effective from 1 January 2018.

MALAYSIA

MEMBER FIRM

City	Name	Contact Information
Kuala Lumpur	Lim Ai Chen	+603 6203 1888 brianw@pkfmalaysia.com
Kuala Lumpur	Owen Tan	+603 6203 1888 owen.tan@pkfmalaysia.com

BASIC FACTS

Full name:	Federation of Malaysia
Capital:	Kuala Lumpur
Main languages:	Malay (official), English, Chinese
Population:	31.97 million (2018 estimate)
Monetary unit:	1 Malaysia Ringgit (MYR) = 100 Sen
Internet domain:	.my
Int. dialling code:	+60

KEY TAX POINTS

- Taxable income of companies is generally subject to corporate tax at the rate of 24%. To simplify and ease the administrative burden under the previous tax imputation system, a single-tier tax system has been introduced with effect from year of assessment (YA) 2008. Under this new system, income tax imposed on a company's chargeable income is a final tax and dividends distributed are exempted from tax in the hands of the shareholders.
- Companies with credit balances which do not elect to switch over to the single-tier system were allowed to use the credit balances for the purpose of dividend distribution during a transitional period of six years until 31 December 2013, or until the credit balances are reduced to zero.
- Income tax in Malaysia is imposed only on income. Capital gains are not taxed, except those arising from transactions in real property or shares in Real Property Companies.
- A resident is taxed on income accrued in or derived from Malaysia. However, a resident company carrying on a business of banking, insurance or sea or air transport is also taxed on income derived from outside Malaysia and received in Malaysia.
- Tax incentives are given for Malaysian resident companies carrying on certain favoured activities including energy conservation services and the managing of Islamic funds.
- All manufacturers (including contractors) and importers are subject to sales tax. The basic rate of 10% applies to all goods not specifically exempted or taxed under a reduced (5%) or increased (15%) rate. However, sales tax has been abolished and replaced by Goods and Services Tax (GST) with effect from 1 April 2015.
- Service tax is levied on prescribed goods and services provided by certain businesses, including hotels, restaurants, legal, accounting and insurance businesses. Service tax has been abolished and replaced by GST with effect from 1 April 2015.
- With effect from 1 January 2008, under the single-tier system all dividends distributed by the company are exempted from tax in the hands of shareholders at all levels.

- Resident companies within a group of companies may enjoy group relief incentive. Up to 70% of the adjusted loss may be surrendered to companies within the group.
- Under Section 140A of the Income Tax Act 1967 (the Act), the Director General of Inland Revenue (DGIR) is empowered to make adjustments based on arm's length principle as set out under the Malaysian Transfer Pricing Guidelines revised in July 2017 on the transfer prices in relation to related party transactions.
- The implementation of Income Tax (Thin Capitalisation) Rules has been deferred up to 31 December 2017 and this rule will be cancelled with effect from 1 January 2018. Effective 1 January 2019, Earning Stripping Rules (ESR) are to be introduced to replace Thin Capitalisation Rules.
- There is no withholding tax on dividends paid by Malaysian resident companies. There is withholding tax on payments of interest, royalties and technical fees made to non-residents, although there are exemptions for certain types of interest payment.

A. TAXES PAYABLE

Malaysian taxation is territorial in scope, whereby income derived from sources in Malaysia is subject to tax. With effect from the YA 2004, income received in Malaysia by any person other than a resident company carrying on the business of banking, insurance, sea or air transport derived from sources outside Malaysia is exempted from tax. Malaysia currently adopts a Self-Assessment tax regime (SAS) whereby taxpayers have the responsibility to assess the extent of their tax liability and bear the onus of disclosure and representation of information. Under the SAS, the tax authorities will conduct tax audits on taxpayers to ensure proper compliance in respect of returns submitted, failing which penalties will be imposed on tax adjustments made.

CORPORATE TAX

Resident and non-resident companies in Malaysia are generally subject to corporate tax at the rate of 24% with effect from YA 2016. However, if a resident company meets the requirements of a small and medium enterprise (SME), it will enjoy a lower tax rate for its first MYR 500,000 of its chargeable income. Please refer to the summary of tax rates as set out below:

	Corporate Tax Rates YA 2009 to YA 2015	Corporate Tax Rates YA 2016	Corporate Tax Rates YA 2017 and YA 2018
SMEs** (resident company*):			
- First MYR 500,000 of chargeable income	20%	19%	18%
- Chargeable income > MYR 500,000	25%	24%	24%
Non-SMEs and Non-resident companies	25%	24%	24%

* A company is tax resident in Malaysia if the management and control is exercised in Malaysia. Management and control is normally considered to be exercised at the place where directors' meetings are held.

** To qualify as a SME, the paid up capital of the resident company in respect of ordinary shares must be not more than MYR 2.5 million at the beginning of the basis period; and is not part of a group of companies where any of its related companies has a paid up capital in ordinary shares of more than MYR 2.5 million at the beginning of the basis period.

For YA 2017 and YA 2018, the tax rate for resident companies will be given a reduction in the income tax rate on the incremental chargeable income compared to the immediate preceding YA, based on the percentage of increase in chargeable income as provided below:

% of increase in chargeable income compared to the immediate preceding YA	% point reduction on income tax rate	Reduced income tax rate on increase in chargeable income (%)
Less than 5%	Nil	24
5% - 9.99%	1	23

10% - 14.99%	2	22
15% - 19.99%	3	21
20% and above	4	20

Under the SAS, every company is required to provide an estimate of its tax payable for a YA, 30 days before the beginning of the basis period. The estimate submitted for a particular YA cannot be less than 85% of the estimate/revised estimate of tax payable for the immediate preceding YA. Exemption for filing of tax estimate is only applicable under the following circumstances:

- For a period of 2 years, beginning from the YA in which the company commences operation on the conditions that the SME must be a tax resident and incorporated in Malaysia.
- A company commencing operation in a YA is not required to furnish estimate of tax payable if the basis period the YA in which the company commences operation is less than 6 months.

The company is required to pay the estimated tax payable in equal monthly instalments according to the number of months in its basis period. The balance of tax payable by a company based on tax return submitted after deduction of tax estimate is due to be paid by the due date for submission of tax return.

All companies must file the annual corporate tax returns within 7 months from the close of the accounting period. Effective from YA 2014, it is mandatory for companies to submit tax returns via e-filing and the said return must be based on audited financial statements certified by the approved accountants. The following are some of the key aspects of the Malaysian income tax system and administration:

SINGLE TIER DIVIDEND SYSTEM

To simplify and ease the administrative burden under the previous tax imputation system, a single tier dividend system has been introduced with effect from YA 2008 and the old tax imputation dividend has been fully phased out by 31 December 2013. Under this new single tier dividend system, income tax imposed on a company's chargeable income is a final tax and dividends distributed are exempted from tax in the hands of the shareholders.

ADVANCE RULING

With effect from 1 January 2007, a taxpayer may request for an advance ruling from the DGIR on the interpretation and application of any provision of the Act to a particular type of arrangement or transaction.

GROUP RELIEF FOR NON-SME COMPANIES

With effect from YA 2006, group relief is made available to the non-SME resident companies to allow its current year losses to be utilized by its related company within the group, subject to the conditions met. Under this provision, a company may elect irrevocably to surrender up to 70% of its current year tax losses to offset against the chargeable income of its related company. The following are some of the key conditions to be fulfilled for the claim of group relief:

- Both claimant and surrendering companies must be locally incorporated companies and have the same accounting period;
- Has paid up capital of more than MYR 2.5 million at the beginning of the basis period; and
- 70% direct/indirect shareholding requirements.

TRANSFER PRICING REGULATION

In line with the introduction of transfer pricing legislation in 2009, Transfer Pricing Guidelines 2012 have been issued by the DGIR on 20 July 2012 to replace the Transfer Pricing Guidelines issued on 2 July 2003. The Transfer Pricing Guidelines 2012 have also been revised in July 2017. Specific provisions have been established to empower the DGIR to make adjustments based on the arm's length principle as set out under the Organization for Economic Co-operation and Development (OECD) Transfer Pricing Guidelines on transfer prices in relation to related party transactions.

COUNTRY BY COUNTRY REPORTING

Malaysia has legislated the rules in respect of the requirements for filing a Country-by-Country Reporting (CbCR) and other related requirements, in line with the recommendations of OECD base erosion profit hifting (BEPS) Action Plan 13. The rules cover, among others, the conditions that require a multinational corporation group to perform CbCR, the hdetails that should be reported in a CbCR, filing obligations, a deadline for filing

as well as use and confidentiality of the CbCR information. The threshold for furnishing CbCR in Malaysia is set at a total group revenue in the financial year preceding the reporting financial year of at least MYR 3 billion. The abovementioned rules came into operation on 1 January 2017. CbCR shall be filed no later than 12 months after the last day of the reporting financial year.

THIN CAPITALISATION

A new provision for thin capitalisation was introduced with effect from 1 January 2009 under which the portion of interest charge that relates to the amount of financial assistance that is excessive is disallowed as a deduction. However, the implementation of specific rules relating to this provision has been deferred to 31 December 2017. Effective from 1 January 2018, thin capitalisation rules will be replaced by Earning Stripping Rules (ESR) which will take effect from 1 January 2019.

ADVANCE PRICING ARRANGEMENTS

Advance Pricing Arrangements Guidelines 2012 were introduced by the DGIR on 20 July 2012 to explain the manner in which a company may apply for an Advance Pricing Arrangement (APA) from the DGIR via a prescribed form. This represents an agreement between the company and the DGIR that establishes the transfer pricing methodology to ascertain the prospective arm's length transfer prices in relation to related party transactions between the company and its foreign affiliates under specific terms and conditions. The period covered under an APA is a minimum of 3 years and a maximum of 5 years of assessment. A rollback of an APA can be requested.

EARNING STRIPPING RULES

Earning Stripping Rules (ESR) that have a similar objective to control excessive deductions on interest expenses between associated persons have been introduced in line with the proposals under the OECD's report on BEPS Action 4: Limiting Base Erosion Involving Interest Deductions and Other Financial Payments to address base erosion and profit shifting by way of interest. Under the ESR, the interest deduction on loans between related companies within the same group will be limited to a predetermined range between 10% and 30% of a company's Earnings Before Interest and Taxes (EBIT) or Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA).

REAL PROPERTY GAINS TAX

Malaysia does not impose capital gains tax on disposal of capital assets or related transactions, except for the disposal of real property or shares in Real Property Companies which fall within the ambit of Real Property Gains Tax Act 1976. With effect from 1 January 2014, the RPGT rates on the gains from disposal of real properties and shares in real property companies were revised as follows:

Date of Disposal	Real Property Gains Tax Rates		
	Companies	Individual(Citizen & Permanent Resident)	Individual (Non-Citizen)
Within 3 years from date of acquisition	30%	30%	30%
In the 4th year	20%	20%	30%
In the 5th year	15%	15%	30%
In the 6th year and following years	5%	Nil	5%

STAMP DUTY

Stamp duty is chargeable on certain instruments or documents. The rate of duty (either fixed rate or ad valorem) varies according to the nature of the instruments or documents and transacted value. The following are rates of stamp duty for some common instruments and documents:

- Properties (other than shares or marketable securities)

	Value MYR	Rate
On the first	100,000	MYR 1 per MYR 100 or part of
On the next	400,000	MYR 2 per MYR 100 or part of

In excess of	500,000	MYR 3 per MYR 100 or part of

The rate of stamp duty on instrument of transfer of property valued more than MYR 1 million to be increased from 3% to 4% effective 1 January 2018.

- Shares

MYR 3 for every MYR 1,000 or any fraction thereof based on consideration, or value whichever is greater. The Stamp Office generally adopts one of the 3 methods for valuation of ordinary shares for purposes of stamp duty:

- price earnings ratio;
- net tangible assets; and
- sales consideration.

- Service Agreements and Loan Agreements

Stamp duty of 0.5% on the value of the services/loans. However, stamp duty may be exempted or stamp duty in excess of 0.1% may be remitted for the following instruments:

1. Service agreement

		Stamp duty
All service agreement (one tier)		Ad valorem rate of 0.1%
Multi-tier service agreement:		
a) Non-government contract (i.e. between private entity and service providers)	First level	Ad valorem rate of 0.1%
	Subsequent level(s)	Up to MYR 50
b) Government contract (i.e. between Federal / State Government of Malaysia or State / local authority and service providers)	First level	Exempted
	Second level	Ad valorem rate of 0.1%
	Subsequent level(s)	Up to MYR 50

2. Loan agreement / loan instrument

Ringgit Malaysia loan agreements generally attract stamp duty at 0.5%. However, a reduced stamp duty liability of 0.1% is available for MYR loan agreements of MYR loan instrument without security and repayable on demand or in single bullet repayment.

Certain disposal of assets between family members or within the group of companies may qualify for relief or exemption, subject to the conditions met.

INDIRECT TAXES

Service tax and sales tax has been abolished and replaced by GST with effect from 1 April 2015.

GOODS AND SERVICES TAX (GST)

An overview of GST model in Malaysia is summarized as follows:

Scope of Tax

- GST is to be charged on goods and services at all levels starting from production, manufacture, wholesale and retail;
- GST is to be charged on goods and services supplied within the country or imported into the country;
- Supplies made by the Federal and State Government departments are not within the scope of GST except for some services prescribed by the Minister of Finance;
- Supplies made by the local authorities and statutory bodies in relation to regulatory and enforcement functions are not within the scope of GST;
- GST charged on all business inputs such as capital assets and raw materials is known as input tax whilst GST charged on all supplies made (sales) is known as output tax. For eligible businesses, the input tax incurred is fully recoverable from the Government through the input tax credit mechanism.

THRESHOLD

The threshold for mandatory registration under GST is a business with an annual sales value of MYR 500,000 and above. Businesses below the threshold are not required to register but may register on a voluntary basis.

STANDARD RATE

The standard rate of GST in Malaysia is 6%. The rate applies to all supplies of goods and services unless the supplies are zero rated, exempted or given a relief from GST.

ZERO-RATED SUPPLY

Zero-rated supply means goods and services sold by businesses that are charged GST at a zero rate. For such businesses, GST paid on their inputs can be claimed as credits. Examples of goods and services subject to GST at zero rate are:

- Agriculture products (paddy and vegetables).
- Foodstuff (rice, table salt, sugar, plain flour, milk and cooking flour).
- Livestock supplies (live animals and unprocessed meat of cattle, buffaloes, goats, sheep and swine).
- Poultry (live and unprocessed meat of chickens and ducks).
- Eggs (fresh and salted).
- Fish, prawns, cuttlefish, crabs, oysters, cockles and lobsters.
- Supply of treated water (excluding distilled water, de-ionised water, oxygenised water and mineral water) to domestic consumers.
- Supply of the first 300 units of electricity to a domestic household for a minimum period of twenty eight days per billing cycle.
- Goods supplied to designated areas (e.g. Labuan, Langkawi and Tioman) from Malaysia.
- International services.
- Reading materials (children's colouring books, exercise and reference books, newspapers and religious books).

Note: The above list is not exhaustive.

EXEMPT SUPPLwwY

Exempt supply means goods and services sold by businesses that are exempt from GST. For such businesses, GST paid on their inputs cannot be claimed as credits. Examples of goods and services exempted from GST are as follows:

- Land used for residential or agricultural purposes or general use.
- Buildings used for residential purposes.
- Certain financial services.
- Private education services.
- Childcare services.
- Private healthcare services.
- Transport services.
- Tolled highway or bridges.
- Funeral, burial and cremation services.
- Supplies made by societies and similar organisations.
- Domestic air transportation services for passengers within and between Sabah, Sarawak and Labuan for economy class passengers.

Note: The above list is not exhaustive.

GST RELIEF

Examples of goods and services subject to GST relief are as follows:

- RON 95 petrol, diesel and Liquefied Petroleum Gas (LPG) to consumers and targeted group.
- Purchase of qualifying goods by certain institutions (e.g. private educational institutions, private hospitals

and private charitable entities).

- Goods under temporary import from and export to overseas.
- Purchase of goods and services by the Malaysia-Thailand Joint Authority or the joint operating company and its ventures of the Production Sharing Contract.
- Goods in transit (temporarily imported) where the destination is outside Malaysia.
- Teaching materials and equipment procured by skills and vocational training providers conducting approved programmes under the National Skills Development Act 2006.
- Re-importation of goods temporarily exported for the purposes of promotion, research or exhibition.
- Re-importation of goods temporarily exported for the purposes of rental and lease outside the country (upstream oil and gas industry).

Note: The above list is not exhaustive.

IMPORT DUTIES

- Import duties are levied on goods that are subject to import duties and imported into the country.
- Import duties are generally levied on an ad valorem basis but may also be imposed on a specific basis.
- The rate of import duty on dutiable goods is dependent on the classification of the goods under the Customs Duties Order 2007. Malaysia adopts a coding or classification system commonly referred to as the Harmonised System which was established under the International Convention on the Harmonised Commodity Description and Coding System. Malaysia may enjoy preferential rates of duty under the relevant free trade agreements.
- Qualifying goods originating from China, Japan, Korea, Pakistan, Australia, New Zealand, India, Chile and ASEAN countries imported into Malaysia may enjoy preferential rates of duty under the relevant free trade agreements.
- The ad valorem rates of import duties range from 2% to 60%. Raw materials, machinery, essential foodstuffs, pharmaceutical products and certain tourism related and daily use products are generally
- non-dutiable or subject to duties at lower rates.
- Subject to certain exclusions, goods can be brought into or provided in free zones without payment of custom duties.

EXPORT DUTIES

- Export duties are generally imposed on the country's main commodities. The ad valorem rates of export duty range from 0% to 20%.
- The rate of export duty on dutiable goods is dependent on the classification of the goods under the Customs Duties Order 2007.
- For the purposes of computing export duty, the value of the goods is the price which an exporter would receive for the goods calculated to the stage where such goods are released by Customs at the place of export.

EXCISE DUTIES

- In Malaysia, excise duties are imposed on a selected range of goods manufactured in Malaysia and selected imported goods, including motor vehicles.
- Unless exempted from licensing, a manufacturer of tobacco, intoxicating liquor or goods subject to excise duties must have a licence to manufacture such goods. A warehouse licence is required for storage of goods subject to excise duty.
- Goods which are subject to excise duty include:
- Beer, stout and other intoxicating liquors (e.g. cider and perry, rice wine, mead, brandy, whisky, rum and tafia, gin).
- Cigarettes containing tobacco.
- Motor vehicles.
- Playing cards.
- As a general rule, duty is payable at the time the goods leave the place of manufacture or any other place under excise control.

- No excise duty is payable on dutiable goods that are exported.

B. DETERMINATION OF TAXABLE INCOME

CAPITAL ALLOWANCES

With effect from YA 2000 (current year basis), capital allowances for qualifying capital expenditure incurred by taxpayers have been categorised as follows:

Type of Assets	Initial Rate	Annual Rate
Heavy machinery and motor vehicles	20%	20%
Plant and machinery (general)	20%	14%
Others	20%	10%
Assets with a lifespan not exceeding two years	N/A	Replacement basis
Small value assets (of value less than MYR1,000 each)	N/A	100% (Note 1)

Industrial building allowances are available for certain types of qualifying industrial buildings at the following rates:

- Initial rates ranging from 0% to 10%; and,
- Annual rates ranging from 3% to 10%.

Qualifying capital expenditures incurred for the following equipment are given accelerated capital allowances (ACA) as follows:

Equipment	Initial Rate	Annual Rate
Information and communication technology (Note 2)	20%	80%
Environmental protection	40%	20%

Notes:

1. Total capital allowance claim shall not exceed MYR 10,000 except for SMEs. However, with effect from YA 2015, the total value of each asset for the purpose of claiming of special allowance for small value assets has been increased from MYR 1,000 to MYR1,300. The maximum limit of total special allowance for small value assets claimable for each YA by a non-SME is increased from MYR 10,000 to MYR 13,000.
2. ACA can be extended for another three years to YA 2016. Thereafter, qualifying capital expenditure is only eligible for capital allowance with initial allowance of 20% and annual allowance of 10%. Based on the Malaysia Budget 2018 announcement, it is proposed that companies be allowed to claim capital allowance with initial allowance of 20% and annual allowance of 20% in respect of the following qualifying expenditure (the relevant legislation to implement the above is still pending)

Type of Payment	Effective date
Purchase of ICT equipment and computer software packages	Year of assessment 2017 onwards
Development of customised software comprising of consultation fee, licensing fee and incidental fee related to software development	Year of assessment 2018 onwards

GOODS AND SERVICES TAX AND CAPITAL ALLOWANCES

GST input tax paid or to be paid by a person to be excluded from the amount of qualifying expenditure if the person is:

- Liable to be registered under the GST Act 2014 and has failed to do so; or
- Entitled under the GST Act 2014 to credit that amount as input tax.

Any adjustment to the qualifying expenditure of an asset as a result of any adjustment to input tax under the GST Act 2014 shall only be made in the basis period for a YA in which the period of adjustment related to

the asset as provided under the GST Act 2014 ends except in the case of a disposal of asset. In the latter situation, the adjustment shall be made in the YA the disposal has been made.

INVESTMENT INCENTIVES

Malaysia offers a wide range of tax incentives for foreign and local investors to promote investments in selected industry sectors and/or promoted areas. Malaysia has today become an export-driven economy spurred on by high technology, knowledge-based and capital-intensive industries and the Economic Transformation Programme (ETP) has been introduced by the government to propel and transform Malaysia into a high-income nation by 2020. Hence, the investment incentives have been designed to focus on these areas particularly the 12 National Key Economic Areas (NKEAs) identified under the Malaysian Economic Transformation Programme (ETP). The major types of tax incentives available in Malaysia are Pioneer Status, Investment Tax Allowance and Reinvestment Allowance.

PIONEER STATUS (PS)

- An income tax exemption ranging from 70% to 100% (depending on the type of promoted products and/or activities) on a company's statutory income for a period of five years.
- The PS is generally favourable for companies expecting to generate large profits within a short time upon commencement of production of promoted products and/or activities.
- The exemption period may be extended for another further five years depending on the type of promoted products and/or activities.

INVESTMENT TAX ALLOWANCE (ITA)

- The ITA is an alternative incentive to PS which is preferable for capital intensive projects involving promoted products and/or activities.
- The ITA is accorded to the qualifying person in addition to the normal capital allowances available on the same asset.
- Generally, the rate of the ITA is 60% on the qualifying capital expenditure incurred on qualifying plant and machinery and can be used to offset up to 70% (or 100% in certain promoted products and/or activities) of the statutory income.
- The exemption period may be extended for a further five years depending on the type of promoted products and/or activities.
- PS and ITA are mutually exclusive.

REINVESTMENT ALLOWANCE (RA)

- RA is available for manufacturing companies that reinvest their capital to embark on:
- Expansion of existing production capacity;
- Modernisation or automation of production facilities;
- Diversification into related products.
- RA is also available to companies engaged in agricultural projects (eg. cultivation of rice, maize, fruits, vegetables, tubers and roots, livestock farming, spawinng, breeding or culturing aquatic products, etc.).
- The RA is accorded to the qualifying person in addition to the normal capital allowances available on the same asset.
- Generally, the rate of the RA is 60% on the qualifying capital expenditure incurred on factory, plant or/ and machinery and can be used to offset up to 70% (or 100% in certain circumstances) of the statutory income. Strict interpretation of types of "qualifying capital expenditure" need to be observed by the taxpayer in claiming the benefit accorded under this tax incentive.
- RA will only be given to a company which has been operating for not less than 36 months and is not applicable to an asset purchased by a company from a related company within the group.
- The incentive period is 15 years from the first year of claim and the RA is mutually exclusive to both PS and ITA as well as various tax incentives in Malaysia. Effective from YAs 2016 to 2018, companies whose RA incentive period has expired will be allowed a special claim of RA on qualifying capital expenditure.
- RA claimed by any qualifying person will be clawed back if the qualifying asset is disposed of within five (5) years from the date of acquisition.

OTHER INDUSTRIES WHICH MAY QUALIFY FOR TAX INCENTIVES IN MALAYSIA

- Biotechnology industries;
- Venture capital companies;
- Operational headquarters;
- International procurement centres;
- Regional distribution centres;
- Real estate investment trusts;
- Treasury management centre;
- Tun Razak Exchange (TRX) (formerly known as Kuala Lumpur International Financial District);
- New 4 and 5 Star Hotels in Peninsular Malaysia and Sabah and Sarawak;
- Profit-oriented private schools and international schools;
- Profit Oriented Private Schools and International Schools;
- Provider of industrial design services in Malaysia;
- Business Trust;
- Child care centres and pre-school education;
- Angel investor;
- Global incentive for trading programme;
- Medical tourism;
- Research and development (R&D) sector;
- Establishment of independent conformity assessment bodies (ICAB).

EXTENSION OF TAX INCENTIVES

- Foreign institutional investors, particularly pension funds and collective investment funds, and other non-corporate investors including resident and non-resident individuals receiving profit distribution from Real Estate Investment Trusts (REITs) listed on Bursa Malaysia are subject to final withholding tax at 10% has been extended for another three years from 1 January 2017 until 31 December 2019.
- Tax incentives made available to tour operating companies licensed under the Tourism Industry Act 1992 will be extended for another 3 years from YA 2015 to YA 2018. Based on the Malaysia Budget 2018 announcement, it is proposed that the tax incentive be extended for another 2 years.
- The application period for tax incentives for approved food production projects will be extended until 31 December 2020 and applications need to be submitted to the Ministry of Agriculture and agrobased industry for approval.
- Extension of tax exemption on income from managing Shariah-Compliant funds will be extended for another 4 years until the YA 2020.
- Tax incentives made available to new companies and existing companies undertaking expansion, modernisation or refurbishment of private healthcare facilities approved and licensed by the Ministry of Health Malaysia and registered with the Malaysia Healthcare Travel Council will be extended for another 3 years from 1 January 2018 to 31 December 2020.

C. WITHHOLDING TAXES

Certain types of payments to non-residents are subject to withholding tax at the following rates:

Type of Payment	Rates
Special classes of income (Note 1)	10%
Interest	15%
Royalties	10%
Contract payments (Note 2)	10% + 3%
Other income [Section 4(f)] (Note 3)	10%

Withdrawal of contribution made to a PRS (note 4)	8%
Dividends	NIL
Public entertainer	15%

Notes:

1) Special classes of income (Section 4A) include:

   i. Amounts paid in consideration of services rendered by the person or his employee in connection with the use of property or rights belonging to, or the installation or operation of any plant, machinery or other apparatus purchased from such person;

   ii. Amounts paid in consideration of technical advice, assistance or services rendered in connection with technical management or administration of any scientific, industrial or commercial undertaking, venture, project or scheme;

   iii. Rent or other payment, made under any agreement or arrangement for the use of any moveable property.

   Payments on technical advice, assistance or services rendered overseas will not be liable to withholding tax. However, with effect from 16 January 2017, payments on technical advice, assistance or services rendered are no longer limited to services performed in Malaysia. According to Public Ruling 1/2014, disbursements and reimbursements incurred for non-residents are also subject to withholding tax except for disbursements on hotel accommodation in Malaysia.

2) The 10% withholding tax is for non-resident contractors' tax liabilities while the 3% is for the tax of employees of the non-resident contractor. Withholding tax for contract payments is not the final tax.

3) Section 4(f) income refers to gains and profits not specifically provided for under Section 4 of the Act, including commissions and guarantee fees.

4) Where withdrawal of contributions from a Private Retirement Scheme (PRS) by an individual is made before the age of 55 (other than by reason of death or permanent departure from Malaysia), the PRS scheme provider (as approved under Section 139Q of the Capital Markets and Service Act 2007) is required to apply the withholding tax mechanism in remitting 8% tax to the Malaysian tax authority.

Effective from 1 January 2011 for the YA 2011 and subsequent YA, in addition to the late payment penalty, the DGIR is empowered to impose a penalty for incorrect returns under Section 113(2) of the Act if a tax deduction on the expenses subject to withholding tax is claimed and such withholding tax and penalty are not paid by the due date for submission of the tax return that relates to such expenses.

D. PERSONAL TAX

Tax residency status of an individual person in Malaysia is generally determined by the number of days the individual is present in Malaysia during a particular calendar year. Generally, an individual is a tax resident in Malaysia if the individual is present in Malaysia for 182 days or more during a particular calendar year. An individual tax resident is entitled to several tax reliefs, tax rebates, scaled tax rates and exemptions, as set out below.

	YA 2016	YA 2017	
Tax Reliefs	MYR	MYR	
Taxpayer	9,000	9,000	
Husband/wife/alimony payments	4,000	4,000	(Limited) [Note 1]
Disabled taxpayer	6,000	6,000	(Further deduction)
Disabled wife/husband	3,500	3,500	
Child relief (<18 years old per child)	2,000	2,000	
Child aged 18 years old and above, not married and pursuing diploma or above qualification in Malaysia/ bachelor degree or above outside Malaysia (per child)	8,000	8,000	
Disabled child	6,000	6,000	
Medical expenses for parents	5,000	5,000	(Limited)

Medical expenses for serious diseases	6,000	6,000	(Limited)
Basic supporting equipment for disabled	6,000	6,000	(Limited)
Life insurance premiums and Employees Provident Fund	6,000	6,000	(Limited)
Private Retirement Scheme and annuity premium (YA 2012 to YA 2021)	3,000	3,000	(Limited)
Insurance premiums for education or medical benefits	3,000	3,000	(Limited)
Fee expended for any course of study up to tertiary level other than a degree at Masters or Doctorate level, undertaken for the purpose of acquiring law, accounting, Islamic financing, technical, vocational, industrial, scientific or technological skills or qualifications or any course of study for a degree at Masters or Doctorate level undertaken for the purpose of acquiring any skill or qualification	7,000	7,000	(Limited)
Purchase of books, journals, magazines and publications	1,000	1,000	(Limited) [Note 3]
Purchase of computer (once every 3 years)	3,000	3,000	(Limited) [Note 3]
Net savings in Skim Simpanan Pendidikan Nasional	6,000	6,000	(Limited) [Note 2]
Purchase of sports equipment	300	300	(Limited) [Note 3]
Parental care relief (until YA 2020): - Father - mother	 1,500 1,500	 1,500 1,500	
Contribution to Social Security Organisation Scheme (SOCSO)	250	250	
Lifestyle	-	2,500	(Limited) [Note 3]
Breastfeeding equipment	-	1,000	(Limited) [Note 4]
Fees paid to children centres and kindergartens	-	1,000	(Limited) [Note 5]

Tax Rebates (Effective YA 2009)	**MYR**
Rebate given to taxpayer with chargeable income not exceeding MYR 35,000	400
Additional rebate for spouse with no income and elects for combined assessment	400
Zakat, Fitrah and any other Islamic religious dues	Full rebate

Notes:

(1) With effect from YA 2017, the existing relief of MYR 4,000 will not apply if the husband or wife has an income derived from sources outside of Malaysia and the gross income from such sources exceed the amount of relief provided for. However, the legislation would not be applicable to husband or wife who is disabled.

(2) The relief of up to MYR 6,000 is given for amounts deposited into Skim Simpanan Pendidikan Nasional established under the Perbadanan Tabung Pendidikan Tinggi Nasional Act 1997 for his or her child. This is applicable from YA 2012 to YA 2017. Based on the Malaysia Budget 2018 announcement, it is proposed that the relief to be extended for another 3 years from YA 2018 to YA 2020.

(3) With effect from YA 2017, the tax relief for purchase of reading materials, purchase of sports equipment, purchase of computer and subscription of broadband internet will be replaced with a new relief of MYR 2,500, which will include the following scope:

(i) Purchase of books, journals, magazines, printed daily newspapers and other similar publications (excluding banned publications);

(ii) Purchase of sports equipment for sports activities as defined under the Sports Development Act 1997;

(iii) Purchase of computer, smartphone or tablet;

(iv) Subscription of broadband internet; and

(v) Gymnasium membership fee.

(4) With effect from YA 2017, relief of up to MYR 1,000 is given for the purchase of breastfeeding equipment. This relief is applicable to working women with child aged up to 2 years and can be claimed once every two years.

(5) With effect from YA 2017, relief of up to MYR 1,000 is given for individual taxpayers who enrol their child up to 6 years of age, in child care centres or kindergartens registered with the Department of Social Welfare or the Ministry of Education. This tax relief can be claimed by either parent of the child.

Non-residents are not eligible to claim relief and rebates and are subject to a tax of 28% on their taxable income.

The tax rates for resident individual are as follows:

Taxable Income		YA 2017		YA 2018	
MYR		Tax rate%	Tax Payable MYR	Tax rate%	Tax Payable MYR
on the first	5,000	1	0	1	0
on the next	15,000		150		150
on the first	20,000	5	150	5	150
on the next	15,000		750		450
on the first	35,000	10	900	10	900
on the next	15,000		1,500		1,200
on the first	50,000	16	2,400	16	1,800
on the next	20,000		3,200		2,800
on the first	70,000	21	5,600	21	4,600
on the next	30,000		6,300		6,300
on the first	100,000	24	11,900	24	10,900
on the next	150,000		36,000		36,000
on the first	250,000	24.5	47,900	24.5	46,900
on the next	150,000		36,750		36,750
on the first	400,000	25	84,650	25	83,650
on the next	200,000		50,000		50,000
on the first	600,000	26	134,650	26	133,650
on the next	400,000		104,000		104,000
on the first	1,000,000	28	238,650	28	237,650
Above	1,000,000				

Note:

(1) Preferential tax rate is available for the following categories of taxpayers:

- The employment income of an individual who is a knowledge worker residing in Iskandar Malaysia and is employed in a qualifying activity would be taxed at 15% of the individual's chargeable income.
- The employment income of an approved individual under the Returning Expert Programme would be taxed at 15% of the individual's chargeable income for a period of five years subject to terms and conditions met.

E. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Malaysia has concluded tax treaties with the following countries:

	Dividends[1]		Interest[9] (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies[1] (%)		
Domestic rates				
Companies	0	10	15	10
Individuals	0	--	15	10
Treaty countries:				
Albania	15	5[4]	10	10
Armenia2	0	[0]	15	10/15[13]
Australia	0	0	15	15
Austria	0	0	15	10/15[13]
Azerbaijan2	0	0	15	10/15[13]
Bahrain	5	5	5	814
Bangladesh	0	0	15	0/10[15]
Belarus2	0	0	15	10/15[13]
Belgium	15	15	–/10[10]	10
Brunei	10	10	10	10
Canada	0	0	15	0[15]/15[16]
Chile	15	5[6]	15	10
China	0	0	10	10/15[13]
Croatia	10	55	10	10
Czech Republic	0	0	12	12
Denmark	0	0	–[11]	10[17]
Egypt	0	0	15	15
Fiji	15	15	15	15
Finland	0	0	15	15
France	0	0	15	10
Georgia2	0	0	15	10/15[13]
Germany	15	5[5]	10	7
Hong Kong	10	[55]	10	8

Hungary	0	0	15	15
India	5	5	10	10
Indonesia	0	0	10	10
Iran	0	0	15	10
Ireland	10	10	10	8
Italy	10	10	15	15
Japan	15	5[7]	10	10[18]
Jordan	10	10	15	15
Kazakhstan	10	10	10	10
Korea	0	0	0/15[12]	0[15]/10/15[13]
Kuwait	0	0	10	10/15[13]
Kyrgyzstan2	0	0	15	10/15[13]
Laos	10	5[5]	10	10
Lebanon	5	5	10	8
Luxembourg	10	5[5]	0/10[12]	8
Malta	0	0	15	15[19]
Mauritius	0	0	15	15
Moldova2	0	0	15	10/15[13]
Mongolia	10	10	10	10
Morocco	10	55	10	10
Myanmar	10	10	10	10
Namibia	10	54	10	5
Netherlands	0	0	10	0/8[15]
New Zealand	15	15	15	0/15[15]
Norway	0	0	–11	0[20]
Pakistan	0	0	15	0/15[15]
Papua New Guinea	0	0	15	10[19]
Philippines	0	0	15	0/15[15]
Poland	0	0	15	15
Qatar	10	5[5]	5	8
Romania	10	10	15	0/12[15]

Russia[2]	0	0	15	10/15[13]
San Marino	10	55	10	10
Saudi Arabia	5	5	5	8
Serbia and Montenegro3	0	0	15	10
Seychelles	10	10	10	10
Singapore	10	5[4]	10	8
Slovak Republic	5	05	10	10
South Africa	10	5[4]	10	5
Spain	5	0[8]	10	7[21]
Sri Lanka	0	0	10	10
Sudan	0	0	10	10
Sweden	0	0	10	8
Switzerland	15	5[4]	10	10[22]
Syria	10	5[4]	10	[10]
Taiwan	0	0	10	[10]
Thailand	0	0	15	0/15[15]
Turkey	0	0	15	[10]
Turkmenistan	10	10	10	[10]
Ukraine2	0	0	15	10/15[13]
United Arab Emirates	0	0	5	10
United Kingdom	10	5[5]	10	8
Uzbekistan	10	10	10	10
Venezuela	10	5[5]	15	10
Vietnam	0	0	10	10

Notes:

1. Malaysia does not levy withholding tax on dividends under its domestic law. Should Malaysia introduce a withholding tax on dividends then the aforementioned rates would be the maximum withholding rates.
2. Treaties concluded with the former USSR. Malaysia continues to apply the treaty with Russia. Belarus, Russia and the Ukraine continue to apply the former treaties while Armenia, Azerbaijan, Georgia and Moldova don't.
3. Treaty concluded with the former Yugoslavia. Continues to apply in relations between Malaysia and Serbia and Montenegro.
4. The reduced rate generally applies to participations of at least 25% of capital.
5. The reduced rate generally applies to participations of at least 10% of capital or voting stock. The Slovak Republic additionally requires a minimum uninterrupted shareholding period of twelve months.

6. The reduced rate applies to a participation of at least 20% of the voting power.
7. The reduced rate applies to a direct participation of at least 25% of voting shares for six months prior to the year-end for which the distribution of profits takes place.
8. The reduced rate applies if the receiving company holds directly at least 5% of the capital of the paying company.
9. Certain treaties provide for an exemption of some types of interest (but not included in this list), e.g. interest paid to public bodies and institutions or banks or in relation to approved or state-guaranteed loans.
10. The 10% rate applies to interest paid by an enterprise engaged in an industrial undertaking. Otherwise the domestic rate applies and no reduction available under the treaty.
11. No reduction under the treaty, the domestic rate applies.
12. Exemption for interest paid by a banking business in Malaysia to a Korean resident carrying on a banking business. Also exemption in Malaysia for interest paid on an approved loan or a long-term loan.
13. 15% rate for payments for the use of, or the right to use, cinematograph films, or tapes for radio or television broadcasting or any copyright of literary or artistic work; 10% rate for payments for the use of, or the right to use, any patent, trademark, design or model, plan, secret formula or process, or any copyright of scientific work, or for the use of, or the right to use, industrial, commercial or scientific equipment or information/experience (China treaty includes know-how).
14. Are excluded as royalties: payments in respect of the operation of oil or gas wells or the extraction of mineral deposits or other natural resources.
15. Are exempt from withholding tax: approved industrial royalties payable by an enterprise wholly or mainly engaged in (i) manufacturing, assembling or processing (ii) construction, civil engineering or shipbuilding or (iii) electricity, hydraulic power, gas or water supply. Specifically for the Canada treaty, royalties do not include any royalty or other amount paid in respect of the operation of a mine, oil well, quarry or any other place of extraction of natural resources or of timber or forest produce.
16. Are excluded as royalties: any payments in respect of motion picture films or tapes for radio or television broadcasting;
17. The rendering of any services or assistance of a technical, managerial or consultancy nature are included as royalties.
18. Receipts from the bare boat charter of ships or aircrafts are included as royalties.
19. Payments for the supply of assistance which is ancillary and subsidiary to the use of any property, right or equipment are included as royalties.
20. Are excluded as royalties: payments in respect of literary or artistic copyrights, motions picture films, tapes for television or broadcasting or the operations of a mine, oil well, quarry or other place of extraction of natural resources, timber or forest produce.
21. Are included as royalties: payments for the use of, or the right to use, films or tapes for radio or television broadcasting, industrial, commercial or scientific equipment or information (know-how) concerning industrial, commercial or scientific experience.
22. Are exempt from withholding tax: royalties arising in Malaysia if they are approved by the competent authority of Malaysia.

MALTA

MEMBER FIRM

City	Name	Contact Information
Birkirkara	George M Mangion	+356 21 484373 gmm@pkfmalta.com

BASIC FACTS

Full name:	Republic of Malta
Capital:	Valletta
Main language:	Maltese, English
Population:	460,297 (2017 estimate)
Monetary unit:	1 Euro (EUR) = 100 cents
Internet domain:	.mt
Int. dialling code:	+356

KEY TAX POINTS

- Malta's tax system is based on UK principles and enjoys the approval of the EU Commission and Code of Conduct Group following Malta's EU accession.
- Malta operates the full imputation system where dividends paid by a Maltese company carry a tax credit equivalent to the tax paid by the company on the distributed profits.
- Shareholders are taxed on the gross dividend but are entitled to tax credits of the tax paid by the company on the profits so distributed.
- Malta does not have net wealth tax and inheritance tax.
- Tax payers (both individuals and companies) who are ordinarily resident and domiciled in Malta are subject to income tax in Malta on their worldwide income and certain capital gains.
- Malta operates the "remittance basis" of taxation. Taxpayers who are either not ordinarily resident or are not domiciled in Malta are subject to tax on income arising in Malta and on foreign income only if that is received in Malta. In such case, foreign capital gains are not taxable in Malta even if received in Malta.
- Malta does not impose withholding tax on payment of dividends, interest or royalties, although there are some exceptions.

A. TAXES PAYABLE

COMPANY TAX

A company incorporated in Malta is deemed to be both domiciled and resident in Malta from the date of incorporation. A company not incorporated in Malta is considered resident in Malta if the management and control of its business is exercised in Malta. Companies which are resident and domiciled in Malta are subject to income tax on their worldwide income at a flat rate of 35%. In certain circumstances, depending upon the business activity from which the profit has been generated, recipients of dividend income may become entitled to refunds of company tax paid.

Companies that are either resident or domiciled are taxable in Malta on the remittance basis. Therefore, income and taxable chargeable gains arising in Malta and on foreign income received in Malta. Foreign capital gains are not taxable, regardless of whether received in Malta. Companies that are neither not resident nor domiciled (i.e. incorporated) in Malta are only chargeable to tax in Malta in respect of income and gains arising in Malta.

CAPITAL GAINS TAX

Capital gains are subject to tax if they are derived from the transfer (including any alienation under any title) of:

- Immovable property;
- Securities, defined as shares and stock and such like instruments that participate in any way in the profits of the company and whose return is not limited to a fixed rate of return, units in a collective investment scheme and units and such like instruments relating to linked long term business of insurance;
- Business, goodwill, business permits, copyright, patents, trademarks and trade-names;
- Beneficial interest in a trust;
- Interest in a partnership; and,
- Market value of shares through a change in the issued share capital or voting rights of a company.

The 2017 Budget announced the re-introduction of a tax exemption on capital gains, realised through the sale of shares to the public of shares listed on the Malta Stock Exchange. Under present regulations, such gain would currently be taxable at the rate of 15%. Similarly, an exemption shall also be introduced with respect to the sale of shares to the public through a listing on an alternate trading platform. The benefit in the latter case may be determined by the percentage of shareholding offered to the public.

No tax is payable by non-residents on capital gains arising on transfers of company shares or securities except where such gains are derived from the transfer of shares or securities in companies whose assets consist wholly or principally of immovable property situated in Malta.

VALUE ADDED TAX (VAT)

VAT is imposed on importation of goods into Malta, on every intra-Community acquisition into Malta and on every supply of goods and services made in Malta for a consideration in the course of business. The standard VAT rate in Malta is 18%. A reduced rate of 7% VAT applies to the supply of hotel accommodation and sports facilities and 5% on certain supplies including electricity, confectionery, medical accessories and printed matters, items for the exclusive use of disabled and works of arts, collectors' items and antiques.

Also, certain supplies are zero-rated (known as exempt with credit supplies). These include exports and export-related services, the transfer of goods placed or while they are placed under a customs duty suspension regime, international transport of person, the supply and repair of commercial aircraft and vessels, food (excluding confectionery and food supplied in the course of catering), pharmaceuticals and intra-Community supplies of goods to persons registered for VAT purposes in another EU state.

Other exemptions are termed exemptions without credit. When the activity of the business consists of or includes exempt without credit supplies, the input tax relating to those supplies is not recoverable. Exempt without credit supplies include: the transfer and the letting of immovable property (excluding inter alia commercial letting and hotel accommodation), insurance services, credit, banking and certain investment services, health and welfare, cultural services, education and lotto and lotteries including certain remote gaming. As from 1 January 2018, certain remote gaming supplies which were previously exempt from VAT are now taxable in Malta. The table below provides a general summary of supplies relating to gambling which shall remain exempt from VAT and those which shall attract VAT.

Exempt	Taxable
Event betting (including betting exchanges)	Casino type games not on a device
Lotteries and lottery type games	P2P games (example poker)
Bingo	Games of skills
Casino games of chance on devices (land based) including live casino	Class 4 type of services and other supplies in relation to the above
Qualifying supplies in relation to the above	

VAT on Intra-Community acquisitions

When a taxable person makes an intra-Community acquisition in Malta, i.e. he receives a supply of goods from a person who is registered in another EU State where such goods are transported from one EU State to another, he will be liable for the payment of VAT in Malta on that transaction, unless the goods are exempt from VAT. Acquisition VAT is also imposed on any other person (other than a private individual) who makes an intra-Community acquisition of goods with a value exceeding EUR 10,000. Such persons may also opt to account for and pay such VAT if their intra-Community acquisitions do not exceed this amount.

VAT on imports

VAT is imposed at the rate of 18% (and at 5%/7% in respect of the goods subject to a reduced rate of VAT mentioned in the preceding paragraph) of the taxable value of the goods that are not in free circulation in the EU and that are imported into Malta. It is collected by the Comptroller of Customs on behalf of the Commissioner of VAT at the time of the release of the goods together with any duties payable on the imports. A number of importations are exempt from VAT.

Place of Supply of telecommunications, broadcasting and electronically supplied services

As of 1 January 2015, the place of supply of telecommunications, broadcasting and electronically supplied services is the place of the customer meaning that Maltese operators are obliged to account for and charge the tax of the Member States of the European Union where their customers are founded which could be a compliance burden if the supplier as customers established in different Member States of the European Union. Therefore, operators have two options for complying with this legal obligationregister and comply with the VAT rules of all the Member States of The European Union where their customers are located; or register under the MINI One Stop Shop (MOSS) which is a simplification measure which the EU Commission proposed to ease compliance.

VAT for SMEs

In the 2018 Budget, the Government increased the threshold below which small and medium enterprises (SMEs) will be allowed not to charge VAT. In turn, they will not claim any VAT paid by them. The capping of EUR 14,000 turnover per annum has been increased to EUR 20,000.

Sustainability in the financial services and gaming sectors

A new regulatory framework planned for 2018 will involve the enactment of a new law that will introduce the concept of VAT Grouping for the regulated financial services and gaming sectors. Legal independent entities established in Malta and having financial, economic and organizational ties between them will be able to register as a single person for taxation purposes. As a result, members of the group will benefit from VAT exemptions and acquisitions.

VAT Treatment of Certain Commercial Maritime Transactions

As at the end of 2017, Malta boasted the largest shipping register in the EU, with more than 8,000 ships, totalling a combined gross tonnage of 74 million flying the Maltese flag. Certain specific cases of commercial maritime transactions may qualify for VAT treatment in accordance with the place of supply of service rules, i.e. where the effective use and enjoyment of the product in question is outside the EU, and the same can be sustainably and properly evidenced to the satisfaction of the VAT Commissioner, the supply of such service may not be subject to VAT. Applications are reviewed on a case by case basis, in order to ensure fair taxation and adherence to all applicable EU laws.

VAT Treatment of Certain Commercial Aviation Transactions

Aviation is a fast-growing sector of the Maltese economy. Malta is presently expanding its modest yet sturdy 500 strong aircraft register and increasing AOC registrations, currently circling around the 33 figure. Certain specific cases of commercial aviation transactions may qualify for VAT treatment in accordance with the place of supply of service rules, i.e. where the effective use and enjoyment of the product in question is outside the EU, and the same can be sustainably and properly evidenced to the satisfaction of the VAT Commissioner, the supply of such service may not be subject to VAT. Applications are reviewed on a case by case basis, in order to ensure fair taxation and adherence to all applicable EU laws.

Additionally, VAT will be refunded under the following scenarios:

- Eligible expenses incurred by private schools for the construction of new buildings;
- On the acquisition of new cars provided they satisfy certain criteria relating to size and emissions;
- On the acquisition of a new bicycle (capped at EUR 150); and,
- On the cost of sports equipment acquired by sports associations recognized by the Malta Sports Council.

OIL BUNKERING TAX

A flat rate of tax per metric ton is charged on the bunkering of certain fuel oils used for ships and their machinery and supplied free from customs and other duties. The payment of the tax is due immediately upon the release of the fuel from the bonded installation, marine terminal or marine facility on the quantity of fuel measured or calculated by Customs as having been released.

STAMP DUTY

A duty is levied on documents relating particularly to transfers of property, marketable securities (including shares), insurance policies, and auction sales. Duty on transfers of immovable property is at the rate of 5% of which 1% provisional tax is paid upon the entering of a promise of sale agreement. The rate of duty of the transfer of shares in Property Company is 5%, and, otherwise reduced to 2% on market value. Family

businesses which are passed from one generation to another through an act of donation, and which transfers took place from 1 April 2017 to 1 April 2018, were taxed at a reduced rate of 1.5% rather than 5%. This duty applies to immovable and movable property making up the business, which must have been held as a family business for three years prior to the donation and must be retained as a family business for three years following the donation.

There are a number of limitations and exemptions apply, including an exemption from duty on transfers of immovable property between companies forming part of the same group, transfers of shares upon certain restructuring of holdings within a group of companies, a reduced rate of duty on the acquisition of property to be used as one's ordinary residence as well as division of immovable property between co-owners. The first time buyers' scheme has proved a great success since its introduction in July 2015, and the exemption to first time property buyers is being extended once again in 2018, as a result of which no duty is charged on the first EUR 150,000 provided the buyer did not previously own or hold immovable property in Malta directly or indirectly.

Acquiring Property in Gozo

The incentive introduced by the Government in 2017 in view of property purchased in Gozo, whereby a reduction in stamp duty from 5% to 2% is applicable, has been extended for the year 2018.

Preservation of Historical Premises Heritage

In order to further reduce vacant property and thereby lessen the need to build new property, the Government is extending the scheme introduced in 2016 throughout 2018 whereby stamp duty payable on the purchase of property in Urban Conservation Areas is halved from 5% to 2.5%.

WEALTH AND CAPITAL TAXES

No taxes are levied on net wealth as such. In the case of corporations, no tax is levied on the basis of the capital of the business, but an annual registration fee, which may reach a maximum of EUR 2,250 (paper submission) or EUR 900 (electronic submission), is charged by reference to the company's authorised share capital.

GAMING TAX

Winnings are not subject to tax, but a gaming tax is chargeable on licensed gaming entities. The amount and calculation of the tax depends on the type of licence held and where this is calculated by reference to the entity's betting results, it is capped at EUR 466,000. Betting and lotteries are strictly regulated. In an initiative supporting the already booming i-gaming industry, as of 2016, entrepreneurs investing in premises intended for use as office space will be able to benefit from existing legislation which offers the possibility of claiming depreciation on capital expenditure and which currently applies only to industrial buildings, hotels and car parks.

2017 heralded in the Skills Games Regulations 2017 enacted under the Lotteries and Other Games Act (Cap. 438 of the Laws of Malta) and under the terms of which the licensed provider of a controlled skill games service organised in, or provided from the territory of Malta or the provider of a controlled skill games service to any person in the territory of Malta tax is payable at the rate of 5% of real income and the maximum tax payable annually by a single controlled skill game operator shall not exceed EUR 466,000.

On 13 March 2018 the Malta Gaming Authority (MGA) announced that a motion has been presented in parliament for the first reading of the Gaming Bill. The bill seeks to overhaul all existing gaming legislation and replace it with a single piece of legislation called the "Gaming Act", along with secondary legislation in the form of legal notices. The bill would replace the existing licensing system with just two types of licences: business to consumer (B2C); and business to business (B2B). Among other matters, the bill would also grant more powers to the MGA, increase player protection rules and exempt B2B licensees from gaming tax

Furthermore, on 29 March 2018, the MGA published a consultation document on a Sandbox Environment for Distributed Ledger Technology and Virtual Currencies which provides guidance on the use of Distributed Ledger Technology and on the acceptance of Virtual Currencies through the implementation of a Sandbox Environment.

SOCIAL INSURANCE CONTRIBUTIONS

Social insurance contributions in respect of an employed person are payable equally by the employe rand by the employee. The rate is, in each case, equivalent to 10% of the basic wage payable by each of the employee and employer. However, this is subject to a maximum and minimum rate. Currently the minimum

weekly contribution stands at EUR 16.63 (or 10% of basic weekly wage if this is lower but the employer continues to pay the said minimum). The maximum weekly contribution varies depending on the age of the employee. In respect of an employee born before 1 January 1962, the maximum weekly contribution stands at EUR 34.94 whereas in the case of an employee born on or after 1 January 1962,the maximum weekly contribution stands at EUR 45.58.

The Maternity Fund Employers' Contribution has come into force on 6 July 2015 by means of Legal Notice 257 of 2015 (Trust and Trustees Act CAP. 331) and Legal Notice 258 of 2015 (Social Security Act CAP. 318). The Maternity Fund is earmarked for employers in the private sector entitled to a reimbursement of the salary of 14 weeks maternity leave paid to their employees. These contributions are payable monthly by the employer to the Inland Revenue Department on the new FS5. The Maternity Fund Contribution is to be declared annually on the new FS3 and FS7.

COMPANY ADMINISTRATION AND COMPLIANCE

Tax Year

The default tax year for a company is 31 December, that is a calendar year. A company may apply to the Commissioner of Inland Revenue to adopt a financial year other than 31 December.

Filing of Tax Returns and Payment

The directors of every company are required to furnish the shareholders annually at a general meeting with a set of financial statements. Financial statements submitted to shareholders may be in accordance with IFRS as adopted by the EU. Notice 289 of 2015 introduced the General Accounting Principles for Small and Medium-Sized Entities (GAPSME) which replaced GAPSE. GAPSME is effective for financial reporting periods commencing on or after 1 January 2016. The annual financial statements, together with the director's report and auditors' report must be approved by the Board with the Registrar of Companies within ten months from the end of the financial year. The financial statements must be approved by at least two directors for companies. Companies are bound to make three provisional tax payments computed by reference to the amount of tax chargeable in previous year. The provisional tax is payable in three installments: 20% by 30 April, 30% by 31 August and 50% by 21 December. Provisional tax payments are on account of the final tax liability. A tax return must be filed within nine months from the year end or 31 March of the following year, whichever is later. Penalties are imposed for failure to file a return on time or submitting an incorrect tax return. A final tax payment is due by the date the tax return is submitted. Interest is payable at the rate of 0.54% per month or part thereof on any unpaid balances and outstanding refunds.

Exemptions

In certain circumstances, a company may qualify for an exemption from paying provisional tax payments and final tax payment is due within 18 months after the year end.

B. DETERMINATION OF TAXABLE INCOME

The audited financial statements of the company will normally form the basis of the tax computation, but adjustments will be necessary in order to arrive at the company's income chargeable to tax. The general rule is that tax deductions are allowed only with respect to expenses incurred wholly and exclusively in the production of the income but the law contains special rules on various items. No deduction shall be allowed in respect of expenditure unless that person is in possession of a tax invoice or other document issued in accordance with the VAT Act.

Adjustments would typically include the write-back of depreciation and a deduction for statutory capital allowances, the write-back of provisions and of expenses that do not satisfy the tax deduction rules, and the application of other special income tax rules such as those relative to the determination of income from the letting of immovable property and of capital gains.

CAPITAL ALLOWANCES

A taxpayer is not allowed to claim accounting depreciation as a deduction but may claim the statutory capital allowances on fixed assets used in the production of his income. The assets that qualify for capital allowances are:

- Plant and machinery, including machinery, equipment, fixtures, motor vehicles and similar fixed assets; and,

- Industrial buildings and structures, including hotel buildings but excluding the cost of land. In 2016, the term industrial building was extended and now includes office.

The rules specify the minimum number of years over which the cost of the industrial buildings and various categories of plant and machinery may be written off. In the case of industrial buildings an initial deduction of 10% and 2% annual deduction of the cost of the acquisition of the asset is available. All wear and tear allowances are computed on the straight line method. Capital allowances may only be deducted from income derived from the activity in which the respective assets are used. The rules allow for proportional deduction where the asset is used partly in the production of income and partly for other purposes.

When an asset that qualified for capital allowances is sold, transferred, destroyed, or otherwise put out of use, a balancing statement is to be prepared. If the tax written down value is higher than the value on disposal, the difference is allowed as a further capital allowance (balancing allowance). If the tax written down value is lower, the difference represents a balancing charge, but the charge cannot exceed the total capital allowances granted on that asset. The balancing charge is either added to the taxpayer's chargeable income or, at the option of the taxpayer and subject to specific conditions, deducted for capital allowances purposes from the cost of acquisition of any fixed asset replacing the asset that has been disposed of.

TAXATION OF DIVIDENDS: PARTICIPATION EXEMPTION

With effect from 1 January 2007, income and gains derived by a company registered in Malta from a participating holding or from the transfer of such holding are 100% exempt from tax. A participating holding is found where a company resident in Malta holds equity shares in another entity and the former:

(a) Holds directly at least 10% of the equity shares of the company invested in, which holding confers an entitlement to at least any two of the following rights:
  (i) Right to vote;
  (ii) Right to profits available for distribution;
  (iii) Right to assets available for distribution on a winding up; or,

(b) Is an equity holder which holds an investment of a minimum sum of EUR 1,164,000 (or the equivalent sum in another currency) and the investment is held for an uninterrupted period of not less than 183 days; or,

(c) Is an equity shareholder and is entitled to purchase the balance of the equity shares or has the right of first refusal to purchase such shares or is entitled to sit as, or appoint, a director on the Board; or,

(d) Holds the shares or units for the furtherance of its own business and the holding is not held as trading stock for the purpose of a trade.

Malta's participation exemption is also extended to holdings in other entities, such as a Maltese limited partnership (the capital of which is not divided into shares), a non-resident body of persons (with similar characteristics to the Maltese limited partnership) or a collective investment vehicle that provides for limited liability of investors, provided the above conditions for the application of the participation exemption are satisfied.

The participation exemption is also available to branch profits, and the following income is exempt from tax:

- Income attributable to a permanent establishment (including a branch) of a Maltese company where the permanent establishment is situated outside Malta; and,
- Gains derived from the transfer of such permanent establishment.

The Maltese CIR issued a guideline clarifying that income received from a debt instrument that includes characteristics of both equity and debt shall be recognised as interest and taxed accordingly.

Other Conditions for Application of the Exemption

With respect to dividends, the participation exemption is applicable if the entity in which the participating holding is held:

a) Is resident or incorporated in a country or territory which forms part of the European Union; or,

b) Is subject to tax at a rate of at least 15%; or,

c) Has 50% or less of its income derived from passive interest or royalties; or,

d) Is not a portfolio investment and it has been subject to tax at a rate of at least 5%.

The conditions for the application of the participation exemption with respect to dividends do not apply in the case of gains derived from the alienation of a participating holding. Such gains are therefore exempt with no

further conditions. Where the participating holding relates to a non-resident company, an alternative to the participation exemption is the full (100%) refund. The relative dividends and capital gains will be taxed in Malta (subject to double tax relief), however, upon a dividend distribution, the shareholders are entitled to a full refund (100%) of the tax paid by the distributing company.

Following changes to the Parent Subsidiary Directive in October 2015, the Participation Exemption shall only apply to the extent that such profits are not deductible by the relevant subsidiary in the EU Member State related to a situation of hybrid instruments.

INTEREST DEDUCTIONS

Sums payable by such person by way of interest upon any money borrowed by the taxpayer, where the Commissioner is satisfied that the interest was payable on capital employed in acquiring the income is deductible.

CAPITAL AND TRADING LOSSES

Trading and Capital Losses incurred in a trade or business may be carried forward indefinitely. Losses may not be set off against income that stands to be allocated to the final tax account. This is in line with the general rule that the set off of trading losses is only allowed if the losses would have been subject to tax had they instead been profits. Alternatively, rather than carrying the loss forward to future periods, the Income Tax Act allows a company to surrender a trading loss to another company if that other company forms part of the same "group". The carry back of losses is not allowed.

BRANCH PROFITS TAX

A branch of an overseas company (the business of which is managed and controlled outside Malta) would be taxable in Malta only on income arising in Malta and on income arising outside Malta but received in Malta. The income of the branch would be taxed at the same rate as that of a Maltese company. Non-resident shareholders of overseas companies may qualify for refunds of tax, provided that the relevant conditions are satisfied. Malta does not impose branch remittance tax.

NEW NOTIONAL INTEREST DEDUCTION (NID) RULES

On 2 February 2018, the Notional Interest Deduction (NID) Rules, 2018 entered into force by virtue of Legal Notice 37 of 2018, replacing the Notional Interest Deduction Rules, 2017 which were originally published by means of Legal Notice 262 of 2017. With effect from year of assessment 2018, the NID rules are aimed towards achieving equal tax treatment in Malta between equity and debt financing by reducing tax disadvantages between the two. To this end, Malta companies and partnerships, as well as Malta permanent establishments of foreign companies or partnerships, are entitled to claim deductions of sums that are deemed to be payable by way of notional interest on "risk capital".

The entitlement to a deduction applies only in respect of profits which stand to be allocated to the company's Foreign Income Account or Maltese Taxed Account , or in the case of partnerships, sums that would have been allocated to the accounts had the undertaking been a company. The deduction is optional and may only be claimed subject to the approval of the shareholders or partners of the undertaking in respect of the particular year of assessment.

The interest on risk capital is calculated as follows: Y = A X B, where:

- "Y" represents the interest on risk capital that an undertaking is entitled to claim in the relevant year of assessment;
- "A" represents the reference rate, meaning the risk-free rate set by reference to the yield to maturity on Malta Government Stocks with a remaining term of approximately 20 years plus a premium of 5%;
- "B" represents the risk capital of the undertaking for the accounting period ending in the year preceding the year of assessment less any risk capital directly employed in the form of securities, interest in a partnership, contributions and any other loans or debts that do not bear interest that the undertaking holds in or provides to any person that is:
    - (i) not employed by the undertaking in producing any income in the year, which if produced could have been exempt from income tax; or
    - (ii) employed in producing income for the year which is exempt from income tax.

NID is capped at 90% of the undertaking's eligible profits for the year, meaning that where the interest on risk capital exceeds 90% of the undertaking's chargeable income, for any year period to taking into account such

deduction, the amount of such excess shall not be available for deduction against the profits for the said year, but may, at the discretion of the undertaking, be carried forward to be deducted against future taxable profits.

Where NID is claimed, the undertaking's shareholder or partner will be deemed to have received notional interest income in the same amount. Where the shareholder or partner of the undertaking is not a Malta resident, the deemed interest will be exempt from tax in Malta provided certain conditions are met. Dividend distributions made out of the profits relieved from tax pursuant to a NID claim will not be subject to further taxation in Malta at shareholder or partner level.

TAX ON TRANSFER OF IMMOVABLE PROPERTY

With effect from 1 January 2015, a taxpayer may no longer opt to be taxed at 35% on the capital gain. A final withholding tax of 8% (previously 12%) of the property's value will apply on all transfers of immovable property subject to two exceptions and a transitional measure as follows:

- A final withholding tax of 10% of the property's value will be applicable on transfers of property which was acquired prior to 1 January 2004;
- A final withholding tax of 5% of the property's value will be applicable on transfers of property which is transferred not later than five years from the date of acquisition where the transferor is an individual who does not habitually trade in property.

Some transactions are exempt from being subject to property transfer tax. These include donations made by a person to his relatives or to a philanthropic institution, transfers of property that had been owned and occupied by the transferor for a period of three consecutive years immediately preceding the year of transfer, assignment property between spouses consequent to a judicial or consensual separation, or a divorce among others.

Transfer of Inherited Property

As from 2017, there has been an evening out of measures whereby all properties acquired causa mortis before 25 November 1992, or where the acquisition causa mortis happened on or after 25 November 1992 and the property is transferred by court auction, will be taxed at a final rate of 7% on the transfer value.

TAX ON RENTAL INCOME

In 2015 the Government introduced the option to landlords to be taxed at the flat rate final withholding tax of 15% on the gross income from rented property rented out for both residential and commercial purposes without the possibility for any deductions. This is being introduced as an incentive to regularise the local rent market.

New and renewed rental agreements (if longer than 3 months) where the rental income is taxed at the above beneficial rate need to be registered with the Inland Revenue Department. The onus of registration lies with either the lessor or lessee. Otherwise, the lessor will be subject to penalties.

SUPPORT MEASURES – MICRO INVEST SCHEME

Investment aid primarily takes the form of tax credits. Eligible enterprises will benefit from tax credits calculated as a percentage of the value of the investment project and wages costs. A tax credit equivalent to 45% of the costs incurred may be approved for enterprises operating from Malta and a further 20% additional bonus is applicable to those operating from Gozo. Costs claimed must not be assisted (even partly) through other incentive measures.

Changes to the Micro Invest and the Business Start schemes were announced in the 2018 Budget. The Micro Invest scheme is being extended to undertakings which employ 50 full-time employees or less. Furthermore, the maximum eligible tax credit under the Micro Invest scheme has been increased from EUR 30,000 to EUR 50,000 for Malta-based industries, whilst for enterprises based in Gozo, the monetary assistance will increase to EUR 70,000 from the former EUR 50,000. In addition,for businesses having women holding the majority of the shares and in the case where a woman is selfemployed, the assistance has been increased from EUR 50,000 to EUR 70,000.

NEW SCHEMES TO ASSIST BUSINESSES AND STEER ECONOMIC ACTIVITY

The Government's economic development agency Malta Enterprise is continuously improving existing incentives and launching several new business oriented schemes to cater for both current and future business needs. Among these is a scheme offering financial assistance to disadvantaged individuals looking to set up sustainable businesses with the level of assistance capped at a maximum of EUR 25,000 per start-up. There

is also to be a scheme of fiscal credit on research projects, with assistance varying between 25% and 45% of the outlay.

Malta Enterprise has continued to work on new initiatives on innovative sectors, such as those of disruptive technology and data management, green projects, new industrial technologies research and the life sciences sector. The digital gaming industry has been one such sector which benefitted from these initiatives, where the development of digital games with a cultural theme is concerned, with assistance to be afforded in the form of fiscal credit up to a maximum of 30% of costs.

ENVIRONMENT FRIENDLY INCENTIVES

The Government is committed to continue encouraging investment in electric and hybrid (plug-in) cars by individuals, NGOs, Local Councils and commercial companies. Besides the issuing of grants to encouraging this type of technology, in the 2018 Budget, the Government announced that, for the first time, electric cars, hybrid cars and their derivatives with a battery of not less than 80km will be completely exempted from registration tax. In addition, as of 2018, such vehicles will also be exempted from the road license tax for a period of five years.

REFUND OF TAX ON DIVIDENDS

As of 2017, shareholders in receipt of dividends on profits made after 1 January 2017 by companies listed on the Malta Stock Exchange, will be given refunds on dividends declared in their income tax returns, according to the applicable tax. This measure applies to those owning less than 0.5% of the nominal share capital and dividend rights.

ADVANCE REVENUE RULINGS

Maltese tax law allows a taxpayer to apply for an advance revenue ruling. The ruling binds the tax position for five years and is renewable for a further five-year period unless there is a change in the law. If the law on the particular subject is changed during the operation of a ruling, that ruling remains binding either until the end of the relative five-year period or for two years following the amendment, whichever is the shorter.

The advance rulings are available in a number of situations including whether a transaction constitutes tax avoidance, whether a holding qualifies as a participating holding and determining the tax treatment of a transaction that constitutes international business. Revenue rulings on matters not specified in the law are not legally binding.

SPECIAL TYPES OF ENTITY

Maltese law provides for a favourable fiscal framework for the provision of financial services, and endeavours to establish Malta as an attractive, regulated international business centre.

(i) Collective Investment Schemes

A fundamental concept which was introduced under the Collective Investment Scheme rules is the classification between prescribed and non-prescribed funds. Such classification determines the tax treatment of the Collective Investment Scheme and its investors. A prescribed fund is a resident fund that has declared that the value of its assets situated in Malta at a particular date equals at least 85% of the value of its total assets.

Withholding tax on such funds varies between 10% and 15% depending on the type of income. Tax at 15% will be withheld on any capital gains realized by resident investors on disposal of nonprescribed funds (i.e. funds whose assets are non-Maltese). Dividends paid by a non-resident nonprescribed fund to a resident investor carry a final 15% withholding tax. Dividends paid to nonresident investors are exempt from withholding tax.

(ii) Funds and Fund Managers

Fund Managers are taxed at 35%, as are Investment Services companies, but are entitled to claim an exhaustive list of reliefs such as a double deduction of salaries paid to Maltese personnel in the first ten years of commencement. Fund Managers may opt to be regulated by the Highly Qualified Persons Rules (see H. Personal Taxes below for more details).

Funds themselves which, if set up as a separate vehicle, may also be set up as a SICAV or unit trust, are exempt from income tax in Malta but may not benefit under any of the tax treaties. It is proposed that the VAT exemption relating to fund management is extended to supplies of services consisting of the management of collective investment schemes licensed under the Investment Services Act.

(iii) Captive Insurance Companies

Captive insurance companies (also known as affiliated insurance companies under Maltese law) are taxed as a normal company. With effect from July 2004, it has also been possible to set up a protected cell company. Both captives and protected cell companies are taxed as ordinary companies in Malta and are, therefore, entitled to the refunds stipulated above. Insurance contracts entered into by licensed entities are not subject to VAT while insurance contracts covering risks that are located outside of Malta are not subject to Stamp Duty.

(iv) Trusts

A trust is an obligation which binds a person or persons (called the 'trustees') to deal with property over which they have control (called 'the trust property') for the benefit of persons (called the beneficiaries) or for a charitable purpose in accordance with the terms of the trust. The setting up of trusts in Malta is regulated by the Trusts and Trustees Act. In certain cases, trusts are considered to be transparent for tax purposes, in the sense that income attributable to a trust is not charged to tax in the hands of the trustee if it is distributed to a beneficiary. Also, when all the beneficiaries of a trust are not ordinary resident and domiciled in Malta and when all the income attributable to a trust does not arise in Malta, there is no tax impact under Maltese tax law. Beneficiaries are charged to tax on income distributed by the trustees. Income attributable to a trust that is not so distributed to beneficiaries is charged to tax in the hands of the trustee at the rate of 35%.

As the trust itself merely consists of property and/or other assets, there is no economic activity carried on and, therefore, it is outside the scope of VAT. Since the trustee's services essentially consist of management and administration of assets, it is considered that any sums that the trustee is entitled to appropriate from the trust assets by way of remuneration do not constitute a consideration for services rendered. Therefore, no economic activity is deemed to be carried out, where such remuneration is specified under the terms of the deed of the trust. However, if the trustee exploits the property of the trust for a consideration, this exploitation is considered as an economic activity and, if such activity is taxable under Maltese VAT legislation, the trustee has to register for VAT in Malta.

(v) Foundations

Under Maltese law foundations may be treated as companies for tax purposes and are subject to the normal corporate tax rate. Foundations may also opt to be taxed in the same manner as a trust. In such cases the relevant provisions governing taxation of trusts will apply.

(vi) Shipping Activities

Income derived by licensed shipping companies from shipping activities is exempt from income tax in Malta, provided that (i) all registration fees and tonnage taxes have been duly paid and (ii) separate accounts have been kept clearly distinguishing the payments and receipts related to shipping activities from payments and receipts in respect of any other business.

Any income derived by a ship manager from ship management activities is also exempt. Furthermore, any gains /income derived from the transfer of a tonnage ship, and/or shares in the said tonnage ship, which is owned, chartered, managed, administered or operated by the shipping organization, are also exempt from tax.

Non-resident officers and employees of the shipping organization are exempt from paying social security contributions in Malta. Furthermore, there is no duty chargeable in respect of instruments involving the registration or transfer of general matters concerning shipping organizations.

(vii) Aviation Companies

By virtue of Act LII of 2016, promulgated on 29 November 2016, the Aircraft Registration Act of 2010 was given a complete re-haul with the aim of providing better creditor protection and encouraging the aviation industry in Malta to continue to flourish. The main changes are summarized below:

- Revised definitions of airframes and aircraft engines in order to make the distinction between the two in specific contexts more clear;
- Updating of fees whereby an entire new fifth schedule was introduced detailing various fees formerly absent and certainly aimed at increasing the revenue generating potential of the growing industry and breathing new life into the industry in this sense. A certificate of registration is now issued at a fee depending on weight of the aircraft and a request for revised certificate of registration owing to for instance change in address now has a flat EUR 50 charge to it. Fees are also levied now for

the reservation of customized registration marks (EUR 250) for the registration of a mortgage (EUR 500) and amendment to registered mortgage (EUR 250);

- Allowing the registrar in Malta to cancel the registration of an aircraft, if the person who is registering same is no longer a qualified person or is no longer entitled to operate such aircraft under a temporary title, thus increasing the ambit within which the registrar can cancel registration of an aircraft, and the possibility to correct any accidental omissions or errors in the text of statutory mortgages which have been registered over the aircraft; Insolvency Issues.

New rules were introduced bettering the insolvency regime for 'aircraft companies'. Aircraft companies are defined as those companies whose center of main interest is in Malta and their sole asset is an aircraft or an aircraft engine over a mortgage or an international interest is registered. Such holders of mortgages or international interests will receive supportive treatment in that they can act without interference from the insolvency processes and officers until such time as enforcement is complete. This novel section provides better creditor protection.

Enforcement Issues

The new law also seeks to improve the position of the mortgagee by buttressing remedies available to the same, through the introduction of a number of rights which the mortgagee can exercise in the case of an enforcement of a mortgage. One such remedy is that the mortgagee has the right, should there be an event of default, to take possession of the aircraft and lease or sell the aircraft and any amounts received from such sale or lease will be used to pay any outstanding amounts owed to the mortgagee.

Highlights of the aviation tax package include:

- Any income which is derived from the ownership, leasing or operation of aircraft or aircraft engines which is used for or employed in the international transport of passengers or goods is exempt from tax in Malta, since such income is deemed to arise outside Malta for Maltese income tax purposes;
- Capital allowances of the aircraft and other related objects for wear and tear spans, for instance a minimum of 6 years for an aircraft airframe;
- No withholding taxes on lease and royalty payments made by Maltese lessees to non-residents in respect of aircraft operated in the international transport of passengers or goods;
- No withholding taxes on interest payments made by Maltese lessees to non-resident financial lessors;
- Fringe benefit exemption: fringe benefits arising from the private use of aircraft by non-residents individuals who are shareholders, employees or officers of companies involved in the international transport of goods or passengers are not taxable.

With effect from 21 March 2016, Malta has been included in the list of countries qualifying for the Cape Town Convention discount. This discount applies to aircraft finance transactions which are supported by export credit agencies (the "ECAs") and which also satisfy the following cumulative conditions:

1. The ECA-supported financing relates to an "aircraft object" within the meaning of the Cape Town Convention;
2. The operator of the aircraft is situated in a country that appears on the list of states maintained by the OECD Secretariat for Cape Town Discounts; and
3. Such financing relates to an aircraft object that has been registered on the International Registry established pursuant to the Cape Town Convention.

C. FOREIGN TAX RELIEF

Malta provides for four types of relief from international double taxation, namely:

- **Treaty relief**

  Treaty relief is available by way of credit for foreign tax paid on income from a territory with which Malta has concluded a double tax treaty. Treaty relief is generally provided in the form of an ordinary credit, limited to the amount agreed between Malta and the relevant foreign territory. The tax suffered in a relevant foreign territory applies on the basis of the ordinary credit method (based on a source-by-source and country-by-country basis). Malta has an extensive tax treaty network, with most treaties following the OECD Model.

- **Unilateral relief**

  Relief from double taxation is also possible on a unilateral basis where tax is suffered outside Malta

on income received from a country with which Malta has not concluded a treaty Any tax suffered outside Malta, would, limitedly to the Malta tax charge on the income, be allowed as a credit against tax chargeable in Malta.

- **Relief in respect of Commonwealth income tax**

  Commonwealth Tax Relief is available in respect of income tax or tax of a similar nature charged under any law in any country of the Commonwealth, if the law of such Commonwealth country has provided for relief in respect of tax charged on income both in that Country and in Malt.

- **Flat-rate foreign tax credit (FRFTC)**

  FRFTC takes the form of a notional tax credit of 25% for deemed foreign taxes incurred on qualifying income. This type of relief is only available to companies and on income allocated to the foreign income account and does not require evidence of the foreign tax actually paid.

D. CORPORATE GROUPS

Two companies resident in Malta neither of which is resident for tax purposes in any other country shall be deemed to be members of a group of companies if one is the 51% subsidiary of the other or both are 51% subsidiaries of a third company resident in Malta. For the purposes of the group relief provisions, a company shall be deemed to be a 51% subsidiary of another company if:

- More than 50% of its ordinary share capital and voting rights are owned directly or indirectly by the parent company; and,
- The parent company is beneficially entitled either directly or indirectly to more than 50% of any profits available for distribution to the ordinary shareholders of the subsidiary company; and,
- The parent company would be beneficially entitled either directly or indirectly to more than 50% of any assets of the subsidiary company available for distribution to its ordinary shareholders on a winding up.

Companies which are resident for tax purposes in Malta but also in another tax jurisdiction will not benefit from Group Relief Provisions.

E. RELATED PARTY TRANSACTIONS

There is no specific transfer pricing legislation. Malta has a general anti-avoidance provision which gives the Commissioner of Inland Revenue (CIR) the right to disregard any artificial or fictitious scheme that reduces the amount of tax payable by the taxpayer. Additionally, where the sole or main purpose of the taxpayer is to obtain any advantage which has the effect of avoiding, reducing or postponing liability to tax, the CIR may determine the liability to tax.

F. WITHHOLDING TAX

Malta does not impose withholding tax on dividends, interest and royalties except for a 15% withholding tax when untaxed profits are paid to a resident individual.

G. EXCHANGE CONTROL

Malta does not have any exchange controls.

H. PERSONAL TAX

Personal income tax is paid on all income tax accruing in or derived from Malta and on income accruing in or delivered from abroad by persons domiciled and ordinarily resident in Malta. Income arising outside Malta to a person who is not ordinarily resident in Malta or not domiciled in Malta will be taxed only if it is received in Malta. Expatriate employees are not considered to be ordinarily resident in Malta if they do not work or reside in Malta for more than 183 days in any one-year.

The term income involves gains and profits from any trade, business, profession or vocation; gains or profits from any employment or office; dividends and interest; pensions, annuities or other annual payments; and rents, royalties or other profits derived from ownership of property.

Personal Income Tax Rates for Basis Year 2018

The highest personal income tax rate of 35% applicable to individuals who earn up to EUR 60,000 is further reduced to 25% under the single, married and parent computations. Income over EUR 60,000 will remain taxable at 35% under all computations.

The tax free bracket has been kept at EUR 9,100 for single computation rates, EUR 12,700 for married

computation rates and EUR 10,500 for parent rates. However, persons earning only the minimum wage are not subject to tax on the whole amount (refer to table below). This also applies to pensioners whose pension does not exceed the minimum wage. The married rates of tax shall also be applicable to those persons joined under a civil union.

Rates	Single Computation	Married Computation	Parent Computation
	Tax Bands	Tax Bands	Tax Bands
0%	up to EUR 9,100	up to EUR 12,700	up to EUR 10,500
15%	EUR 9,101 – EUR 14,500	EUR 12,701- EUR 21,200	EUR 10,501 – EUR 15,800
25%	EUR 14,501- EUR 60,000	EUR 21,201- EUR 60,000	EUR 15,801- EUR 60,000
35%	Over EUR 60,001	Over EUR 60,001	Over EUR 60,001

1 Not applicable to dividend income which remains taxable at 35%.

Tax Rebates Pensioner Rules

Individuals who are in receipt of income from any pension chargeable to tax under article 4(1)(d) of the Income Tax Act and who were at least 61 years of age in the year when such pension was received are eligible to rebates of up to EUR 201 or EUR 150 or EUR 75, depending which provision of the legislation the pertaining pension is regulated under. Rebates are not refundable and may not be carried forward.

As from 1 January 2017, by virtue of LN 22 of 2018, the Government has amended LN 42 of 2017 which had originally introduced new tax rebates for pensioners in line with what was announced in the Budget Speech for 2017. This new measure will ensure that pensioners whose pension income exceeds the tax free bracket will have an increased amount of their pension income which will not be subject to income tax.

Pensioners that are over 61 years of age and who are in receipt of pension income will for the year 2018 be exempt from income tax on their pensions up to certain amounts, depending on the tax status of the individual. This applies to all types of pensions including social security pensions, treasury pensions as well as other local and foreign pensions.

Calendar year	Single	Parent	Married
2017	EUR 10,500	EUR 11,500	EUR 13,000 (+EUR 500 deduction against other income)
2018	EUR 13,200	EUR 13,200	EUR 13,200 (+EUR 1,000 deduction against other income)

Fringe Benefits

Certain benefits such as use of cars for private purposes, rent, school fees, free meals as well as share options are added to the salaries of employees and taxed accordingly. All cash allowances paid to employees with the exception of cash allowances paid in respect of the use of employee-owned cars for business purposes are equally fully taxable. Employees are responsible for the disclosure of fringe benefits provided by third parties over which the employer has no control.

Incentive for Investment Services Expatriates

Qualifying Expatriates who are employed in an Investment Services Company may opt for a 10-year exemption on certain fringe benefits, including accommodation expenses, use of a car, a subvention of EUR 600 a month and school fees for their children.

Highly Qualified Persons Rules

From 1 January 2010, subject to terms and conditions, an individual who is not an ordinary resident in Malta, and who derives income subject to tax in Malta, under a qualifying contract of employment, received in respect of work or duties carried out in Malta, may elect for this income to be charged at a flat rate of 15%. The minimum employment income for basis year 2018 must be EUR 84,016, while any employment income

over EUR 5,000,000 is not subject to tax. Eligible employment includes certain classes of employment with licensed companies under the terms of the Financial Institutions Act, licensed gaming companies as well as with aviation companies.

Legal Notice 225 of 2015 heralded a five year extension for beneficiaries bringing the maximum benefit to ten years of assessment under the beneficial 15% tax rate. A new provision called 'time limit of benefit' puts a ceiling on eligible applicants being qualified as beneficiaries up until 31 December 2020. Any benefit accrued after such date becomes necessarily limited to those instances whereby the employment in question starts by the 31 December 2021 and terminates by the 31 December 2025.

On 24 May 2016, Subsidiary Legislation 123.168 was promulgated focusing specifically on the aviation sector, entitled QUALIFYING EMPLOYMENT IN AVIATION (PERSONAL TAX) RULES. The rules apply to income which is brought to charge from year of assessment 2017 (basis year 2016) onwards. The rules apply to individuals not domiciled in Malta, and have greatly widened the ambit of eligible offices within the aviation sector.

Individual income from a qualifying contract of employment qualifies under these rules when it is received by a beneficiary in an eligible office. Such income is subject to tax at a flat rate of 15% provided that the income amounts to at least EUR 45,000 annually. The 15% tax rate applies for a consecutive period of five years for European Economic Area (that is, EU countries as well as Norway, Iceland and Liechtenstein) and Swiss nationals and for a consecutive period of four years for third country nationals. The four or five year period, as the case may be, commences from the year when the individual concerned first becomes taxable in Malta. In cases where the individual was taxable in Malta but not benefiting under this Scheme and subsequently becomes eligible under the Scheme, he/she can benefit only if the four or five year period has not elapsed; the benefit is then available for the years remaining from the date of eligibility under the Scheme until the said four or five year period from the date of first being subject to tax in Malta elapse.

An individual may benefit from the 15% tax rate if the person satisfies all of the relevant criteria. Income shall not be construed to be income from a qualifying contract of employment if it is paid by the employer who has received a benefit or benefits under business incentive laws or arrangement in terms of the business incentive laws or is paid by a person who is related to the employer who has received a benefit or benefits under any business incentive laws or arrangement in terms of business incentive laws.

The below list comprises all eligible offices in force under the aviation-specific regulations:

1. Chief Executive Officer;
2. Chief Operations Officer;
3. Chief Financial Officer;
4. Chief Risk Officer;
5. Chief Financial Officer;
6. Chief Technology Officer;
7. Chief Commercial Officer;
8. Chief Investment Officer;
9. Chief Insurance Officer;
10. Accountable Manager;
11. Deputy Accountable Manager;
12. General Manager;
13. Flight Operations Manager;
14. Nominated Person Flight Operations Training Manager;
15. Nominated Person Training;
16. Ground Operations;
17. Nominated Person Ground Operations;
18. Continuing Airworthiness Manager;
19. Nominated Person Continuing Airworthiness Compliance Manager;
20. Quality Systems Manager;

21. Safety Manager;
22. Flight Dispatch Manager;
23. Instructor Manager;
24. Head of Marketing;
25. Head of Public Relations;
26. Actuary;
27. Underwriting Manager;
28. Risk Management Officer;
29. Key account manager;
30. Product coordinator;
31. Material coordinator;
32. Engineering reporter;
33. Aeronautical engineer;
34. Head of Maintenance Operations;
35. Aviation Systems Developer;
36. Key Aviation Specialist.

The Global Residence Programme Rules (GRP)

These rules were introduced by L.N. 167 of 2013 and were revamped by L.N. 267 of 2014. Beneficiaries are those third-country nationals who have been granted special tax status in terms of these rules. Subject to satisfying the applicable rules in a continuous manner, the beneficiaries under this program benefits from a minimum amount of tax payable in respect of the income arising outside Malta of EUR 15,000 for any year of assessment. Such minimum amount is payable in full in both the year when the special tax status was granted and in the year when the individual ceases to possess the said special tax status.

The Residence Programme Rules (RPR)

These rules were introduced by L.N. 270 of 2014. Beneficiaries are those EU, EEA or Swiss nationals but who are not Maltese nationals and who have been granted special tax status in terms of these rules Subject to satisfying the applicable rules in a continuous manner, the beneficiaries under this program benefits from a minimum amount of tax payable in terms of these rules in respect of the income arising outside Malta of EUR 15,000 for any year of assessment. Such minimum amount is payable in full in both the year when the special tax status was granted and in the year when the individual ceases to possess the said special tax status.

Under both GRS and RPR:

- All income other than that qualifying for the 15% rate is taxed at the standard full rates;
- An applicant is required to hold qualifying immovable property in Malta or Gozo as per the stipulated requirements;
- A beneficiary must also declare on an annual basis that he has not spent more than 183 days in any one jurisdiction outside of Malta.

Tax Status

a) Flat rate of Malta income tax of 15% on income remitted to Malta (as opposed to progressive personal tax rates of up to 35%) of main applicant and certain dependents and can claim double taxation relief;

b) Minimum tax payment of EUR 15,000 per annum (no additional minimum tax payment in respect of dependents;

c) Any other realised income including realised capital gains arising in Malta on the transfer of a capital asset (other than immovable property situated in Malta) chargeable to Malta income tax at 35%.

As from 1 January 2015, the final tax on transfers of immovable property acquired after 1 January 2004 will be reduced from 12% to 8% of the transfer value while the rate in respect of transfers of immovable property acquired before 1 January 2004 will be of 10%. It will no longer be possible to opt out of the final tax system

and therefore to be taxed on the profit. Furthermore, no deduction of expenses will be allowed in arriving at the transfer value. The tax is payable on the date of the contract of sale.

Individuals who do not trade in immovable property and who transfer such property within 5 years from the date of acquisition will be taxed at 5% (instead of 8%) on the transfer value. Any realised capital gain arising outside of Malta falls outside the scope of Malta income tax in view of non-Malta domicile of individual and irrespective of whether remitted to Malta or not.

Malta Individual Investor Programme (MIIP)

This program, by virtue of which qualifying applicants become naturalized as Maltese citizens has successfully been running for the last four years. The MIIP operates on a citizenship by investment type model that combines a contribution to the Maltese Government in the amount of EUR 650,000 together with identified investment requirements made in qualifying immovable property in Malta that can be owned or leased and in Maltese government bonds, or in debt or equity securities or licensed collective investment schemes listed on the official list of the Malta Stock Exchange (in the amount of EUR 150,000), both which must be held for a minimum five year period. An applicant may also join a spouse and/or dependents into his application. While separate fees are due for every added member, the bulk contribution and investment requirements only need to be satisfied by the Main Applicant. The model case is a twelve month process during which the applicant must establish and sustain satisfactory links with the Republic of Malta in the eyes of the authorities. Since the Contribution is classified as such it carries no fiscal burden and is therefore non-taxable. Tax implications may arise given the Applicants choice of taking up residence in Malta during the application process, as well as after obtaining citizenship. The considerations here vary on a case by case basis and must accordingly be treated as such. PKF Malta is fully equipped with the necessary license, expertise, skill and resources to provide our clients with a tailored advice in this regard.

Malta Residence and Visa Program (MRVP)

The MRVP was launched in May 2015. This grants indefinite leave of stay & residence in Malta to the main applicant as well as his or her family under one application. The program is exclusively available to non-EU applicants, and grants the benefit that is a permission to reside in Malta lawfully, indefinitely, provided that all conditions remain satisfied over time. This program is against a one-time EUR 30,000 contribution to the Maltese Government, which becomes payable upon success. This contribution ispayable only once by the Main applicant, and there are no additional contributions for the rest of the family. As of 2017, parents of either Main Applicant or his/her spouse incur an additional EUR 5,000 contribution each in order to be included in the application. Success is also dependent upon the satisfaction of various requisites, among them the holding of an immovable property in Malta for a minimum of five years (leased for a minimum of EUR 10,000 p.a. or purchased for a minimum of EUR 270,000) and also holding an investment in Malta Government bonds of EUR 250,000 for a minimum of 5 years. This program also requires an applicant to maintain either EUR 500,000 in capital or an annual income of EUR 100,000.

Since the Contribution is classified as such it carries no fiscal burden and is therefore non-taxable. Tax implications may arise once the beneficiaries exercise their right of taking up residence in Malta. The considerations here vary on a case by case basis and must accordingly be treated as such. PKF Malta is fully equipped with the necessary license, expertise, skill and resources to provide our clients with a tailored advice in this regard.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

There is no withholding tax on dividends and on interest and royalties (if not effectively connected with a permanent establishment in Malta) paid to non-residents. Therefore, in most cases, the applicable withholding tax rate will actually be 0%. There is no withholding tax on dividends and on interest and royalties (if not effectively connected with a permanent establishment in Malta) paid to non-residents. Therefore, in most cases, the applicable withholding tax rate will actually be 0%.

Country	Dividends Minor Share-holding	Dividends Major Share-holding	% Share to Qualify	Interest	Royalties
Domestic rates					
Companies	0	0		0	0
Individuals	0	0		0	0

Treaty rates					
Albania	15	5	25	5	5
Andorra	0	0		0	0
Australia	15	15		15	[10]
Austria	15	15		5	0/10
Azerbaijan	8	8		0/8	8
Bahrain	0	0		0	0
Barbados	15	5	5	5	0/5
Belgium	15	15		0/10	0/10
Bulgaria	0	0		0	10
Canada	15	15		15	0/10
China	10	5	25	10	10
Croatia	5	5		0	0
Cyprus	15	15		10	10
Czech	5	5		0	5
Denmark	15	0	25	0	0
Egypt	10	10		10	12
Estonia	15	5	25	10	10
Finland	15	5	10	0	[0]
France	15	0	10	5	0/10
Georgia	0	0		0	0
Germany	15	5	10	0	0
Greece	10	5	25	8	8
Guernsey	0	0		0	0
Hong Kong	0	0		0	3
Hungary	15	5	25	10	10
Iceland	15	5	10	0	5
India	10	10		10	10
Ireland	15	5	10	0	5
Isle of	0	0		[0]	0
Israel	15	0	10	0/5	[0]
Italy	15	15		10	0/10
Jersey	0	0		0	0
Jordan	10	10		10	10
Korea	15	5	25	0/10	0
Kuwait	0	0		0	10
Latvia	10	5	25	10	10
Lebanon	5	5		0	5
Libya	15	5	10	5	5
Liechtenstein	0	0		0	0
Lithuania	15	5	25	10	10
Luxembourg	15	5	25	0	10
Malaysia	0	0		0/15	15
Mauritius	0	0		0	0
Mexico	0	0		0/5/10	10
Moldova	5	5		5	5
Montenegro	10	5	25	10	5/10
Morocco	10	6.5	25	10	10
Netherlands	15	5	[25]	10	0/10

Norway	15	0	10	0	0
Pakistan	-	15	20	10	0/10
Poland	10	0	10	5	5
Portugal	15	10	25	10	10
Qatar	0	0		0	5
Romania	5	5		5	5
Russia	10	5	25	5	5
San Marino	10	5	25	0	0
Saudi Arabia	5	5		0	5/7
Serbia	10	5	25	10	5/10
Singapore	-	-		7/10	10
Slovakia	5	5		0	5
Slovenia	15	5	25	[5]	5
South Africa	10	5	10	0/10	10
Spain	5	0	25	0	0
Sweden	15	0	10	0	0
Switzerland	15	0	10	0/10	0
Syria	-	-		10	18
Turkey	15	10	25	10	10
Tunisia	10	10		12	12
Ukraine	15	5	20	10	10
UAE	0	0		0	0
UK	-	-		10	10
Uruguay	15	5	25	10	5/10
USA	15	5	10	10/15	10
Vietnam	15	5	50	0/10	5/10/15

Malta is continually in the process of enhancing its double taxation network. The link below provides the latest signing and ratifications with contracting states as they occur and is continuously updated:

http://www.mfsa.com.mt/pages/viewcontent.aspx?id=196

MAURITIUS

MEMBER FIRM

City	Name	Contact Information
Port Louis	Michael Lo	+230 208 0878 mlo@pkfmauritius.com

BASIC FACTS

Full name:	Republic of Mauritius
Capital:	Port Louis
Main languages:	English, French, Mauritian Creole
Population:	1.27 million (2018 estimate)
Major religion:	Hinduism, Christianity
Monetary unit:	Mauritian Rupee (MUR)
Internet domain:	.mu
Int. dialling code:	+230

KEY TAX POINTS

- A corporation resident in Mauritius is subject to tax on its worldwide income. A non-resident corporation is liable to tax on any Mauritius source income, subject to any applicable tax treaty provisions. Corporations are liable to income tax on their net income, currently at a flat rate of 15%.
- Value-Added Tax (VAT) is charged by VAT registered entities at the standard rate of 15% on goods and services supplied by them in Mauritius. Certain supplies are exempted or zero-rated.
- Certain local taxes apply including excise duty, land and property taxes and customs duties.
- Personal income tax is chargeable at a flat rate of 15% for individuals resident in Mauritius.
- There is neither capital gains tax nor inheritance tax.

A. TAXES PAYABLE

FEDERAL TAXES AND LEVIES

The main income tax legislation in Mauritius is the Income Tax Act 1995 as amended by subsequent Finance Acts. Corporate and Personal Taxes are embodied under one heading of Income Tax and are payable by all resident companies and individuals on non-exempt income derived from Mauritius and from other sources.

The profits of all Resident 'Sociétés' (Partnerships) are taxable in the hands of the partners in proportion to their profit sharing ratio. A non-resident société is liable to income tax as if the société was a company. 'Resident', in relation to an income year, means:

- A company which is incorporated in Mauritius or has its Central Management and control in Mauritius;
- An individual who:
  - (a) Has his/her domicile in Mauritius unless his/her permanent place of abode is outside Mauritius;
  - (b) Has been present in Mauritius in that income tax year for a period of, or an aggregate period of, 183 days or more or has been present in Mauritius in that income year and the two preceding income years for an aggregate period of 270 days or more;
- A société which has its registered office address in Mauritius and includes a société which has at least one partner resident in Mauritius;
- Trust – where the trust is administered in Mauritius and a majority of the trustees are resident of Mauritius or where the settlor of the trust was resident in Mauritius at the time the instrument creating the trust was executed;
- Any other association – an association or body of persons which is managed or administered in Mauritius.

CORPORATE TAXATION

The rate of tax applicable for all companies is 15% on the companies' profit which consist of business/trading profits and passive income.

Global business companies

Corporations holding Category 1 Global Business Licence (GBC1) pay tax at a rate of 15%. Pursuant to the Income Tax (Foreign Tax Credit) Regulations 1996, a GBC1 which does not pay tax in a foreign jurisdiction on its foreign income earned outside Mauritius, is presumed to have paid tax elsewhere and can claim a tax credit of 80% of its income resulting in an effective tax rate of 3% only. Corporations holding Category 2 Global Business Licence (GBC2) are exempt from tax and are not tax residents for treaty purposes.

Due dates for payment of tax

Mandatory electronic filing of tax return by companies and payments of income tax online not later than six months from the end of the month in which the accounting period ends.

Advance Payment System (APS)

Companies, unit trust schemes, collective investment trusts, cells of a protected cell company, sociétés holding Category 1 Global Business Licence, must submit an APS Statement in respect of each of the three months period commencing the first day of the accounting year and pay any tax in accordance with the APS Statement within three months from the end of the quarter. Applicable to companies whose gross income for the preceding accounting year exceeded MUR 10 million and it had a chargeable income.

EXEMPTIONS FROM CORPORATE TAX

The following exemptions are effective as of 5 November 2016:

- Income derived by a company licensed under the Captive Insurance Act 2015 is exempt from corporate tax during a period not exceeding 10 years from the Act coming into operations.
- The income of a corporation issued with a Global Headquarters Administration License on or after 1 September 2016, granted by the Mauritius Financial Services Commission ('FSC') is exempt subject to certain requirements and conditions being met throughout the exemption period. The exemption shall be for a period of 8 income years as of the income year in which the corporation was granted its license.
- Similarly, the income of a corporation issued with the following licenses on or after 1 September 2016 by the Mauritius FSC is exempt for a period of 5 income years as of the income year in which the corporation was granted its license. This is also subject to certain substance requirements and conditions being met throughout the 5 year period.
  - a Global Treasury Activities License;
  - a Global Legal Advisory Services License;
  - an Investment Banking License;
  - an Overseas Family Office (single) License; or
  - an Overseas Family Office (multiple) License.

CAPITAL GAINS TAX

There is no Capital Gains Tax in Mauritius.

BRANCH PROFITS TAX

There is no Branch Profits Tax in Mauritius.

VALUE ADDED TAX (VAT)

VAT is charged on taxable supplies (both goods and services) made in Mauritius at a standard rate of 15%. Certain items such as basic foodstuffs and medical and educational services are exempted while exports are zero rated. The threshold for VAT registration is a turnover of taxable supplies exceeding MUR 6m per year. VAT Registration is compulsory irrespective of the annual turnover for persons engaged in certain business or profession.

FRINGE BENEFITS TAX

Employees receiving any advantage in money or money's worth are taxed thereon. However, a payment by an employer:

- to provide a pension or retiring allowance for the employee or his dependents;
- to a scheme duly approved by the tax authorities to provide against medical expenses for the employee or his dependents; does not constitute a taxable benefit.

LOCAL TAXES

All taxes are on a 'national' basis but municipal and district councils are empowered to levy property tax, entertainment tax and certain licences.

B. DETERMINATION OF TAXABLE INCOME

The taxable income is determined by ascertaining the assessable income and then deducting any expenditure or loss in the income year to the extent to which it is exclusively incurred in the production of gross income (other than 'emoluments'). For emoluments, the expenditure must be wholly, exclusively and necessarily incurred in performing the duties of an office or employment.

The unauthorised deductions are:

- Investment, expenditure or loss of a capital, private or domestic nature, fine;
- Expenditure or loss incurred in the production of exempt income or which is recoverable under a contract of insurance or indemnity;

- Income tax or foreign tax;
- Any expenditure incurred in providing business entertainment or gifts.

CAPITAL ALLOWANCES

Annual allowances are available on capital expenditure incurred exclusively in the production of gross income. The rate of annual allowance varies from 5% to 100% depending on the type of asset and is calculated on the base value or on cost.

DIVIDEND PAID BY RESIDENT COMPANIES

Dividends paid by resident companies are exempted.

ROYALTIES

Royalties paid to a non-resident are exempted from tax for the following companies/trusts:

(i) A company holding a GBC1 Licence out of its foreign source income;

(ii) A bank in so far as the royalty is paid out of gross income derived from its banking transactions with non-residents and corporation holding a GBC2 Licence.

INTEREST DEDUCTIONS

The following interests are exempt from tax. Interest payable on:

- A balance maintained in a bank by an individual who is not resident in Mauritius.
- Savings and fixed deposit account held by an individual, a société or a succession.
- Call and deposit amounts held with any bank in Mauritius by a GBC1.
- Interest paid to a non-resident not carrying on any business in Mauritius by:
  - (a) A GBC1 out of its foreign source income; or,
  - (b) By a bank in so far as the interest is paid out of gross income derived from its banking transactions with non-residents and corporation holding Global Business Licence.

LOSSES

Losses can be carried forward (but not backwards) for set off against income derived in the five succeeding income years provided that there is continuity, i.e. that 50% in nominal value of the allotted shares and not less than 50% of the paid up capital of the company was held by or on behalf of the same person.

If a company engaged in manufacturing activities is taken over by another company or two or more companies engaged in manufacturing activities merge into one company, any unrelieved loss of the acquiree may be transferred to the acquirer in the income year in which the takeover or merger takes place on such conditions relating to safeguard of employment of the companies. Losses arising from annual allowance on capital expenditure incurred on or after 1 July 2006 can be carried forward indefinitely.

FOREIGN SOURCE INCOME

Income derived from outside Mauritius by a resident is taxable in the normal manner subject to double taxation relief.

TAX INCENTIVES

Presently, most incentives have been removed. The exceptions are:

(a) Deduction of twice the emoluments paid to a disabled person;

(b) Transfer of loss of a manufacturing company to another company on takeover or merger;

(c) Additional investment allowance on capital incurred on the acquisition of state-of-art technological equipment by a manufacturing company;

(d) Tax relief on the interest paid by an individual on a housing loan, subject to conditions.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Every year, a company/resident société is required to spend 2% of its chargeable income of the preceding year to set up a CSR fund. The CSR fund shall be spent as follows:

- At least 50% of the CSR fund set up on or after 1 January 2017 up to 31 December 2017 should be remitted to the Mauritius Revenue Authority ('MRA');
- At least 75% of the CSR fund set up on or after 1 January 2018 should be remitted to the MRA.

In respect of the CSR fund set up before 1 January 2019, the remaining amount of the CSR fund shall be used to implement a CSR programme in accordance with the company's own CSR framework. For the CSR fund set up on or after 1 January 2019, the remaining amount shall be used to implement a CSR programme or finance a non-governmental organisation implementing a CSR programme in the priority areas of intervention as specified.

No CSR money shall be spent by a company on the following activities:

- Activities discriminating on the basis of race, place of origin, political opinion, colour or creed;
- Activities targeting shareholders, senior staff, or their family members;
- Activities that are against public safety and national interest;
- Religious, political, trade union, self-financing, staff welfare, and marketing activities.

Where a company is required to submit an Advance Payment System (APS) statement, it should remit 25% of the CSR amount to be remitted to the MRA together with the APS statements, and the final 25% is to be remitted on the submission of the final return.

For the purpose of CSR, a company does not include:

(a) A company holding a GBC1 Licence;

(b) A bank holding a banking licence under the Banking Act in respect of its income derived from its banking transactions with non-resident or corporation holding Global Business Licence;

(c) An Integrated Resort Scheme (IRS) Company;

(d) A non-resident société, a trust or a trustee of a unit trust scheme.

GLOBAL BUSINESS COMPANIES

Global business companies (companies, trusts, sociétés) have special fiscal regimes and incentives such as customs duty remission and concessionary income tax rates for expatriates. Generous tax credits are available to those companies.

OFFSHORE TRUSTS

Resident trusts are taxed at 15%. Deemed tax credit of 80% is available to the trusts. Non-resident trusts and their non-resident beneficiaries are exempt from taxes.

SOCIETE (PARTNERSHIP)

Every partner of a société holding a GBC1 Licence is liable to income tax in respect of its share at the rate of 15%.

C. FOREIGN TAX RELIEF

Unilateral relief is provided for in the Income Tax Act. In the event of double taxation, relief is by way of an ordinary credit. The taxpayer may elect to claim the credit on aggregate foreign-source income or on a source-by-source basis.

D. CORPORATE GROUPS

The general rule is that no group relief is allowed except in a few special cases.

E. RELATED PARTY TRANSACTIONS

The tax authorities may adjust the liability of a taxpayer where it considers that a transaction has not been entered into or carried out by persons dealing at arm's length. It must be of the opinion that avoidance or reduction of liability of tax was the main purpose of such a transaction.

F. WITHHOLDING TAX

Mauritius does not levy withholding tax on dividends paid by resident companies. No withholding tax on interest paid to non-resident companies.

The rates for withholding taxes are as follows:

Description	Residents		Non-residents	
	Companies	Individuals	Companies	Individuals
Interest	0%	0%	15%	15%
Royalties	10%	10%	15%	15%
Rent	5%	5%	5%	5%
Contract	0.75%	0.75%	0.75%	0.75%
Services	3%	3%	10%	10%
Payments made by central government or local authority for procurement of goods/services	1 - 3%	1 - 3%	10%	10%

G. PERSONAL TAX

Income tax is payable by residents on non-exempt income derived from Mauritius less allowable deductions including interest on housing loan, subject to conditions. Employers deduct income tax from each salary payments of all individual taxpayers. The personal income tax rate is 15%.

H. TREATY AND NON-TREATY WITHHOLDING TAX RATES

The rates for treaty countries are as follows.

Treaty countries	*Dividends (%)*	*Interest (%)*	*Royalties (%)*
Barbados	5	5	5
Bangladesh	10	–[1]	–[1]
Belgium	5/10	10	0
Botswana	5/10	12	12.5
China	5	10	10
Republic of Congo	5	5	0
Croatia	0	0	0
Cyprus	0	0	0
Egypt	5/10	10	12
France	5/15	–[1]	15
Germany	5/15	0	10
Guernsey	0	0	0
India	5/15	–[1]	15
Italy	5/15	–[1]	15
Kuwait	0	0	10
Lesotho	10	10	10
Luxembourg	5/10	0	0
Madagascar	5/10	10	5
Malaysia	5/15	15	15
Monaco	0	0	0

Mozambique	8/10/15	8	5
Namibia	5/10	10	5
Nepal	5/10/15	10/15	15
Oman	0	0	0
Pakistan	10	10	12.5
Rwanda	0	0	0
Senegal	0	0	0
Seychelles	0	0	0
Singapore	0	0	0
South Africa	5/15	0	0
Sri Lanka	10/15	10	10
State of Qatar	0	0	5
Swaziland	7.5	5	7.5
Sweden	0/15	0	0
Thailand	10	10/15	5/15
Tunisia	0	2.5	2.5
Uganda	10	10	10
United Arab Emirates	0	0	0
United Kingdom	10/15	–[1]	15
Zimbabwe	10/20	10	15
Zambia	5/15	10	5

Notes:

1. Same rate as under domestic law.

MEXICO

MEMBER FIRM

City	Name	Contact Information
Guadalajara	Mario Camposllera	+52 33 3634 7159 mcamposllera@pkfmexico.com
Ciudad de México	Luis Eduardo Robles	+52 55 5212 0145 lrobles@pkfmexico.com
Ciudad de México	Ricardo Martínez	+52 55 5097 3234

BASIC FACTS

Full name:	United States of Mexico
Capital:	Mexico City
Main languages:	Spanish
Population:	130.47 million (2018 estimate)
Monetary unit:	Mexican Peso (MXN)
Internet domain:	.mx
Int. dialling code:	+52

KEY TAX POINTS

- All income obtained by companies resident in Mexico is taxed, regardless of the source.
- Every state in Mexico requires specific contributions from its inhabitants, the largest being income tax. In some states employers are charged tax on wages paid to employees.
- The Tax Authority may alter the tax loss or profit where transactions between related parties are not made at market prices. Taxpayers are obliged to carry out an annual transfer pricing study.
- A Controlled Foreign Companies' regime (CFC) applies to transactions realised in specific countries or regions.
- Individuals will be subject to an additional tax of 10% on dividends or profits distributed by corporations resident in Mexico. Additionally, individuals who receive dividends from foreign companies shall be required to make payment of an additional 10% tax.
- Resident individuals are taxed on their worldwide income. In the case of foreign income, taxes paid abroad are generally credited against taxes to be paid in Mexico.
- The Value Added Tax (VAT) rate is 16%, which is levied on purchases of goods and services received and can be offset against VAT collected and payable (output VAT).

A. TAXES PAYABLE

INCOME TAX

Tax is calculated for each fiscal year which in Mexico starts on 1 January and ends on 31 December, except when companies are created at any time during the calendar year. In this case, Mexican law stipulates that the fiscal year for that company starts in the month of incorporation. The yearly applicable income tax is calculated through a simple operation of adding all sources of income and deducting all allowable deductions. Currently, the corporate tax is 30% of all taxable profits. The result can be further reduced by deduction of certain items laid down in Mexican tax law.

Mexican and foreign companies are subject to income tax in Mexico on income that originates within the country, but the way that they should pay their applicable taxes depends on certain factors: if they are residents or non- residents and the specific source from which the income originates, as follows:

- Mexican residents and foreign companies with a permanent establishment in Mexico can offset the income tax paid abroad against the Mexican income tax up to the total local tax applicable in each case.
- Dividends distributed by foreign companies to Mexican residents may be offset against local tax due by the Mexican resident to the extent of income tax paid abroad that corresponds to the dividend or utility received by the resident in Mexico.
- Branches are taxed based on the income generated by them.
- Interest that is generated from operations between Mexican residents and foreigners that are considered to be related parties are treated as dividends.
- Equity share sales are subject to tax as per specific regulations depending on the source and type of income and the income is considered to be Mexican-sourced when the corporation that issued the shares is a Mexican resident or when the book value of said shares or securities accounts directly or indirectly for more than 50% of real estate located in the country, in which case the general applicable tax rate is 25%.

Failure to comply with the above requirements means that a tax credit will not be available. In the case of a Permanent Establishment (PE) in Mexico, a credit will only be available for those revenues attributable to the PE which may have been subject to withholding tax. New provisions provide that a foreign tax paid abroad

is considered an income tax when complying with Mexican tax authority (SAT) rules and when covered by a double tax treaty that Mexico has entered into.

CAPITAL GAINS TAX

Taxable profits on the sale of land, securities and other assets are calculated by deducting the original investment cost (MOI) from the selling price. The MOI can be adjusted to its current value for inflation from the period in which the asset was acquired to the month before the sales operation took place.

The procedure for determining the gain on a disposal of shares is calculated by deducting from the income obtained for the sale of the said shares, the average share cost which is determined by the rules laid down in Mexican Income Tax law. When the shareholder only retains shares for a period of up to maximum 12 months, the taxpayer has the option to calculate the capital gains tax by considering the original adjusted cost as the proven acquisition cost and this can be deducted from paid reimbursements and dividends. A loss from the sale of shares and other securities is deductible only if certain requirements are met and may be offset against profits obtained in the same year or in the following five years.

BRANCH PROFITS TAX

Branches compute income tax in the same manner as companies established in Mexico and apply the 30% corporate tax rate on taxable income. Branches are entitled to deduct expenses incurred both abroad and in Mexico provided that certain conditions are met. In respect of the prorate expenditures, payments made by taxpayers will not be deductible when such payments are also deductible for a related party resident in Mexico or abroad, except if the related party accumulates earned income in the same fiscal year or the subsequent one.

Remittances sent abroad in the form of payments of invoices, interests, royalties, reimbursement of expenses or for any other reason are subject to withholding tax of between 25% and 35% and are deductible for income tax purposes if adequately supported.

VALUE ADDED TAX (VAT)

Companies and persons who engage in the business of selling, rendering services, leasing, importing or exporting of goods are subject to VAT.

The VAT paid on purchases of goods and services received can be offset against the VAT collected and payable. In case the VAT paid exceeds the VAT collected in a given period, companies and persons are entitled to be refunded for the difference by the tax authorities or, subject to certain conditions, to offset the VAT receivable against other taxes payable.

The following tax rates apply in general, depending on the type of activity:

- 0% in the case of priority activities such as basic foods, medicines, agricultural, exports, etc.;
- 16% for all other activities.

The law provides for specific exemptions on certain other activities. From 1 July 2006, tourists are reimbursed for VAT charged upon the sale of Mexican merchandise when departing for their home country by air or sea.

FRINGE BENEFITS TAX (FBT)

Specified employee benefits provided to employees over and above those required by law are exempt from income tax up to certain limits and are deductible for companies insofar as they are granted to all employees.

LOCAL TAXES

Every Mexican state requires specific contributions from its inhabitants, the largest one being property tax. Some states tax wages paid to employees at an average rate of 2%. In Mexico City, employers (physical persons and companies) must pay 3% on wages paid to their employees every month. Real estate is subject to a bi-monthly payment (called predial), calculated by applying the rates established in article 130 of the Federal District Fiscal Code to the official assessed value of the property.

OTHER TAXES:

SOCIAL SECURITY PAYMENTS

All employers must register their employees with the Mexican Institute of Social Security which provides them benefits for job-related and other disabilities, as well as pensions and death benefits. Amounts paid for each employee to the Institute are computed on the basis of all payments made to the employee for wages

and benefits, with a few exceptions that meet certain requirements. These include savings, food, prizes for attendance and punctuality, as well as a portion of overtime and profit-sharing.

Approximately one third of the payments are withheld by the employer from the employees' wages and the other two thirds are paid by the employer. Both employee and employer contributions should be made by the employer on a monthly basis. Beginning from financial year 2014, it is required to issue digital tax receipts for wages paid by employers to each employee.

NATIONAL HOUSING FUND FOR WORKERS (INFONAVIT)

The objective of this Fund is to provide housing for all workers, usually favouring workers in low-income brackets. The employer, on behalf of the employees, must make bi-monthly contributions to the Fund amounting to 5% of wages and benefits paid with a limit of 25 “Upgrade Unit Measures” (UMA/Unidad de Medida y actualización, i.e. minimum monthly wage). As in the case of social security, contributions and benefits received by employees from the Fund are tax-exempt. With this payment, the employers comply with their constitutional obligations to provide housing for employees.

FOREIGN TRADE TAXES

Customs duties are maintained both for import as well as for export. Duties on export are minimal to none and import duties average 20%, depending on each specific item. In accordance with the North American Free Trade Agreement (NAFTA), duties on imports from the United States and Canada will be gradually eliminated over a 15 year period and will disappear completely at the end of that time period. Beginning in 1994, Mexico eliminated taxes on the importation of specific products from the United States and Canada.

SPECIAL TAXES

Taxes on production and services are levied on relatively few items such as the importation and sales of cigars, alcoholic beverages and supplying agency services for brokerage, distribution, flavoured drinks, etc of said goods. There is also a special tax on telephone services. A tax on new automobiles and vehicle ownership is applied directly to purchasers and owners of automobiles.

TAX ON PURCHASE OF REAL PROPERTY

A tax of 1% to 5% of the assessed value of the property is paid by the buyer on all purchases of property. The federal government works with the states so that in co-operating states only the local tax applies without levying federal tax.

B. DETERMINATION OF TAXABLE INCOME

Taxable income of companies is computed taking into account all income received less deductions allowed by law. The law mentions certain specific items which are not considered as income. These include: capital increases, recognition of the equity method of accounting, revaluation of assets and capital.

ALLOWABLE DEDUCTIONS

In general terms, all expenses needed to generate income may be deducted, except in specific cases where there are certain limits and special rules for deduction. Allowable deductions include sales discounts, bad debts, interest paid and losses due to exchange and inflation. Non-deductible expenses include taxes, costs of representation, commercial credits, provisions to estimated reserves, etc. Investments in certain assets can be deducted in the tax year at a discount.

The Income Tax Law provides that payments for interest, royalties or technical assistance to a foreign entity that controls or is controlled by the taxpayer will not be deductible when:

(a) The entity receiving the payment is considered to be transparent except where the transaction is carried out at market value and its shareholders or partners are then subject to income tax on income through the foreign company;

(b) Payment is considered non-existent for tax purposes in the country where the alien is located;

(c) The foreign entity receiving the payment does not consider it as taxable income.

Payments that are also deductible for a related party resident in Mexico or abroad are not deductible, unless the related party accumulates income generated by the taxpayer, either in the fiscal year or the following.

DEPRECIATION AND AMORTIZATION

Deduction for investment in tangible or intangible assets is allowed by law through the depreciation or amortization of such assets. Freight and handling, insurance, commissions and fees are allowed in addition to the purchase value of the asset. Depreciation and amortization are calculated for full months starting with the month when the asset was purchased and using the straight-line method with no allowance for estimated disposal values. As a general rule, all types of assets - except for land - may be depreciated or amortised for tax purposes. The basic depreciation and amortization tax rates allowed are as follows:

Outlays made prior to commencing operations	10%
Industrial buildings and warehouses	5%
Machinery and equipment	10% except on assets used for specific activities
Furniture and fixtures	10%
Cars, vans and trucks	25%
Leasehold improvements	Lease terms
Environmentally-friendly machinery and equipment	100%

STOCK / INVENTORY

Purchases of raw materials, goods in process or finished goods intended for sale are deductible under the cost of sales system when sold by the company. Taxpayers may choose either method of inventory valuation indicated below:

(i) First in - First Out (FIFO);

(ii) Identified Cost;

(iii) Average Cost;

(iv) Retailer.

INFLATION

The law recognises the effects of inflation on a taxpayer's debts and financial assets so that, in the case of assets, the view is taken that there is a loss of purchasing power of said assets with the passing of time and, in the case of liabilities, a gain is recognised. For such purpose, an annual average of financial assets and debts is determined. The inflation factor is applied to the difference obtained comparing the assets and debts: when the debts are higher there will be a taxable income and when the assets' amount is higher there will be a deduction.

INTEREST DEDUCTIONS

A thin capitalization regime was incorporated into tax law in 2005 in relation to loan finance obtained by Mexican-resident companies from overseas. Taking both related party and non-related party debt into account, interest payments are not deductible where the debt/equity ratio exceeds 3:1. Companies that do not meet this ratio will have a term of five years to reduce it in equal proportions per year. These rules do not apply to financial institutions. The interest paid that exceeds this ratio will be non-deductible. From 1 January 2007 onwards, only loans with foreign parties on which the company is required to pay interest are taken into account in determining the debt/equity ratio.

LOSSES

Tax losses may be used to offset taxable income obtained during the following ten years. The amount of tax losses is uplifted for inflation for the period from July of the year when they occur to June of the year when they are offset.

EMPLOYEE PROFIT SHARING

All employees of a company are entitled to a share of its profits. The profit sharing is computed each year at the rate of 10% of taxable income, if any. There are certain specific items described in the law which have to be added or deducted from the taxable income for profit sharing computation purposes. Most of these relate to differences in the treatment of inflation accounting. From 1 January 2005, profit sharing paid in one year is deductible from the after-tax profit or loss of the following year.

INCENTIVES

The Federal Revenue Law establishes the following incentives for the financial year 2018:

- Authorization to subtract IEPS (i.e., Special Tax on Production and Services) paid for Diesel, Bio diesel and its mixtures from the applicable income tax.
- Tax credit against Income Tax for consumption of diesel in business or transportation activities.
- Credit of IEPS against the income tax due by the taxpayer in the Exercise or in provisional payments for utilizing fossil fuels in their production processes for the elaboration of their products if they do not use it in combustion engine propel machines.
- Allow the credit of expenses incurred in the payment of services for the use of highway infrastructure of quota up to 50% of the total expenditure incurred against the ISR at its expense for the same year, including in provisional payments of the fiscal year in which expenses are incurred.
- Additional deduction of 5% of the cost of what would have been sold from food banks and medicine, which are effectively donated and can be used for human consumption.
- Deduct from the taxpayer's cumulative income an additional amount of up to 25% of the salary paid to people with disabilities.

C. FOREIGN TAX RELIEF

CONTROLLED FOREIGN CORPORATIONS / TAX HAVENS

When enacted, the CFC regime was based on a geographical concept such that it only applied to transactions realised in specific countries or regions (Black List). Currently, this regime applies to income wherever derived where the tax charged was less than 75% of the tax that would have been paid in Mexico. Income is not subject to the CFC regime when the Mexican company does not control the overseas company or less than 20% of its annual income is passive income. For this purpose, control is that which allows the parent to decide the timing of distributions of dividends or profits.

D. CORPORATE GROUPS

- The new Income Tax Law provides the elimination of the Tax Consolidation regime. However, it grants the possibility to benefit from the following schemes:
- Continue to be taxed under the consolidation regime until financial year 2017, for which determination of tax must continue to be calculated in the same way as in the prior legislation. Once the aforementioned period has passed, the taxpayer must choose one of the two taxation schemes indicated below.
- Avail to new rules for determining the tax under the scheme of "deconsolidation" under which tax must be calculated and reported within the time specified by the new Income Tax Law. The tax charge resulting from the deconsolidation will have to be paid to the tax authorities as follows:
    - 25% by the last day of May 2014.
    - 25% by the last day of April 2015.
    - 20% by the last day of April 2016.
    - 15% by the last day of April 2017.
    - 15% by the last day of April 2018

E. RELATED PARTY TRANSACTIONS

The Secretary of the Treasury is empowered to alter the tax loss or profit in the case of transactions between related parties made at prices other than market prices, including sales or purchases, loans, rendering of services, lease or sale of real property, as well as use or transfer of intangible assets, when they are not realised at a fair market value. Taxpayers are obliged to carry out an annual transfer pricing study. Taxpayers must apply the best method rule. By default this is to be the Comparable Uncontrolled Price Method (CUP), unless the taxpayer can prove that such method is not applicable.

Since 2014, the maquiladoras (Related Parties) are required to perform the calculation of safe harbour or submit an advance transfer pricing agreement (APA). For the application of the benefits contained in tax treaties and in the case of transactions between related parties, the tax authorities may request the non-resident to demonstrate the double juridical taxation through a statement under oath.

F. WITHHOLDING TAXES

DIVIDENDS

Since 2014 partners in corporations are subject to an additional fee of 10% on the dividends they receive from their corporations resident in Mexico. Entities distributing dividends are required to withhold tax and will pay it together with the interim payment of the corresponding period. Additionally, individuals who receive dividends from foreign companies shall be required to make payment of an additional 10% tax by the 17th of the following month in which the income is received.

INTEREST

The withholding tax payable on interest to non-residents depends on the type of interest in a range from 4.9% to 21% for payments to banks and other financial institutions and 35% in other cases.

ROYALTIES

Royalties payable to non-residents are taxed at the following rates:

- For the right to use railroad wagons: 5%
- Other categories of royalties: 25%
- Royalties paid to residents of countries with a preferential tax regime: 40%

G. EXCHANGE CONTROL

There are no exchange restrictions in Mexico. Foreign currencies can be freely bought, sold and sent or transferred abroad. However, since 2010 there are limitations to USD cash transactions.

H. ELECTRONIC ACCOUNTING

Taxpayers are required to have their accounting transactions in an electronic fashion based on account catalogues and codes issued by the tax authorities. They also have to send part of their accounting information.

All Individuals and Corporations inscribed in the Federal Registration of Taxpayers (RFC) have been assigned a “taxpayer email”, which serves as a communication tool between the tax collecting authority and them. In this taxpayer email, the authority will notify all determinations. Among other information taxpayers will send their accounting through this channel. The tax authorities may perform electronic reviews of the accounting information sent by taxpayers.

I. PERSONAL TAXES

Persons residing in Mexico calculate their annual tax on their total income generated both in Mexico and abroad. In the case of foreign income, taxes paid abroad are generally credited against taxes payable in Mexico. There are specific rules for each type of personal income such as: wages, fees, capital gains, dividends, etc. In the case of wages, the taxes are withheld by the employer.

In the case of salaries paid by a foreign company to a foreigner working in Mexico, personal taxes have to be computed and paid, except when the foreign company does not have a branch or fixed base in the country and the person spends less than 183 days in the country during the year. There are only a few personal expenses that taxpayers can deduct from their income which are as follows:

a) School transportation for his children (only in certain cases);

b) Medical and dental fees, including hospital expenses for the taxpayer, spouse, direct-line ascendants or descendants;

c) Funeral expenses for the persons mentioned under (b) above;

d) Donations to authorized entities;

e) Contributions for employee retirement;

f) Medical insurance payments;

g) Interest paid related to mortgage loans for the purchase of family home;

h) Payments for professional services in psychology and nutrition.

From 2011, a decree has entered into force that allows the deduction of school tuition payments from primary up to High School level. Specific amounts and rules apply.

Provisional payments must be made monthly by the employer and the annual taxes must be calculated at the end of each year. These payments are calculated by the employer according to the following table:

Monthly Taxable Income (MXN)	Tax due on lower limit (MXN)	Marginal rate on excess (%)
Up to 578.52	0	1.92
578.53 - 4,910.18	11.11	6.40
4,910.19 - 8,629.20	288.33	10.88
8,629.21 - 10,031.07	692.96	16.00
10,031.08 - 12,009.94	917.26	17.92
12,009.95 - 24,222.31	1,271.87	21.36
24,222.32 - 38,177.69	3,880.44	23.52
38,177.70 - 72,887.50	7,162.74	30.00
72,887.51 - 97,183.33	17,575.69	32.00
97,183.34 - 291,550.00	25,350.35	34.00
291,550.01 and above	91,435.02	35.00

Personal tax rates apply up to a maximum of 35% in case of foreign residents.

J. TREATY WITHHOLDING TAX RATES

Mexico is negotiating double tax treaties with Saudi Arabia, Slovenia, Marshall Islands, Jamaica, Lebanon, Malaysia, Morocco, Monaco, Nicaragua, Oman, Pakistan, Thailand, Turks and Caicos.

	Dividends[1] (%)	Interest (%)	Royalties (%)
Treaty countries:			
Australia	0/15	10/15	10
Austria	5/10	10	10
Bahrain	0	4.9/10	10
Barbados	5/10	10	10
Belgium	5/15	10/15	10
Brazil	10/15	15	15
Canada	5/15	10	10
Chile	5/10	15	15
China	5	10	10
Colombia	0	5/10	10
Czech Republic	10	10	10
Denmark	0/15	5/15	10
Ecuador	5	10/15	10
Estonia	0	4.9/10	10
Finland	0	10	10-15/10
France	5-15/0	15/15	5-10/15/10

Germany	5/15	5/10	10
Greece	10	10	10
Hong Kong	0	4.9/10	10
Hungary	5/10	10	10
India	10	10	10
Indonesia	10	10	10
Iceland	5/15	10	10
Ireland	10/5	5/10	10
Israel	5-10/10	10	10
Italy	15	15	15/0
Japan	0-5/15	10/15	10
Korea	0/15	5/15	10
Kuwait	0	4.9/10	10
Luxembourg	8/15	10	10
Latvia	5/10	5/10	10
Lithuania	0/15	10	10
Malt	0	5/10	10
Netherlands	5/15	5/10	10
New Zealand	15	10	10
Norway	0/15	10/15	10
Panama	5/7.5	5/10	10
Peru	10/15	15	15
Poland	5/15	10/15	10
Portugal	10	10	10
Qatar	0	5/10	10
Romania	10	15	15
Russia	10	10	10
Singapore	0	5/15	10
Slovak Republic	0	10	10
Spain	5/15	5/15	10/0
South Africa	5/10	10	10

Sweden	0-5/15	10/15	10
Switzerland	15/0	10/15	10
United Kingdom	0/15	5/10	10
Turkey	5/15	10/15	10
United Arab Emirates	0	4.9/10	10
United States	0-5/10	4.9-10/10	4.9-15/10
Uruguay	5	10	10
Ukraine	5/15	10	10

Notes:

1. The lower rate applies provided the corporate shareholder holds a minimum percentage of share capital or voting power in the payer which varies depending on the country concerned. Individual tax treaties should be consulted to determine the applicable rate circumstances.

MONGOLIA

MEMBER FIRM

City	Name	Contact Information
Ulaanbaatar	Bayarmaa Perenleijamts	+976 99 19 3732 bayarmaa@coordinate-audit.mn

BASIC FACTS

Full name:	Mongolia
Capital:	Ulaanbaatar
Main languages:	Mongolian
Population:	3.12 million (2018 estimate)
Major religion:	Mongolian Tugrik (MNT)
Monetary unit:	.mn
Internet domain:	+976
Int. dialling code:	+212

KEY TAX POINTS

- The corporate income tax rate is 10% for income up to MNT 3 billion and 25% for the excess while certain types of income are taxed at specific rates.
- Dividends, interest, royalties and technical service fees paid to a non-resident are subject to 20% withholding tax. A 20% branch remittance tax also applies.
- Loss-carry forward for 4 to 8 years for infrastructure and mining sectors, 2 years for other sectors.
- The standard VAT rate is 10%.

A. TAXES PAYABLE

COMPANY TAX

A corporate entity is a taxpayer provided it produces revenue subject to tax at the end of each accounting year or is bound to pay tax under Corporate Income tax law of Mongolia, notwithstanding the absence of taxable profits.

A taxpayer is either a permanent resident or non-resident taxpayer of Mongolia. A permanent resident taxpayer in Mongolia is a corporate entity incorporated under the laws of Mongolia. A non-resident taxpayer in Mongolia includes a foreign corporate entity that conducts its business in Mongolia within the framework of its representative office which earns income in Mongolia.

Permanent resident and non- resident companies are both required to pay tax on their revenues including income from activities, property income and income from the sale of property.

Rates

Taxable income up to MNT 3 billion is taxed at 10% while the excess is taxed at 25%.

Certain types of income are taxed at the following rates:

Income	Rate(%)
Dividends	10
Royalties	10
Interest	10
Sales of rights	30
Sale of immovable property	2
Quizzes, gambling and lotteries	40
Sale or rental of erotic materials and erotic performances	40

CAPITAL GAINS TAX

There is no separate tax on capital gains, which are included in ordinary taxable income and subject to corporate income tax.

BRANCH PROFITS TAX

There is no separate branch profits tax in Mongolia. Branches and permanent establishments of foreign entities are subject to the same rates as resident entities. Non-resident entities are subject to a 20% branch remittance/repatriation tax, subject to the application of a tax treaty.

SALES TAX / VALUE ADDED TAX (VAT)

Since 2016 Value Added Tax (VAT) is levied on imported and exported goods as well as on goods produced and sold, work performed, or services provided by a person or legal entity on the territory of Mongolia.

The VAT rate is 10% of the taxable amount of goods imported, produced or sold, work performed, or services provided. VAT is levied on goods, work, or services exported outside the territory of Mongolia at a 0% rate.

The registration threshold is an annual taxable turnover of MNT 50 million. Generally, the registration requirements for non-residents are the same as for residents.

Services provided by non-residents are subject to reverse charge VAT. There is no refund scheme for non-residents.

FRINGE BENEFITS TAX

Fringe benefits provided by an employer in addition to salaries, wages, bonuses, and incentives are considered an indirect income according to the Law on Personal Income Tax of Mongolia and includes income from the following goods and services, not directly related to the performance of an employee's duties:

a) Provision of free or discounted transportation or provision of cash for transportation;

b) Provision of payment for utilities expenses and cash for housing and fuel;

c) Provision of cash for meals and entertainment;

d) Provision of a housekeeper, chauffeur, gardener, or other services;

e) Waiver of an obligation to pay an amount owed to the employer or to any other person;

f) Interest discount on a loan if the rate of interest is lower than the market rate for a loan.

The following fringe benefits provided by an employer to an employee to improve the employee's working conditions shall not be subject to gross taxable income:

a) Provision of meals for all employees on equal terms in a canteen, cafeteria, or dining room operated by the employer at the workplace during working hours;

b) Provision of a lounge or other services for employees who work at a remote workplace and provision of scheduled transportation for going to and returning from the workplace;

c) Interest discount on a loan provided for purchase and construction of an apartment for an employee if the interest rate is lower than that of a commercial loan;

d) Medical expenses.

OTHER TAXES

- There is no net worth tax in Mongolia;
- An immovable property tax is levied at 0.6% to 1% of the value of the immovable property;
- Other taxes include real estate transfer tax (RETT) at a rate of 2% and social and health insurance tax (excluding life insurance and private medical insurance) at 11%.

B. DETERMINATION OF TAXABLE INCOME

Resident companies are subject to tax on their worldwide income. Corporate income tax is imposed on the following income:

- Income from activities includes: (i) income from primary and auxiliary production, operation and services (ii) income from sale of licenses (iii) income from sale of share and securities (iv) income from gaming and lottery (v) income from sale and rental of erotic publications, books, and video recording and erotic performance (vi) income from goods and services received from others free of charge (vii) income from sale of intangible assets (viii) income from technical, management, consulting and other services (ix) income from interest, penalty and damages compensated for infringement of contractual duties and (x) income from foreign currency exchange.
- Property income includes: (i) income from lease of movable and immovable property (ii) income from royalties (iii) income from dividends and (iv) income from interest.
- Income from sale of property includes: (i) income from sale of immovable property and (ii) income from sale of movable property.

DEPRECIATION

Depreciation and amortization rates are applicable for a taxpayer's assets used for more than one year. Depreciation and amortization rates thereof shall be calculated on a straight-line method:

Asset	Rate
Buildings	40
Computers and software	3
Intangible assets, including mineral exploration and extraction licences	10
Machinery and equipment	10
Production-purpose vehicles, mechanisms, techniques and equipment in industrial and technological parks	3
Buildings and constructions in industrial and technological parks	20
Other assets	10

STOCK/INVENTORY

Inventory includes raw materials, work-in-progress and finished goods. Each item of inventory must be valued at acquisition cost or cost of production. Accepted valuation methods include average cost.

DIVIDENDS

Income from dividends includes monetary and non-monetary income and interest earned through profit sharing and income distribution by a legal entity with contributed capital. A taxpayer's dividend income is taxed at 10%. As for a non-resident-taxpayer in Mongolia, the dividend income received from a corporate entity registered and operating in Mongolia is taxed at the rate of 20%.

In case of liquidation of a joint corporate entity where the taxpayer is a shareholder, taxable dividend income is determined by deducting the initial share purchase price from income prorated to the taxpayer's shares and invested capital.

INTEREST DEDUCTIONS

Interest for a loan taken to cover primary and auxiliary production, operation, services and purchase of property is a deductible expense from taxable income. Interest payments are not deductible expenses when the loan is provided by an individual permanently residing in Mongolia that controls the taxpayer's company. The expenses shall be accounted as dividend to the individual and shall be subject to tax.

Interest payments for a loan shall not be deductible expenses when the loan provided by the investor to the taxpayer exceeds three times the value of the initial invested capital. The expenses shall be accounted as dividend to the investor and shall be subject to tax. Interest payments for a loan to finance construction and installation work shall be part of the total cost of construction. Once the construction is completed, the interest payments borne as from the start shall be deducted from gross taxable income. Interest income means any payment, discount and premium granted to a taxpayer for its financial transactions that may be any interest on a loan, interest on account balance, interest on savings, guarantee payment and interest on payable notes (bond).

LOSSES

A tax statement loss, i.e. the excess of allowable deductions over gross income, may be carried forward for 4 to 8 subsequent years for mining and infrastructure sectors, and 2 years for other sectors (if the loss is incurred after 1 January 2007). Losses carried forward can be set off against a maximum of 100% of the future taxable income in each tax year for mining and infrastructure sectors and 50% for other sectors.

Losses cannot be carried back.

FOREIGN SOURCED INCOME

Corporate income tax is levied on a taxpayer of a corporate entity incorporated under the laws of Mongolia and a foreign corporate entity with its head office located in Mongolia for its revenues generated both in Mongolia and a foreign country in a given year.

INVESTMENT ALLOWANCE/INCENTIVES

The following income of a taxpayer shall be tax exempt:

- Discounts equal to 50% of invested capital in Free Trade Zones (FTZs) for businesses with more than USD 300,000 of investment in building warehouses, loading and unloading facilities, tourist camps, hotels, or manufacturers of exported and import-substituted goods in the FTZs; and
- Discounts equal to 50% of invested capital in FTZs for businesses that have invested USD 500,000 or more in the FTZs operating to improve infrastructure, such as energy and heating sources, clean water supply, pipeline networks, roads, railways, airports, waste water sewage, and basic communication lines.

C. FOREIGN TAX RELIEF

An ordinary tax credit is granted, both unilaterally and under tax treaties, for foreign tax paid on foreign income. The foreign tax credit is subject to a country-by-country limitation. Excess foreign tax credits cannot be carried forward or back.

D. CORPORATE GROUPS

There are no specific provisions for group taxation.

E. RELATED PARTY TRANSACTIONS

Where related parties sell or transfer goods, perform work or render services among themselves below or above fair market value, the tax authorities can determine the gross taxable income from such transactions based on the value of similar transactions among non-related parties.

Related parties are defined as follows:

a) Owns 20% percent or more of the common stock;

b) Has the right to receive 20% or more of dividends or income distributions;

c) Has the right to appoint 20% or more of the management of the corporate entity or to determine its business policies.

Transfer pricing documentation will need to be maintained for all transactions subject to the transfer pricing rules and should be presented to the tax authorities at their request.

On 25 December 2017, Mongolia was the 111th country to join the "Inclusive Framework on BEPS". By joining the group, Mongolia has pledged to adopt minimum international taxation standards developed in 2015 by OECD and G20 nations, with input by other nations, in response to the base erosion profit shifting (BEPS) plan.

The commitment means that Mongolia will adopt provisions to prevent tax treaty shopping, implement country-by-country reporting on multinationals and exchange country-by-country reports with other country tax administrations. Mongolia will also limit the benefits of any intellectual property or other tax regimes deemed to be preferential tax regimes and will fully implement the mutual agreement procedure in its tax treaties with other countries to aid resolution of tax disputes.

F. WITHHOLDING TAX

'Withholding agent' means a person that withholds tax imposed on a taxpayer's income and paying the same to the state and local budget. A withholding agent retains taxes imposed on income from:

a) Dividends and royalties at 10%;

b) Gaming and lottery at 40%;

c) Sale of rights at 30%;

d) Transferred profits by a representative office of a foreign company to a non-resident-taxpayer, i.e. branch remittance tax, at the rate of 20%;

e) Interest on loans and guarantee payments at the rate of 20%;

f) Royalties, leasing interest, payment for administrative expenses, rent, management expenses, and income from the use of tangible and intangible assets at the rate of 20%;

g) Goods sold, work performed and services provided on the territory of Mongolia at the rate of 20% and transferring it to the Treasury within 7 working days.

A withholding agent retains tax imposed on income from the sale of immovable property and transfers it to the Treasury within 10 working days following the sale of the property.

A Mongolian VAT withholding agent retains tax imposed on income from goods sold, work performed and services provided by a non-resident legal entity to the resident legal entity at 10%.

G. EXCHANGE CONTROL

There are no exchange control requirements.

H. PERSONAL TAX

A citizen of Mongolia, foreign national and stateless person who resides in Mongolia is a taxpayer. A taxpayer is classified as either a permanent resident taxpayer of Mongolia or a non-resident taxpayer of Mongolia.

A permanent resident taxpayer of Mongolia includes:

- An individual with a residence in Mongolia;
- An individual who resides in Mongolia for 183 or more days in a tax year;
- A civil servant of Mongolia appointed to work overseas.

A non-resident taxpayer of Mongolia is considered an individual who has no residence in Mongolia and has not resided in Mongolia for 183 or more days in a tax year.

The personal income tax rates are as follows:

Income	Tax rate (%)
Employment income[1]	10
Business and professional income[2]	10
Income from property	10
Sale of immovable property	2
Income from quizzes, gambling and lotteries	40
Income from sports competitions, art performances and similar income	5
Income from scientific, literary and artistic works, product designs and useful designs, and inventions	5

1 Effective 1 January 2018 a new law introduced progressive rates on employment income. However, in February 2018 the law was repealed and the flat 10% rate was re-instated.

2 Including income derived by self-employed professionals like lawyers, doctors, accountants and independent contractors.

Taxable income of a non-resident tax payer is determined by the amount of total income earned on the territory of Mongolia. A withholding agent has the obligation to retain withholding tax imposed on taxable income of a non-resident taxpayer at 20% of the total income amount.

I. TREATY WITHHOLDING TAX RATES

Dividends, interest, and royalties paid, and payments made for goods sold and work/services provided (directly or electronically), to non-residents are subject to WHT at a 20% rate. Interest provided to non residents on bonds issued by Mongolian commercial banks and listed on the domestic or foreign stock exchange are subject to WHT at 10%.

Recipient	Withholding tax rates			
	Dividends	Interest	Royalties	Technical fees
Austria	5/10[1]	10	5/10[11]	N/A
Belarus	10	10	10	N/A
Belgium	5/15[2]	10	5	N/A
Bulgaria	10	10	10	N/A
Canada	5/15[7]	10	5/10[12]	5
China	5	10	10	N/A
Czech Republic	10	10	10	N/A
France	5/15[7]	10	5	N/A
Germany	5/10[1,4]	10	10	N/A
Hungary	5/15[9]	10	5	N/A
India	15	15	15	15
Indonesia	10	10	10	N/A
Kazakhstan	10	10	10	N/A

Korea (North)	5	5	10	N/A
Korea (South)	5	5	10	N/A
Kyrgyzstan	10	10	10	N/A
Malaysia	10	10	10	10
Poland	10	10	5	N/A
Russia	10	10	10	N/A
Singapore	0/5/10[6,9]	5/10[10]	5	N/A
Switzerland	5/15[5]	10	5	N/A
Turkey	10	10	10	N/A
Ukraine	10	10	10	N/A
United Kingdom	5/15[3]	7/10[8]	5	N/A
Vietnam	10	10	10	10

Notes

1. 5% if the recipient is a company (excluding partnerships) and directly owns at least 10% of the capital of the company paying dividends.
2. 5% if the beneficial owner is a company (excluding partnerships) and directly or indirectly holds at least 10% of the capital of the company paying dividends.
3. 5% if the beneficial owner is a company that directly or indirectly controls at least 10% of the voting power in the company paying dividends.
4. 5% if the beneficial owner is a company (excluding partnerships) and directly owns at least 10% of the company.
5. 5% if the beneficial owner is a company (excluding partnerships) and directly owns at least 25% of the capital of the company paying dividends.
6. No tax if dividends paid to the government/certain public bodies.
7. 5% if the beneficial owner is a company and directly or indirectly holds at least 10% of the capital of the company paying dividends.
8. 7% if interest is paid to a bank that is the beneficial owner of the interest and carrying on a bona fide banking business.
9. 5% if the beneficial owner is a company and directly owns at least 25% of the capital of the company paying dividends.
10. 5% if interest is received by a bank or a similar financial institution.
11. 5% if the beneficial owner of the royalties in the meaning of any patent, trademark, design or model, plan, secret formula or process, or for information concerning industrial, commercial, or scientific experience; 10% in all other cases.
12. 5% if the beneficial owner of the royalties in the meaning of copyright royalties and other payments for production or reproduction of any literary, dramatic, and other work, royalties for the use of, or the right to use, computer software or any patent, or for information concerning industrial, commercial, or scientific experience; 10% in all other cases.

MOROCCO

MEMBER FIRM

City	Name	Contact Information
Casablanca	Abdellatif Zarkal	+212 522 47 64 70 zarkal@pkfmaroc.com

BASIC FACTS

Full name:	Morocco
Capital:	Rabat
Main language:	Arabic
Population:	36.12 million (2018 estimate)
Internet domain:	.ma
Int. dialling code:	+212

KEY TAX POINTS

- Moroccan corporations are subject to a unitary tax system called the corporate tax 'impôt sur les sociétés or IS system.
- The standard rate of Value Added Tax is 20% and applies to all suppliers of goods and services,
- except those taxed at other rates or those who are exempt. A reduced rate of 10% applies to specific items.
- Dividends paid to a non-resident are subject to a 15% withholding tax unless the rate is reduced
- under an applicable tax treaty. Interest on loans obtained from a non-resident and royalties paid to
- non-residents are subject to a 10% withholding tax (subject to the application of a treaty).

M

A. TAXES PAYABLE

GENERAL REGIME

The Moroccan taxation system consists of direct and indirect taxes. Indirect taxes provide a greater source of tax revenue than the direct taxes. Moroccan corporations are subject to a unitary tax system called the corporate tax 'imp.t sur les soci.t.s' or IS system. The system is statutory and contains a package of incentives designed to encourage both Moroccan and foreign investors. For example, in order to promote foreign investment the Finance Act 2014 exempted permanently from corporate tax the Fund "AFRICA 50" created by the African Development Bank.

CORPORATE INCOME TAX

The definition of 'corporation' covers limited liability companies, limited partnerships by shares, general and limited partnerships in which at least one partner is a corporate entity, civil companies, branches of foreign corporations, public sector companies having profit-oriented activities and joint ventures having business-oriented activities. General partnerships and limited partnerships in which all partners are individuals may elect to be taxed under the corporate tax regime. The same applies to joint ventures in which all parties are individuals. Progressive rates are introduced for corporate tax purposes. The applicable rates are set out below:

Taxable profit (MAD)	Rate (%)
Up to 300,000	10
300,001 – 1,000,000	20
Over 1,000,000	31

The 37% corporate tax rate applicable to credit institutions, leasing companies and insurance companies is maintained. Foreign contractors carrying out engineering, construction or assembly projects relating to industrial or technical installations may opt to be taxed at a rate of 8% calculated on the total contract price

net of VAT and similar taxes. There are also specific rates of corporate income tax detailed as follows:

- 8.75% applying to companies that operate in free zones export, during the 20 consecutive years following the fifth year of full exemption and service companies with the status of "Casablanca Finance City" in accordance with the laws and regulations, beyond the five years of exemption;
- 10% for organisations with regional or international status "Casablanca City Finance", according to the laws and regulations, from the first year of granting such status and optionally for offshore banks during the 15 first consecutive years following the date of obtaining approval;
- 17.5% for companies operating in some northern and southern regions and also for companies exporting products or services after the total exemption from corporate tax for a period of five consecutive years calculated from the year in which the first export operation was performed.

Companies are taxed on the difference between their trading income and expenditure. Business expenses incurred in the operation of the business are generally deductible unless specifically excluded. Expenses not permitted include: fines, penalties, interest on shareholder loans where the stock is not fully paid up, and interest on shareholder loans in excess of the official annual interest rate. Morocco operates a territorial tax system. Companies (both resident and non-resident) are generally subject to corporate tax only on income generated from activities carried on in Morocco. Foreign corporations are subject to taxation on income arising in Morocco if they have, or are deemed to have, a permanent establishment in Morocco. A company is resident in Morocco if it is incorporated there or its place of effective management is in Morocco.

The calendar year is normally the fiscal year although a company may opt for a different fiscal year. Accounts for income tax purposes must be filed within three months after the end of the relevant accounting period. Corporate tax is payable in four equal instalments, based on the prior year's assessment. The actual amount payable is adjusted in the three months following the end of the accounting period. Foreign companies that have elected for the 8% default taxation must submit a declaration of their turnover before 1 April following each calendar year.

The 2018 Finance Act allows the granting of a full and permanent exemption of corporate tax for all activities and operations carried out by OPCIs (Undertaking for collective investment in real estate), as provided for by the provisions of Law No. 70-14 governing them.

MINIMUM CORPORATE TAX CONTRIBUTION

Companies are always subjected to a minimum contribution (Cotisation Minimale; CM) of 0.5% of the annual turnover. The CM is based on turnover, income from interest, subsidies, bonuses or donations received. The CM is not payable by companies during their first 36 months of operation. However, the legal entities liable to Corporate Income Tax which do not have a turnover must pay a minimum contribution. As from 2014, this minimum contribution was increased to MAD 3,000 (MAD 1,500 previously).

The minimum tax (CM) is no longer creditable against corporate tax levied from tax year 2016 onwards. The excess of the minimum levy over the corporate tax is forfeited to the Moroccan Treasury.

TAXATION OF AGRICULTURAL INCOME (COMMON MEASURES TO BOTH PERSONAL INCOME TAX AND CORPORATE INCOME TAX)

The definition of Agricultural Income as set by article 46 of the General Tax Code was profoundly amended. According to the 2014 Budget Law, Agricultural Income comprises "profits made by farmer/cattle breeders and derived from all activities inherent to animal/plant operating cycle and whose revenues are intended for human or animal feed, as well as the treating/processing activities of these revenues, apart from their transformation by industrial means".

As from 1 January 2014, incorporated farms making a turnover equal to or in excess of MAD 5 million during three (3) consecutive fiscal years are subject to Corporate Income Tax. On the other hand, incorporated farms with a turnover below such threshold keep their current status, under which they are totally and permanently exempted from CIT (article 6-1-A-29 of the General Tax Code). The taxation of incorporated farms or farmers will follow this timetable:

Period	Threshold
From 1 January 2014 to 31 December 2015	Turnover equal to or in excess of MAD 35 million
From 1 January 2016 to 31 December 2017	Turnover equal to or in excess of MAD 20 million
From 1 January 2018 to 31 December 2019	Turnover equal to or in excess of MAD 10 million

Thus, starting from 1 January 2020, all farms making a turnover equal to or in excess of MAD 5 million operated either through a corporation or not will be subject to Corporate Income Tax or Personal Income Tax. However, farmers liable to tax are exempted from instalment payments for the first taxable fiscal year (article 170 of the GTC). Incorporated farms and farmers benefit temporarily from a reduced tax rate for five years:

- Tax rate of 17.5% for incorporated farms subject to corporate tax for the five consecutive years, starting with the first taxable year;
- Tax rate of 20% for tanners subject to Personal income tax.

BRANCH PROFITS TAX

The Moroccan-sourced income of Moroccan branches of foreign companies is subject to income tax at the ordinary corporate tax rate. The taxable income is calculated as if the branch was a separate entity from the foreign company.

The 2001 Budget Law introduced a branch tax on after-tax profits realized by a branch or establishment of a foreign company and subsequently transferred to the foreign head office. The branch tax is withheld at the rate of 15% on remitted income, unless a lower treaty rate applies

VALUE ADDED TAX

Value Added Tax (VAT) is a non-cumulative tax levied at each stage of the production and distribution cycle. Thus, suppliers of goods and services must add VAT to their net prices. Where the purchaser is also liable for VAT, input VAT may be offset against output VAT. The standard VAT rate is 20% and applies to all suppliers of goods and services, except those taxed at other rates or those who are exempt. A reduced rate of 10% applies to specific items such as banking and credit services, leasing, gas, water and electricity. Two types of exemptions from VAT are in place. The first is an exemption with credit, equivalent to the zero tax concept, which applies to exports, agricultural materials and equipment, and fishing equipment. The second is an exemption without credit, i.e. the seller receives no credit for input VAT paid. This exemption applies to basic foodstuffs, newspapers and international transport services.

Within the framework of the future tax reform, the Government intends to radically overhaul the VAT system, notably by progressively aligning the VAT rates, and eventually limiting the number of rates to two, namely a 10% and 20% rate of VAT. As from 1 January 2014, the rates of the following products are amended: raw sugar, raw logs, some categories of farm equipment and catering services directly provided by the company to the staff are now subject to a 10% rate.

The 20% rate applies to equipment and fishing nets, dried raisins and dried figs, candles and paraffin The 10% rate applies to food for cattle feed (previously subject to the 7% rate). Finally, t he rate of 20% applies to commercial vehicles, alimentary fats and margarines (14% previously). Before the 2014 Budget Law, the right of deduction arose at the end of the month following the establishment of the Customs receipts or full or partial payment of bills on behalf of the beneficiary. As from 1 January 2014, the right of deduction of VAT begins at the end of the month of the establishment of Customs receipts or at the end of the month of the full or partial payment of bills on behalf of the beneficiary. As a result, the "one-month lag" rule is abolished. The 2016 Budget Law has introduced a VAT exemption on importation and dismantling operations of aircraft, without any limitation on the number of seats as long as they are used in regular international transport.

The rate of 20% applies to rail transport operations of passengers and goods (14% previously).Already existing companies are exempt from VAT on capital goods for a period of 36 months, when they carry out new projects within the framework of an investment agreement concluded with the government the amount of which is equal to or more than MAD 100 million.

Effective 1 January 2018 and in application of the provisions of Article 90-4 of the CGI, the right to opt for VAT liability is now granted to lessors who rent unequipped premises for professional use. The interested parties can thus assume the status of taxable persons.

The 2018 Finance Act introduced a VAT exemption, both domestically and for import purposes, for certain inputs intended exclusively for aquaculture, namely:

- Feed for fish and other aquaculture animals;
- Fish fry and larvae of other aquaculture animals;
- Shellfish spat.

BUSINESS TAX

A business tax or "***taxe professionnelle***" is levied on individuals and enterprises that habitually carry out business in Morocco. The business tax is applied on the annual rental value of business premises (rented or owned) capped at MAD 50 million net of VAT. The tax rates range from 10% to 30% with exemption for the five first years of activity.

URBAN PROPERTY

Owners of real estate are subject to urban property tax on the rental value of the property. The same applies to owners of machines and appliances that are integral parts of the establishment producing goods or services.

PROPERTY TAX

Property tax is assessed on the rental value of the property. The general property tax rate is 10% of the assessed rental value, as determined by the local tax authorities. If the property is used as a primary residence, only 25% of the assessed rental property value is subject to tax. Properties occupied as a main or second residence are taxed at progressive rates as follows:

Tax base (MAD)	Tax rate
Up to 5,000	Nil
5,000 – 20,000	10%
20,000 – 40,000	20%
Over 40,000	30%

CUSTOMS DUTIES

All goods and services may be imported. Goods deemed to have a negative impact on national production, however, may require an import license. Products from the EU are fully exempted from March 2012. Cars, household items and also semi-finished products for local industry are reviewed. The rates fall for products brought from the outside world. Some materials and products, however, are exempted, especially those imported under the investment charter, imported under customs economic systems and those using renewable energies. VAT is also levied on goods imported into Morocco.

CAPITAL GAINS TAX

Individuals earning capital gains from selling property are subject to tax on property profits. Profits on the sale of property are taxable at 20% of any profit but with a minimum tax of 3% of the sale price. The taxable gain is computed by deducting the following from the selling price:

- Acquisition price and incidental costs;
- Transfer costs;
- Investment expenses;
- Interest payments.

Capital gains from the sale of a property which has been the primary residence of the taxpayer are not subject to tax under certain conditions:

- The property has been the seller's primary residence for at least six years;
- The property has been the seller's primary residence for at least four years on the day of the sale, and the property area does not exceed 100 sq. m. and the profit does not exceed MAD 250,000;
- The profit made on one or more transfers by individuals within a calendar year whose total value does not exceed MAD 140,000.

B. DETERMINATION OF TAXABLE INCOME

CAPITAL GAINS

Morocco instituted a tax on the proceeds from a company's stocks, shares and comparable income (TPT), distributed by companies based in Morocco and paying taxes on corporations. The tax of 10% is withheld at the source and applies to:

- Capital interest;

- Profit percentages;
- Special allowances or the payment of fees and other compensation allotted to members of the board of directors (except for the fraction of these compensations considered as salary and subject to personal income tax (IR);
- Sums levied on profits to repay capital produced to stockholders or to buy overstocks;
- Beneficiary/founder's shares;
- Surpluses from winding up augmented by reserves built up over at least ten years ago;
- Profits made in Morocco by establishments whose home office is located abroad, as these profits are made available to such companies abroad.

LOSSES

Tax losses may be carried forward for a period of four years from the end of the loss making accounting period. However, the portion of a loss that relates to depreciation may be carried forward indefinitely. Losses may not be carried back.

DIVIDENDS

Dividends received by corporate shareholders from taxable Moroccan-resident entities must be included in business profits of the recipient company but the dividends are 100% deductible in the computation of taxable income.

The participation exemption in Morocco is also applicable to dividends derived from foreign subsidiaries.

INTEREST DEDUCTIONS

Interest paid on loans and other debts is deductible to the extent that it relates to borrowings made for income producing purposes.

There are no formal thin capitalization rules as such. However, the tax deductibility of interest paid by a company is subject to the following limits:

- The amount of the shareholder loan does not exceed the amount of the share equity capital (ratio 1:1); and
- The interest rate does not exceed the rate annually set by the Ministry of Finance during a give tax year (2.21% for 2017).

C. FOREIGN TAX RELIEF

Since a Moroccan resident is taxed on worldwide income, the Moroccan tax system provides relief from foreign taxes paid on such worldwide income by means of a foreign tax credit. This foreign tax credit cannot exceed the Moroccan tax otherwise payable in respect of the foreign-sourced income.

D. CORPORATE GROUPS

Moroccan tax law does not provide for the option to file a consolidated tax return for group companies. Transfer of losses between group members is not possible.

E. RELATED PARTY TRANSACTIONS

Transfer prices: the Budget law 2015 establishes a procedure to taxable businesses in Morocco, having direct or indirect dependency links with companies outside of Morocco to conclude with the fiscal Administration prior agreement on the method of determining transfer prices between them for a period not exceeding four years. This measure will enable these companies to benefit from a legal guarantee against the risk of calling into question the method of determining prices.

In addition to paying interest and dividends, the payment of management fees, service fees and royalties are methods of repatriating profits to the non-resident associates, controllers and owners of Moroccan entities. In these circumstances, the payments made by the Moroccan resident to the nonresident associate must reflect the market value of the goods and/or services to the Moroccan company, i.e. all payments must be calculated with reference to arm's length market rates.

Where the Tax Office takes the view that the Moroccan company has paid an excessive amount for the goods and/or services, the Tax Office can disallow the deduction claimed by the Moroccan company and substitute it with an alternative price. Other transactions between Moroccan taxable entities (or branches) and their related foreign entities or head offices are also subject to the transfer pricing rules. Where a Moroccan branch of a

foreign company remits profits to its parent by way of management fees or service fees, the profits are not subject to withholding tax or branch profits tax.

F. WITHHOLDING TAX

Dividends paid to a non-resident are subject to a 15% withholding tax unless the rate is reduced under an applicable tax treaty. Interest on loans obtained from a non-resident is subject to a 10% withholding tax. Royalties paid to non-residents are subject to a 10% withholding tax unless the rate is reduced under an applicable tax treaty.

G. PERSONAL TAX

Individuals, regardless of nationality or activity, who have their habitual residence in Morocco are subject to personal income tax (impot sur le revenu or IR) on their worldwide income on a progressive scale between 10% and 38%. Individuals who do not have their habitual residence in Morocco are subject to tax only on Moroccan source income. Habitual residence status is established by reference to one of the following:

1) Place of permanent abode;

2) Centre of economic interest;

3) Duration of stay in the country exceeding 183 days within any period of 365 days.

The issue of double taxation is partially addressed by tax treaties or unilateral relief in the form of a tax credit. All compensation received by an individual is taxable, including salaries and wages, allowances, pension annuities, and all other employment benefits, investment income, property income and income derived from the carrying out of a business or profession. Capital gains derived from the disposal of immovable property are generally subject to tax as part of the personal income of the individual, i.e. 20%. Filing and payment: the tax return must be filed by 31 March of each year in the place where the taxpayer has his/her habitual residence or main business. Resident individuals are assessed on their taxable income from January 2010 according to the following scales:

Income (MAD)	Tax rate
0 – 30,000	Nil
30,001 – 50,000	10%
50,001 – 60,000	20%
60,001 – 80,000	30%
80,001 – 180,000	34%
Over 180,000	38%

A range of rebates are available to Moroccan resident individual taxpayers. Employers must retain and pay any income tax due on the salaries paid to their employees the previous month within the first ten days of each month. Individuals who receive income from non-wage sources must file a tax declaration every year on or before 31 March. Net rental income is taxable under the general income tax (Impot Général sur le Revenu or IGR) at progressive rates. A standard deduction of 40% of the gross rental income covers the income-generating expenses in lieu of itemised deductions. As of 2014, the taxation on such rental income is now effective as from the first year (the exemption of rental income derived from the renting of new buildings applicable during the three-year period following the completion of the constructions is abolished).

Until 2013, retirement pensions in Morocco were subject to a 55% tax allowance on their whole annual gross amount. The 2014 Budget Law capped this advantage by introducing a threshold reducing this advantage to 40%:

- 55% from MAD zero (0.00) to MAD 168,000;
- 40% in excess of MAD 168,000.

Furthermore, the 2014 Budget Law creates the new fiscal regime of "auto-entrepreneur", applicable to individuals whose annual turnover does not exceed MAD 500,000 for commercial, industrial, and artisanal activities undertaken and where yearly turnover does not exceed MAD 200,000 for the provision of services. Under the "auto-entrepreneur status, individuals are subject to income tax at a rate of 1% or 2% of turnover, depending on the activity.

Finally, the 2014 Budget Law provided a new provision aiming at deferring taxation on the net capital gain

realized by a taxpayer who contributes shares held in one or several companies to a resident holding company liable to Corporate Income Tax. The transaction must meet the following conditions:

- The contribution must be carried out between 1 January 2014 and 31 December 2015;
- The value of the contributed shares must be assessed by a legally accredited accounting expert;
- The company to which the shares are contributed shall undertake to keep the shares during a minimum period of 4 years from the date of the contribution;
- The taxpayer who proceeds to the contribution shall undertake, in the contribution agreement, to pay the tax on the gains he shall derive from the sale, refunding or cancellation of the stocks received in exchange for the contribution.

In case of non-respect of these formalities, the capital gains are taxed in accordance with ordinary tax rules.

Also an exemption is granted from personal income tax on the gross monthly salary income capped at MAD 10,000 paid by companies for a period of 24 months for companies who started their activity between 1 January 2015 and 31 December 2022 and with a maximum of 10 employees.

H. OTHER TAXES

DOMESTIC CONSUMPTION TAX

As from 1 January 2014, the amount of this tax is raised to MAD 500 per hectolitre for energizing drinks, and to MAD 700 per hectolitre for wines.

TAX ON PLANE TICKETS

The 2014 Budget Law set out a new tax on plane tickets coming into force as of 1 April 2014. This tax is levied on tickets purchased for international flights departing from Moroccan airports (domestic flights are exempted).

However this tax will not apply to certain categories of tickets, such as those for flying and security personnel or for children under the age of two. The amount of tax is set at MAD 100 for Economy Class and MAD 400 for Business and First Class.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)		Interest[11] (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Non-treaty countries				
Companies	15	0	10	10
Individuals	0/15	--	10	10
Treaty countries:				
Arab Maghreb Union[1]	-[10]	-[10]	-[10]	-[10]
Austria	10	5[2]	0/10	10
Bahrain	10	5[2]	0/10	10
Belgium	10	6.5[2]	0/10	10
Bulgaria	10	7[2]	10	10
Canada	15	15	15	5/10[14]
China	10	10	0/10	10
Croatia	10	8[2]	0/10	10
Czech Republic	10	10	10	10
Denmark	25	10[2]	10	10

Egypt	12.5	10[2]	0/20	10
Finland	10	7[2]	0/10	10
France	15	15	10/15[12]	5/10[14]
Gabon	15	15	0/10	10
Germany	15	5[2]	0/10	10
Greece	10	5[2]	10	10
Guinea	10	5[4]	0/10	10
Hungary	12	12	0/10	10
India	10	10	0/10	10
Indonesia	10	10	0/10	10
Ireland	10	6[2]	0/10	10
Italy	15	10[2]	0/10	5/10[14]
Ivory Coast	10	10	0/10	10
Jordan	10	10	0/10	10
Korea	10	5[2]	0/10	5/10[14]
Kuwait	10	2.5/5[5]	0/10	10
Latvia	10	62	0/10	10
Lebanon	10	5[3]	0/10	5/10[14]
Luxembourg	15	10[2]	10	10
Macedonia	10	10	0/10	10
Malaysia	10	5[3]	0/10	10
Mali	10	5[2]	0/10	10
Malta	10	6.5[2]	0/10	10
Netherlands	25	10[6]	10/25[13]	10
Norway	15	15	10	10
Oman	10	5[3]	0/10	10
Pakistan	10	10	0/10	10
Poland	15	7[2]	10	10
Portugal	15	10[7]	12	10
Qatar	10	5	0/10	10
Romania	10	10	0/10	10
Russia	10	5[8]	0/10	10
Senegal	10	10	0/10	10
Singapore	10	8[3]	10	10
Spain	15	10[2]	10	5/10[14]
Switzerland	15	7[2]	10	10
Syria	10	10	0/10	14
Turkey	10	7[2]	0/10	10
Ukraine	10	10	0/10	10

United Arab Emirates	0/10	5[3]	0/10	0[15]/10
United Kingdom	25	10[3]	10	10
United States	15	10[9]	0/15	10
Vietnam	10	10	0/10	10

Notes:

1. Member states are Algeria, Libya, Mauritania, Morocco and Tunisia.
2. The reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the paying company.
3. The reduced rate applies if the beneficial owner is a company which holds directly at least 10% of the capital of the paying company.
4. The reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 30% of the capital of the paying company.
5. 2.5% if the beneficial owner is the Government of the other contracting state and 5% if the beneficial owner is a company which holds directly at least 10% of the capital of the paying company.
6. The reduced rate applies if the recipient is a company the capital of which is wholly or partly divided into shares and holds directly at least 25% of the capital of the paying company, on condition that the relationship between the two companies was not established or is not maintained principally for the purposes of benefiting from this reduced rate.
7. The reduced rate applies if the beneficial owner is a company which, for an uninterrupted period of two years prior to the payment of the dividends, holds directly at least 25% of the capital of the paying company.
8. The reduced rate applies if the participation of the resident of the other contracting state in the capital of the paying company exceeds USD 500,000.
9. The reduced rate applies if (i) during the part of the paying corporation's taxable year which precedes the date of payment of the dividend and during the whole of its prior taxable year (if any), at least 10% of the voting shares of the paying corporation was owned by the recipient corporation, and (ii) not more than 25% of the gross income of the paying corporation for such prior taxable year (if any) consists of interest or dividends (other than interest derived from the conduct of a banking, insurance, or financing business or dividends or interest received from subsidiary corporations, 50% or more of the outstanding shares of the voting stock of which is owned by the paying corporation at the time such dividends or interest is received).
10. No limitation on the withholding tax rate under the treaty.
11. Certain treaties provide for an exemption for some types of interest (not included in this table), e.g. interest paid to public bodies and institutions.
12. 15% for interest on term deposits and cash vouchers and 10% for other types of interest.
13. 10% for interest paid by a resident of one state to an enterprise of the other state and 25% in all other cases.14
14. The reduced rate generally applies to copyright royalties and other similar payments in respect of the production or reproduction of any literary, artistic or dramatic work (excluding cinematographic and television films) while the 10% withholding rate applies to other types of royalties.
15. The 0% rate applies if royalties are paid to the Government of the United Arab Emirates, its Central Bank, the Abu Dhabi Fund for Economic Development, the Abu Dhabi Investment Authority, the Dubai Investment Company or any other public institutions.

MOZAMBIQUE

MEMBER FIRM

City	Name	Contact Information
Maputo	Miguel Damas	+258 213 334 93 miguel.damas@pkf.co.mz

BASIC FACTS

Full name:	Mozambique
Capital:	Maputo
Main language:	Portuguese
Population:	29.37 million (2017 estimate)
Monetary unit:	Mozambican Metical (MZN)
Internet domain:	.mz
Int. dialling code:	+258

KEY TAX POINTS

- Resident corporations are subject to corporate income tax (IRPC) on their worldwide income. Non-resident companies with a permanent establishment in Mozambique are liable for IRPC on the income attributable to that permanent establishment.
- The standard rate of Value Added Tax is 17%. VAT is chargeable on the sale of almost all goods and services as well as on imports.
- Payments between resident companies are liable to withholding tax if they originate from certain specified income types.
- Transfer pricing legislation enables the tax authorities to make corrections to taxable income when the conditions (and prices) agreed between related parties are different from those that would have been agreed and accepted by independent entities. Taxpayers must keep the necessary documentation to support the transfer pricing policy within the group.
- Resident individuals are subject to income tax on their worldwide income while non-residents are liable to income tax only on income sourced in Mozambique.

A. TAXES PAYABLE

COMPANY TAX

Resident corporations are subject to corporate income tax (IRPC) on their worldwide income. Resident companies are those which have their head office, or place of effective management, in Mozambique. Non-resident companies with a permanent establishment in Mozambique are liable for IRPC on the income attributable to that permanent establishment. A non-resident company without a permanent establishment in Mozambique is taxed on the following types of income sourced in Mozambique: capital gains, dividends, interests, royalties, services and rents.

Taxable profit is normally taxed at 32%. Non documented expenses are taxed at 35%.

The tax year usually coincides with the calendar year (1 January to 31 December). Exceptions must be approved in advance by the Finance Minister and only apply if a company is owned for more than 50% by another company with a different tax year, in which case it may adopt that different tax year. Tax is payable as follows:

Taxable persons	Tax payment
Resident entities whose main activity is commercial, industrial or agricultural and non-residents with a permanent establishment in Mozambique.	- Payments on account (PC) in May, July and September (5th , 7th and 9th Month after year end). - Special payments on account (PEC) in June, August and October (6th , 8th and 10th Month after year end). - The balance is due by the date when the tax return is filed – generally 31 May. (5th month after year-end)
Resident entities whose main activity is neither commercial, industrial nor agricultural.	Tax is payable by 31 May following the end of the tax year.
Non-resident entities without a permanent establishment.	Taxed by definitive withholding made by client or by independent tax return.

Payments on account (PC) are estimated on the basis of 80% of previous tax year's IRPC liability, less any tax withheld at source and divided into three equal instalments.

$$PC = \frac{(IRPC\ of\ previous\ year - withheld\ taxes\ of\ previous\ year) \times 80\%}{3\ instalments}$$

Special payments on account (PEC) are estimated on the basis of 0.5% of the sales and/or services rendered during the previous financial year, with the minimum amount of 30,000 MZN and maximum of 100,000 MZN, net of provisional tax payments made in the previous year and divided into three equal instalments.

$$PEC = \frac{(turnover\ of\ previous\ year \times 0.5\% - PC\ of\ previous\ year)}{3\ instalments}$$

Permanent establishments of non-resident companies are taxed at the rates applicable to resident companies. When there is no permanent establishment, tax is levied at rates varying between 10% and 20% according to the source of income.

CAPITAL GAINS TAX

Worldwide capital gains obtained by resident companies are included in taxable income. The gain (or loss) is calculated by the difference between the sales proceeds and the acquisition cost which may be updated using official inflation coefficients. If the proceeds of the sales are reinvested in other fixed assets, within three tax years following the year of sale, 100% of the gain obtained (net of the related losses) will be excluded from taxation. When only part of the consideration is reinvested, only the corresponding part of the gain qualifies for the relief.

BRANCH PROFITS TAX

All income attributable to the Mozambique branch (permanent establishment) is subject to corporation tax. No tax is imposed on the eventual remittances of profits to the head office.

VALUE ADDED TAX (VAT)

The standard rate is 17%. VAT is chargeable on the sale of almost all goods and services as well as on imports. Usually VAT is recoverable by corporate entities.

OTHER TAXES
MUNICIPAL TAX REAL ESTATE

Owners of real estate properties are subject to tax between 0.2% and 1% for urban properties depending on the municipality.

REAL ESTATE TRANSFER TAX (SISA)

Real Estate Transfer Tax applies to transfer of real estate property and is normally payable by the purchaser at a rate of 2%. A 10% rate applies when the purchaser of the property is a resident of a black-listed offshore jurisdiction. Social security contributions (INSS): Social security contributions are payable by employers (4%) and employees (3%) on monthly remuneration.

B. DETERMINATION OF TAXABLE INCOME (IRPC)

Normally net income, or taxable income, is arrived at by adjusting the accounting profits for non-taxed income and non-deductible expenses. As a general principle, costs are only deductible when necessarily incurred for the purpose of generating income.

DEPRECIATION

Fixed assets can be depreciated for tax purposes. The main depreciation rates are:

Assets	Rate(%)
Tangible assets:	
Industrial buildings	4
Office and residential buildings	2
Machinery and installations, air conditioning, and telephone equipment	10
Lifts	8.33
Tools	25
Laboratory equipment	12.5
Telex and interior equipment	10
Furniture and filing systems	10
Typewriters and accounting machines	14.28
Computer hardware	16.66
Warehouse and filing installations:	
Of concrete	5
Of wood	6.66
Of steel	8.33
Trucks	20
Automobiles	25
Intangible assets:	
Pre-operating expenses incurred prior to the commencement of business	33.33
Deferred expenses arising in connection with increases in share capital, changes in form of business enterprises, issuance of debentures, marketing and other studies, and financial expenses incurred for the acquisition or own production of fixed assets prior to completion	33.33
Patents	10
Manufacturing licences, concessionaire agreements, and similar rights	5 *
Trademark or premium of taking over leases of real estate	**

NOTES:

* If certain conditions are met.

** May be accepted by the tax authorities if the decrease of the value is proved.

STOCK / INVENTORY

Inventory must normally be valued at the effective cost of acquisition or production (historic cost). Other methods which may be adopted include:

- The standard cost method, which must be calculated in accordance with the appropriate technical and accounting principles;
- The sale price method, based on the market value less a normal profit margin;

- The special costing for basic or normal inventory, subject to prior approval of the tax authorities; and,
- The costing based on market price quote, this can be used by companies selling agricultural products and other biological assets.

CAPITAL GAINS AND LOSSES

Gains obtained by non-resident entities from the disposal of shares may be exempt from tax depending on the holding period of the shares. This exemption is not applicable if the gains are obtained from a non-resident.

Period of detention of shares	Reduction %	Effective Rate
Less than one year	0%	32%
12 to 24 months	15%	27.2%
24 to 60 months	35%	20.8%
More than 60 months	45%	17.6%

DIVIDENDS

There is a full participation exemption for the payment of dividends between Mozambique resident companies, when the recipient of the dividends is a company that has held a participation of at least 20% of the share capital of the distributing company for a minimum period of two years (if the investment is held for less than 2 year the law allows that the shareholders will still be exempt if they hold the investment until 2 years are completed). If such conditions are not met, the dividend amount is subject to taxation.

INTEREST DEDUCTIONS

Interest is deductible on an accruals basis. The Fiscal Administration is entitled, under certain circumstances, to disallow interest payments to related parties in excess of arm's length arrangements. Thin capitalization rules are applied when the debt/equity ratio exceeds 2:1

LOSSES

Operating losses incurred by resident companies, or by a branch of a non-resident company, may be carried forward to offset against taxable profits for five years. No loss carry back is allowed.

FOREIGN SOURCE INCOME

Taxation of resident companies and permanent establishments takes into account their worldwide income. Double taxation treaties may allow to balance the tax paid overseas and IRPC.

TAX INCENTIVES

The Investment Law grants certain tax and customs benefits depending on the amount, location and sector of investment activity.

C. FOREIGN TAX RELIEF

Foreign-sourced income, gross of tax paid abroad, is included in taxable income. A unilateral credit for foreign income tax suffered can be offset against the IRPC. Mozambique's tax treaties also apply the ordinary credit method. The tax credit is restricted to the lower of:

- The income tax paid abroad (ordinary credit method); and,
- The Mozambique income tax chargeable on that foreign income.

D. CORPORATE GROUPS

There is no group basis tax option in Mozambique. Each company has to fill in its tax returns separately.

E. RELATED PARTY TRANSACTIONS

Transfer pricing legislation enables the tax authorities to make corrections to taxable income when the conditions (and prices) agreed between related parties are different from those that would have been agreed and accepted by independent entities. Taxpayers must keep the necessary documentation to support the transfer pricing policy within the group.

Taxpayers that have obtained an annual net turnover (sales plus other income) equal to or exceeding MZN

2,500,000 (USD 40,000) in the previous year will be required to prepare transfer pricing documentation. The envisaged entities shall prepare the supporting documentation related to the Transfer Pricing policy and its tax adjustments as per the guidelines of the corresponding decree.

F. WITHHOLDING TAX

Payments between resident companies are liable to withholding tax if they are originate from:

a) Income from intellectual property or industrial as well as the provision of know-how;

b) Income derived from the use of or right to use, industrial, agricultural, commercial or scientific equipment;

c) Income from investment not covered in the preceding paragraphs and property income;

d) Remuneration earned as a member of the statutory bodies of legal persons and other entities;

e) Income from the intermediary in the conclusion of any contract and income from other services rendered or used in Mozambique.

Non-resident entities without a permanent establishment are liable to a final and definitive 20% WHT that is applied to all income earned. An exception exists for:

(i) Telecommunications and international transport, as well as the respective installation and assembly of equipment made by those same entities;

(ii) Construction and rehabilitation of production, transport, and distribution of electricity infrastructures in the rural zones under the public projects of rural electrification; and,

(iii) Maritime vessels freight for fishing and coasting activities, all of which are subject to a 10% WHT rate.

G. EXCHANGE CONTROL

All transfers to and from abroad are subject to registration with the Bank of Mozambique and may be not authorized in certain circumstances. Shareholders loans or any other type of foreign loan are liable to pre-approval by the Central Bank. Other examples of operations that require pre-approval are insurance operations and guarantees operations.

H. PERSONAL TAX

Personal Income tax (IRPS) is payable by individuals on income obtained from employment, a business activity or independent profession, investment income, immovable property, capital gains, pensions and betting or gambling profits. Resident individuals are subject to income tax on their worldwide income while non-residents are liable to income tax only on income sourced in Mozambique.

Taxable Income (MZN)	Tax Rate (%)	Flat Rate Rebate
Less than 42,000	10	-
42,000 – 168,000	15	2,100
168,000 – 504,000	20	10,500
504,000 – 1,512,000	25	25,700
More than 1,512,000	32	141,540

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)		Interest[11] (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Non-treaty countries				
Companies	10/20[1]	10/20[1]	20	20
Individuals	10/20	--	10/20	20

Treaty countries:				
Botswana[2]	12	0	10	10
India	7.5	7.5	10	10
Italy	15	15	0/10[5]	10
Macau	10	6.5[2]	0/10	10
Mauritius	10	7[2]	10	10
Portugal	15	15	15	5/10[14]
South Africa	10	[10]	0/10	10
United Arab Emirates	10	8[2]	0/10	10
Vietnam	10	[10]	10	10

Notes:

1. 10% rate applies to dividends distributed by companies listed on the Mozambique Stock Exchange to their non-resident corporate shareholders.
2. This treaty has not yet entered into force. The 0% rate will apply to dividend payments by a 25% or more owned Mozambique subsidiary to its Botswana parent company.
3. The 8% rate applies if the beneficial owner is a company which holds at least 25% of the capital of the paying company. The 10% rate applies if the beneficial owner is a company which holds less than 25% of the capital of the paying company.
4. The reduced rate applies if the beneficial owner is a company which holds at least 25% of the capital of the paying company.
5. The 0% rate applies, among others, to interest paid or derived by public bodies.
6. The 0% rate applies solely to interest paid to a bank or a public body.
7. Income is subject to tax in the state of residence only.

MYANMAR

MEMBER FIRM

City	Name	Contact Information
Yangon	Thida Cho Win	+959 78 515 0902 tdcho.win@vdb-loi.com

BASIC FACTS

Full name:	Republic of the Union of Myanmar
Capital:	Naypyidaw
Main language:	Burmese
Population:	53.79 million (2018 estimate)
Monetary unit:	Myanmar Kyat (MMK)
Internet domain:	.mm
Int. dialling code:	+95

KEY TAX POINTS

- Corporate income tax is levied at the rate of 25% on income earned in kyat.
- There is no withholding tax on dividends paid to a resident or non-resident.
- Interest is subject to a 15% withholding tax if paid to a non-resident. There is no withholding tax on interest

paid to a resident.

- Royalties are subject to a 15% withholding tax if paid to a non-resident. Royalties paid to a resident are subject to a 10% withholding tax.
- There is no Value Added Tax, although commercial tax is levied as a turnover tax on goods and services, generally at a rate of 5%.

A. TAXES PAYABLE

COMPANY TAX

A company is resident in Myanmar if it is formed under the Myanmar Companies Act or any other law of Myanmar. An association of persons other than a company is resident in Myanmar where the control, management and decision making for its affairs are situated and exercised wholly in Myanmar.

Companies registered under the MIL (Myanmar Investment Law) are treated as resident companies. Branches of foreign companies are generally deemed to be non-resident.

Corporate income tax is levied at the rate of 25% on income earned in kyat. There are no surcharges or surtaxes.

CAPITAL GAINS TAX

Capital gains are assessed and reported separately from ordinary income. Tax is levied on gains from the sale, exchange or transfer of capital assets.

For income tax purposes, capital asset means any land, building, vehicle and any capital assets of an enterprise, although foreign companies are prohibited from the ownership of immovable property in Myanmar. Capital assets also include shares, bonds and similar.

The rate of tax is 10% for both resident and non-resident companies. However, if the total value of assets sold, exchanged or transferred does not exceed MMK 10 million, no tax will apply. The rate is between 40% to 50% for oil and gas companies.

BRANCH PROFITS TAX

A foreign company's branch is also taxed at a rate of 25% on Myanmar-sourced income. There is no branch remittance tax in Myanmar.

SALES TAX / VALUE ADDED TAX (VAT)

There is no Value Added Tax, although commercial tax is levied as a turnover tax on goods and services, generally at a rate of 5%.

B. DETERMINATION OF TAXABLE INCOME

Tax is levied on total income, after deduction of allowable expenditure and depreciation.

DEPRECIATION

The tax depreciation rates of fixed assets, as prescribed under the Income Tax Regulations, are as follows:

- Buildings: 1.25% to 10%.
- Furniture and fittings installed in buildings: 5% to 10%.
- Machinery and plant: 2.5% to 20%.
- Various kinds of vehicles: 12.5% to 20%.
- Any fixed assets that are not prescribed: 5%.

DIVIDENDS

There are no provisions for intercompany dividends in the tax legislation. However, dividends received from a company are exempt. Myanmar operates a one-tier corporate tax system, under which all dividends received from an association of persons (i.e. partnerships, joint ventures, companies, associations formed by individuals, cooperative societies and government economic organizations) are exempt from income tax at the level of the shareholders.

INTEREST DEDUCTIONS

There is no specific thin capitalisation regime in Myanmar, although capitalization of a company might be

covered in the licences granted to the company. However, there are restrictions to the deductibility of interest.

LOSSES

Losses may be carried forward and offset against income in the following three consecutive years. Loss carry-back is not allowed.

C. FOREIGN TAX RELIEF

There are no provisions for unilateral relief. The entitlement to tax treaty benefits is not automatic. The Myanmar tax authorities and the MoF need to be consulted by the payer of the fee on a case-by-case basis in order to obtain tax treaty relief.

D. CORPORATE GROUPS

There are no provisions for group treatment in the tax legislation.

E. RELATED PARTY TRANSACTIONS

There are currently no transfer pricing rules in Myanmar.

F. WITHHOLDING TAX

- There is no withholding tax on dividends paid to a resident or non-resident.
- Interest is subject to a 15% withholding tax if paid to a non-resident. There is no withholding tax on interest paid to a resident.
- Royalties are subject to a 15% withholding tax if paid to a non-resident. Royalties paid to a resident are subject to a 10% withholding tax.

G. EXCHANGE CONTROL

Myanmar's foreign exchange regulatory framework has evolved substantially since 2011. In order to ease its stringent foreign exchange controls, the Government of Myanmar enacted a new Foreign Exchange Management Law (FEML) in August 2012. The FEML liberalizes transfer payments related to current account transactions, though transfers related to capital accounts remain conditional. The application of the new law in practice continues to evolve. However, companies registered under the new investment law are guaranteed the ability to repatriate investment and profits in the foreign currency in which such investments were made, subject to the approval of Myanmar Investment Commission (MIC).

H. PERSONAL TAX

Progressive rates ranging from 0% to 25% apply to income from salaries, the exercise of a profession or business, property and other sources.

Taxable income (MMK)	Marginal rate (%)
Up to 2,000,000	0
2,000,001 – 5,000,000	5
5,000,001 – 10,000,000	10
10,000,001 – 20,000,000	15
000,001 – 30,000,000	20
Over 30,000,000	25

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)		**Interest (%)**	**Royalties (%)**
	Individuals, companies (%)	**Qualifying companies (%)**		
Domestic rates				
Companies	0	0	15	15

Individuals	0	--	15	15
Treaty countries:				
India	5	5	10	10
Korea (South)	10	10	10	10/15[3]
Laos	5	5	10	10
Malaysia	10	10	10	10
Singapore	10	0/5[1]	8/10[2]	10/15[3]
Thailand	10	10	10	5/10/15[4]
United Kingdom	0	0	--[5]	0
Vietnam	10	10	10	10

Notes:

1. The 5% reduced rate applies if the beneficial owner is a company which owns at least 25% of the shares of the dividend-paying company. The 0% rate applies if dividends are paid to the government of the other contracting 10. state.
2. The 8% reduced rate applies if interest is received by any bank or financial institution.
3. The 10% reduced rate applies if royalties are paid for the use of, or the right to use, any patent, design or model, plan, secret formula or process, or for the use of, or the right to use, industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.
4. The 5% reduced rate applies if royalties are paid for the use of, or the right to use, any copyrights of literary, artistic or scientific work. The 10% reduced rate applies if royalties are paid for any services of a managerial or consultancy nature, or for information concerning industrial, commercial, or scientific experience.
5. There is no reduction under the treaty, the domestic rate applies.

NAMIBIA

MEMBER FIRM

City	Name	Contact Information
Windhoek	Uwe Wolff	+264 61 387800 uwe.wolff@pkf-fcs.com

BASIC FACTS

Full name:	Republic of Namibia
Capital:	Windhoek
Main language:	English, Afrikaans, German
Population:	2.58 million (2018 estimate)
Monetary unit:	Namibian Dollar (NAD)
Internet domain:	.na
Int. dialling code:	+264

KEY TAX POINTS

- Resident and non-resident companies are only taxable on sources of income arising and deemed to arise in Namibia.
- Dividends received from any source are generally not taxed, dividends paid are subject to NRST.
- There are no donation taxes, estate duties nor taxes on capital gains.
- Income Tax rate on non-mining companies: 32%.
- Maximum Income Tax rate on individuals and trusts: 37% (on income in excess of NAD 1.5 million).

- Special tax incentive rate on registered manufacturing enterprises: 18% (first 10 years). Special deductions are granted to such manufacturers in respect of marketing, land-based transportation, training and other expenses.
- Withholding taxes (final tax): interest earned by individuals 10%, interest paid to foreign persons 10% (subject to DTA), payment in respect of foreign service, including rentals of equipment: 10% (subject to DTA).
- Trusts are taxed as individuals, with the first NAD 50,000 taxable income per annum not being taxed.
- The standard VAT rate is 15%. VAT applies to imports and the supply of goods and services in Namibia at 16.5%. Certain basic commodities are zero-rated, with a variety of services being exempt such as medical, financial and educational.
- Shareholders are personally liable for any tax debt of their company, as is any director or other senior official.
- Individuals and directors are subject to a payroll tax on earnings (PAYE).
- Persons exporting goods manufactured in Namibia, subject to exceptions, are eligible for a 80%
- reduction of taxable income derived from such exports.

A. TAXES PAYABLE

INCOME TAX

Income tax is source-based with certain income deemed to be from a Namibian source, e.g. income earned from a Namibian employer whilst being temporarily absent from Namibia, or on restraint of trade payments. Tax is imposed on all receipts and accruals from a Namibian source, other than receipts or accruals of a capital nature. Some items are specifically included in taxable income even if of a capital nature, for example the sale of mining rights or the sale of shares of a company holding such rights. Fringe benefits tax is payable by employees on low interest loans, motor vehicle usage, free housing and other cash benefits. Meals served at the place of work, uniforms and company contributions to group benefit funds are not taxed. The taxable income of foreign companies is computed in the same way as for local companies. The tax year is the same as the financial year of a company. Tax liabilities are calculated on a self-assessment basis. The collection of taxes is as follows: • Provisional Payments (1st and 2nd) are due after the first six months of the financial year and on the last day of the financial year; • A top-up payment is payable on the due date for the return of income – seven months after the end of the financial year.

TAX RATES – MINING COMPANIES

The tax rate by hard rock mining companies and companies rendering services in connection with mining is 37.5% and the tax rate applying to diamond mining companies is 55%. The basic rate of tax payable by oil and gas extraction companies is 35%. Oil and gas extraction companies are also subject to additional profits tax that is calculated in terms of a complex formula contained in the Petroleum Taxation Act.

GAS EXPLORATION AND PRODUCTION LICENSE SALES

The proceeds on the sale of petroleum licences and right to explore for, develop or produce petroleum are taxable effective from 30 December 2015 at a rate of 32%.

BRANCH PROFITS TAX

Normal company income tax rules apply to the Namibian branch tax profits of non-Namibian companies.

VALUE ADDED TAX (VAT)

VAT applies to the supply of goods and services by VAT registered persons in Namibia and on the import of goods and services into the country. The VAT registration threshold is NAD 500,000, voluntary registration is possible from a turnover of NAD 200,000 in any 12-month period. VAT is payable on the value of the goods or services supplied at the rate of 15%, or imported at an effective rate of 16.5%. Certain supplies are zero-rated. These include:

- Export of goods and services and related supplies;
- International transport;
- Sale of a going concern;
- Sale of land and buildings for residential purposes and erection of residential buildings;

- Supply of municipal services to residential accounts;
- Supply of mahango and maize meal;
- Supply of agricultural land to be used for resettlement purposes;
- Supplies made in respect of guarantees;
- Supply of funeral undertaking services;
- Supply of services physically rendered elsewhere than in Namibia;
- Petrol, diesel and paraffin;
- Certain food supplies;
- Postage stamps, but excluding postage stamps supplied as a collector's piece;
- Telecommunication services to residential accounts;
- Supplies by charitable organisation and similar institutions;
- Supply of livestock (on the hoof);
- The supply of goods, and the repair thereof, to be used as aids by physically handicapped persons who are blind, deaf, crippled or a chronic invalid. Services for any adjustment or modification in respect of a vehicle used for these purposes.

Exempt Supplies:

- Financial services;
- Medical services and services provided by hospitals;
- Group finance/management companies and inter-company loans;
- Residential leases and fringe-benefit accommodation;
- Public transport services;
- Educational services;
- Management of group housing and commercial premises;
- Employee organisations;
- Local authorities;
- Fringe benefits;
- Supplies to foreign heads of State.

LOCAL TAXES

Municipal taxes are payable on the value of fixed property. A land tax is payable annually on the value of agricultural land, based on the location and size of the land.

OTHER TAXES

Other direct and indirect taxes and imposts include:

- Stamp Duty (on documents and marketable securities);
- Transfer duties payable on property transactions
- Motor vehicle licences;
- Royalty on minerals;
- National Training Levy (VET);
- Social Security Fund and Workmen's Compensation Funds;
- Customs and Excise duties;
- Non-resident shareholders tax;
- Withholding tax on interest;
- Withholding tax on services.

WITHHOLDING TAX ON SERVICES

The rate of withholding tax on services applicable to payments to non-residents for services of a technical, managerial or consultative nature is set at 10%. Relief may be available in terms of a double taxation

agreement between Namibia and the country in which the service provider is a resident. The rate of withholding tax on director's fees and entertainment fees is 25%.

ROYALTY WITHHOLDING TAX

The royalty withholding tax rate applicable to royalties payable to non-residents is levied at 10%. Double tax treaty relief is available. This WHT is also applicable to leases of equipment from foreign suppliers.

ENVIRONMENTAL TAX

The introduction of the first phase of the environmental taxes includes a carbon dioxide emission tax on motor vehicles and motor vehicle tyres.

EXPORT LEVY

An export levy on the export of unprocessed minerals and other natural resources is levied to promote domestic value-addition. This tax is a levy between 0% to 2% on the value of minerals, fish, game, crude oil and gas exported.

B. DETERMINATION OF TAXABLE INCOME

CAPITAL ALLOWANCES

Allowances are available on plant and machinery, vehicles, implements and similar. Tax relief is allowed on the cost of assets used for purposes of trade, claimed over a three-year period (excluding finance charges on Hire Purchase or Lease). Building allowances are granted from the year where a building is first brought into use for purposes of trade: 20% of erection cost is claimable in the first year and the remainder at 4% for the following 20 years. Allowances on buildings used for manufacturing purposes are 20% in the year they were taken into use, balance at 8% per annum for the next ten years. This is only applicable to 'registered manufacturers'.

DEPRECIATION

No depreciation is allowed in Namibia for tax purposes. Capital acquisitions are subject to a wear and tear allowance commencing in the year of acquisition and calculated at a rate of 1/3rd in year one and 1/3rd in each of the two years following year of acquisition.

STOCK / INVENTORY

Stock is to be valued at the lower of cost or market price, usually on the average cost or FIFO method.

CAPITAL GAINS AND LOSSES

Capital gains are generally not taxable in Namibia, unless by way of specific inclusion in the Income Tax Act, such as the sale of mining rights.

DIVIDENDS

Dividends are not taxable, unless paid to a non-resident in which case a non-resident shareholders tax (NRST) is withheld. Double Taxation Agreements may provide relief. NRST is levied at 20% if beneficial shareholding is less than 25% of shareholding, otherwise at 10%.

INTEREST

Interest deductions are allowed in Namibia if they are incurred in the production of income. A withholding tax on interest earned by residents (individuals) from financial institutions is withheld at source at the rate of 10%, whilst interest earned on government stocks and treasury bills is exempt.

LOSSES

Losses and profits generated by a taxpayer may be set off against each other, setoff is however not allowed within a group of related entities. A net loss may be carried forward to be utilised in future tax years, provided the taxpayer continues trading throughout. Ring-fencing on losses incurred by individuals is applicable to various suspect trades, such as part-time farming, dealing in arts, gambling and more, or where a specific trade has generated losses in 3 out of 5 years. A complex regime of rules applies to determine whether ring-fencing must be applied or not.

FOREIGN SOURCE INCOME

Foreign income is generally not taxable in Namibia if the source is not in Namibia, excepting income deemed to be from a Namibian source.

INCENTIVES: MANUFACTURING INCENTIVES

A manufacturer may qualify for registered manufacturer status if its activities are beneficial to the economic development of Namibia by way of net employment creation, net value addition, replacement of imports or an increase in net exports. Registered manufacturers are taxed at a minimal rate of 18% for the first 10 years of operation, thereafter normal corporate rates apply. Further benefits available to registered manufacturers include accelerated capital allowances in respect of industrial buildings and enhanced allowances for training costs and pension contributions.

INCENTIVES: EXPORT PROCESSING ZONES / STATUS

Enterprises registered with EPZ status are exempt from paying Income Tax on their profits. However, payroll taxes remain. A registered manufacturer deriving income from the export of goods manufactured or produced by it to another country is entitled to an additional deduction of 25% of specified types of expenses.

INCENTIVES: INDIVIDUALS

Tax relief for individuals includes housing subsidies for employers having registered a housing scheme. Special deductions for contributions to pension and other retirement funds and tertiary education policies are available up to a combined NAD 40,000 per annum in total. Upon retrenchment or retirement, a lifetime allowance of NAD 300,000 may be utilized as a tax-free amount.

C. FOREIGN TAX RELIEF

A tax credit is available for foreign tax paid in respect of dividends, royalties and similar income which is also taxable in Namibia, subject to a maximum of the Namibian tax payable on the overseas income concerned and further subject to the provisions of Double Taxation Agreements.

D. CORPORATE GROUPS

Corporate groups are not taxed as groups in Namibia. The individual legal entities in a group are taxed.

E. RELATED PARTY TRANSACTIONS

There are no special rules in Namibia other than those contained in tax treaties. Anti-avoidance rules are in place affecting certain transactions between family members and / or related trusts.

F. WITHHOLDING TAX

Withholding taxes applicable in Namibia are as follows, subject to any DTTs that may exist between Namibia and the country of residence of the taxpayer:

- Non-resident shareholders Tax (NRST) at 10% - 20%;
- Royalties including the right to use industrial, commercial or scientific equipment, received by or accrued to a person not being ordinarily resident in Namibia or a domestic company – 10%;
- Withholding tax on interest, which will be levied on any interest earned or accrued to any person (other than a Namibian company) from a Namibian banking institution and/or a unit trust – 10%;
- Withholding tax on payments by a Namibian resident for:
  - services rendered by non-residents in respect of management fees, consultancy fees, technical fees – 10%; and
  - directors' and entertainment fees – 25%.

All the above taxes are final taxes.

G. EXCHANGE CONTROL

Exchange controls apply in Namibia due to the interlinking of the Namibia Dollar with the South African Rand. EPZ enterprises may hold foreign currency bank accounts free from exchange control.

H. PERSONAL TAX

Individuals are taxed under the same statute as companies, i.e. the Income Tax Act 1981, as amended.

Generally, the income of a non-resident derived from Namibia is taxed in the same manner as that of a resident. Only income from a source within Namibia will be included in taxable income. Profits of a capital nature are generally not taxed. All individuals are taxed on income at progressive marginal rates over a series of income brackets as follows (tax rates effective since 1 March 2013):

Taxable income (NAD)	*Rate*
Up to 50,000	0%
50,001 to 100,000	18% on amount exceeding NAD 50,000
100,001 to 300,000	NAD 9,000 plus 25% on amount exceeding NAD 100,000
300,001 to 500,000	NAD 59,000 plus 28% on amount exceeding NAD 300,000
500,001 to 799,999	NAD 115,000 plus 30% on amount exceeding NAD 500,000
800,000 to 1,500,000	NAD 205,000 plus 32% on amount exceeding NAD 800,000
Over 1,500,000	NAD 429,000 plus 37% on amount exceeding NAD 1,500,000

The tax year commences on 1 March and ends on the last day of February. Tax is determined by self-assessment with a final tax due for qualifying salaried taxpayers. The due date for returns of Income is 30 June for most taxpayers although this is 30 September for others such as sole proprietors. The collection of taxes is as follows:

- Provisional taxes are to be paid in instalments after the first six months of the tax year and on the last day of the tax year;
- A top-up payment is due on the tax return filing date.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

The treaty withholding rates are as follows:

	Dividends		Interest (%)	Royalties (%)	Management, administrative, consulting and technical fees	Directors' and entertainment fees
	Individuals, companies (%)	Qualifying companies (%)				
Domestic rates						
Companies	20	10	10	10	10	25
Individuals	20	--	10	10	10	25
Treaty rates						
France	15	5[1]	10	10	0	25
Germany	15	10[2]	--[3]	10	0	25
India	10	10	10	10	10	25
Malaysia	10	5[4]	10	5	5	25
Mauritius	10	5[5]	10	5	0	25
Romania	15	15	10	15	0	25
Russia	10	5[5]	10	5	0	25
South Africa	15	5[7]	10	10	0	25
Sweden	15	0/5[8]	10	5/15[10]	15	25
United Kingdom	15	5[9]	20	0/5	0	25

Notes:

1. The reduced rate applies if the beneficial owner is a company which holds directly or indirectly at least 10% of the capital of the paying company.
2. The reduced rate applies if the recipient is a company (excluding partnerships) which owns directly at least 10% of the capital of the paying company.
3. Taxable only in the state of residence of the recipient.
4. The reduced rate applies if the beneficial owner is a company (other than a partnership) which holds

directly at least 25% of the share capital of the paying company.

5. The reduced rate applies if the beneficial owner is a company which holds directly at least 25% of the capital of the paying company.
6. The reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the share capital of the paying company and has directly invested in the equity share capital of that company not less than the equivalent of USD 100,000.
7. The reduced rate applies if the beneficial owner is a company which holds at least 25% of the capital of the paying company.
8. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the share capital of the paying company.
9. The reduced rate applies if the recipient is a company which controls, directly or indirectly, more than 50% of the entire voting power in the paying company.
10. The reduced rate applies to royalties paid in respect of a patent, secret formula or process, or for information concerning industrial or scientific experience. The 15% rate applies to other royalties.

NEPAL

MEMBER FIRM

City	Name	Contact Information
Kathmandu	Shashi Satyal	+977 1 4410927/4420026 runco@ntc.net.np

BASIC FACTS

Full name:	Federal Democratic Republic of Nepal
Capital:	Kathmandu
Main language:	Nepali
Population:	29.56 million (2018 estimate)
Monetary unit:	Nepalese Rupees (NRS)
Internet domain:	.np
Int. dialling code:	+977

KEY TAX POINTS

- Generally, Nepalese resident companies are subject to corporate tax on income derived from all sources at a rate of 25%, except for industries related to manufacturing, banking, insurance, tobacco and alcoholic beverages.
- All entities that carry out transactions in Nepal are required to register for Value Added Tax (VAT) if their annual turnover meets the registration turnover threshold.
- Withholding tax is deducted from interest, royalties and dividends.
- Resident natural persons are taxed on all income from worldwide sources. Non-resident persons are taxed on Nepal-sourced income only.
- Resident natural persons are taxed at progressive rates.
- Non-resident natural person are taxed at a flat rate.
- Capital gains tax is deducted as an advance tax.
- Final withholding tax at a rate of 25% is levied on all windfall gains under section 88A of Nepal Income Tax Act.
- When foreign-sourced income is included in assessable income, tax credits are available using credit method/expense method.
- Non-resident air or transport operators pay taxes in its gross collection through ticket sales at a rate of 5%,

whose first point is Nepal.

- Dividend distributed by a foreign permanent establishment of a non-resident is treated as a repatriated amount and is subject to a 5% tax rate.

A. TAXES PAYABLE

COMPANY TAX

The current corporate tax rate varies depending on the nature of the taxable income as follows:

Industry	Nature of Business	Rate of Tax (%)	Applied as
Manufacturing	Special industries qualifying under the Industrial Enterprises Act 1997 (except related to tobacco and alcoholic beverages)	20%	Flat rate
Financial Institutions	Bank and Financial Institutions licensed by Nepal Rastra Bank , Non-life insurance companies	30%	Flat Rate
Tobacco and alcoholic beverages	Entity engaged in business of cigarette, tobacco, cigar, chewing tobacco, alcohol and beer	30%	Flat Rate
Other	Commercial trading/service entities and other businesses	25%	Flat rate

Non-residents are taxed at 25%, except for income from transporting passengers, mail or cargo by sea or air that is embarked in Nepal which is taxed at 5%.

A foreign company registered in Nepal shall be considered to be a legal entity and will be a resident person for tax purposes. However, a foreign company providing services in Nepal by itself or through its employees or installing major equipment in Nepal for more than 90 days will result in a permanent establishment to be triggered and residency may be attracted. Services provided for less than 90 days will not trigger a PE and will be considered as a non-resident.

CAPITAL GAINS TAX

Net gains from the disposal of business assets or liabilities of a business are taxable as business income. Generally, gains are calculated as proceeds from the capital transaction less the tax basis in the relevant property. The gain from the disposal of an asset or liability is calculated as the amount by which the sum of the incomings of the asset or liability exceeds the outgoings of the asset or liability at the time of disposal and is reduced by the following losses:

- The total of all losses suffered from the disposal of business assets or liabilities;
- Any unrelieved net loss out of any other business losses; and
- Any unrelieved net loss for a previous income year out of losses of any business.

A loss on the disposal of an asset or liability with a foreign source can be claimed against the above gain only to the extent that the amount includes gains on the disposal of assets or liabilities with a foreign source. A non-resident is taxed only on gains from the disposal of assets or liabilities sourced in Nepal.

BRANCH PROFIT TAX

The income of a branch registered in Nepal is subject to taxation in the same way as a normal entity. The applicable tax rate is 25%.

VALUE ADDED TAX

VAT is a tax based on goods and services and is levied on the sale, exchange, transfer, import etc. of all goods and services apart from those specified by the law as tax-exempt. This tax encompasses all types of goods and services produced in or imported into the country apart from those listed as tax-exempt by the law. VAT is considered to be an improvised form of sales tax. This tax is imposed on different levels of value addition in the production and distribution process of goods and services. In short, the difference between the purchase price and the sales price of any firm is the value added.

VAT is levied at a flat rate of 13%, which is applied to the invoice value. Certain specified goods are outside the scope or exempt from VAT, in which case the applicable rate is zero. Exports of both goods and services

are taxed at zero percent. There is no VAT on capital gains since VAT will be levied on the sales price only on taxable goods. A credit (VAT on purchase of taxable goods) can be claimed within one year of date of purchase. An excess refund can be claimed within 3 years.

VAT is payable on the import of goods and it will be recovered at the customs point unless it is VAT exempt. VAT so paid is allowed to be offset against VAT collected on sales.

EXCISE DUTY

Excise duty is payable on the manufacture of movable goods and also on the import of certain goods. The excise duty is governed and regulated by the Excise Act 2058, Excise Regulation 2059. As stipulated in the law, the excise commodities are closely controlled and supervised by the GoN from their production to the selling stage. The rate of excise duty generally ranges from 0% to 40%. Exports are exempt from excise duty.

CUSTOMS DUTY

Customs duty is calculated on the transaction value which includes CIF Nepal border on the import of goods. The valuation is determined by a valuation committee that generally enhances the transaction value declared by the parties by 5% to 10% or as the case may be. In case there is under-invoicing, the customs official can revalue the goods based on current market value and collect customs duty on such amount. Customs duty ranges from 0% to 80% on the transaction value.

FRINGE BENEFIT TAX

Fringe benefits form part of the remuneration paid to an employee. They are subject to social security and personal income taxes. Taxable fringe benefits are evaluated on the basis of their market value.

B. DETERMINATION OF TAXABLE INCOME

TAX DEPRECIATION/ CAPITAL ALLOWANCES

Depreciation is allowed on the acquisition cost of the following assets where such assets are used for income producing purposes:

Class	Assets included	Depreciation rate (%)
A	Buildings, structure and similar works of a permanent nature	5
B	Computers, fixtures, office furniture and office equipment	25
C	Automobiles, buses and minibuses	20
D	Construction and earth-moving equipment and any depreciable asset not included in another class	15
E	Intangible assets other than depreciable assets included in class D.	During the useful life of the asset

Each depreciable asset at the time it is first owned or so used, is placed in a pool referred to as pools of depreciable assets. Depreciation is calculated by way of the reducing balance method and is based on the pool of assets.

The pool of assets concept suggests aggregation of all assets with the same depreciation rate into a common block for computation of depreciation. Depreciation is computed at varying rates as prescribed. In the year of purchase depreciation is available for the full year, if an asset is added to the pool for more than six months. In other cases, depreciation is allowed at either 2/3 or 1/3 of the normal rate, if the addition is made for less than six or three months, respectively. Amounts derived from the disposal of an asset or assets are deducted from the written-down value of the relevant pool.

Manufacturing industries can claim additional depreciation at 1/3 of the normal rate. Additional depreciation is considered to be additional facilities to the manufacturing company (special industries) under the Income Tax Act.

STOCK/ INVENTORY

The following methodology is available for the valuation of inventory:

- Prime cost or absorption cost method in case of cash accounting system;
- Absorption cost method in case of accrual accounting system; or
- Choice between first-in first-out method (FIFO) and average cost method.

DIVIDENDS

Dividend distributed by a resident company and partnership firms is subject to a final withholding tax at a rate of 5% to a resident and a non-resident person alike. These dividends are not taxed at the level of the recipient. Dividends of a non-resident entity, which are distributed to a resident beneficiary, are taxed by inclusion in calculating the income of the beneficiary. Distributions of dividends, which are derived after final withholding tax, are tax-exempt.

INTEREST

Interest means the following payments or gains:

- A payment made or incurred under a debt obligation that is not a repayment of capital;
- Any gain realized by way of a discount, premium, swap payment, or similar payment; and
- The portion that is treated as interest in the payment made under an annuity or for acquiring an asset under an installment sale or the use of an asset under a finance lease.

The interest incurred under a debt obligation is deductible to the extent, either that the obligation was required to be incurred in the production of income or that the debt was used to purchase an asset that is used in the business.

LOSSES

Tax losses can be carried forward for a period of seven years and in the case of public infrastructure projects to be built, operated and transferred to GoN and projects relating to construction of power houses and generation and transmission of electricity, any unrelieved loss of the past 12 years can be deducted. However, tax losses may not be carried back for set off against taxable income of an earlier period. Losses of petroleum exploration and extradition companies can be carried forward for 12 years.

Entities which have availed full or partial tax exemption in any of the year on investment or business income are not entitled to carry forward losses incurred in these exempt years. Capital losses from the disposal of business assets or liabilities of a business are an allowable deduction and can be claimed as a normal business expense. However, a loss on the disposal of fixed assets can only be claimed if after being credited against the outstanding balance of the pool, the value of the pool becomes zero or negative.

FOREIGN SOURCE INCOME

Nepal has CFE provisions which tax the income earned by foreign entities controlled by Nepalese resident persons. A controlled foreign entity should distribute dividends to its beneficiaries in accordance with the beneficiaries' rights. This dividend is taxable as income at the level of the beneficiary. Other dividends distributed by a controlled foreign entity are exempt from tax.

TAX INCENTIVES
SPECIAL ECONOMIC ZONES

The GoN aims at attracting native and foreign investment by establishing Special Economic Zone (SEZ) in potential places for exportable industries. GoN can prescribe any export processing area, special business area, tourism or entertainment area or any other area of Nepal as a Special Economic Zone (SEZ). Certain privileges are provided for in the SEZ laws, in terms of exemptions, facilities, tax benefits, etc., to industries in SEZ some of which are:

- Special treatment for goods or services produced in SEZ;
- No nationalization shall be made;
- Discount on the lease or rent of land or building;
- Exemption from income taxes, value added taxes, excise duty, customs duty and local taxes;
- Selling of raw materials or products to any industries in SEZ by any other industries will be deemed as export and such industries can enjoy facilities available for export;
- The foreign investment may be repatriated;
- Relaxation in visa provisions;
- Use of bonded warehouse;
- Sub-contracting within industries and accelerated rate of depreciation shall be available, along with such other facilities as may be specified by the GoN from time to time.

Income Tax Rates

The tax regulations provide for various incentives to stimulate industrial growth and development. Following are the key tax incentives, inter alia, designed to attract inbound investment:

Industry	Tax rates and Incentive
a. Special industries (mainly manufacturing other than alcoholic & tobacco producing industry)	20% (Normal Rate)
b. Industries providing direct employment to Nepalese citizens:	
- for 300 or more by Special industries and information technology industries	90% of normal rate
- for 1200 or more by Special industries	80% of normal rate
- to 100 Nepalese including 33% women, dalit & disabled by Special industries	80% of normal rate
- Special Industry, Agro-based industry and industry related with Tourism sector providing direct employment to only Nepalese citizens provided that number of employees shall be at least 100 throughout the year	70 % of normal rate
c. Industries established in very undeveloped area, as defined in Industrial Enterprise Act	10% of the normal rate (for 10 yrs from the year of establishment)
d. Industries establishment in undeveloped areas, as defined in Industrial Enterprise Act	20% of the normal rate (for 10 yrs from the year of establishment)
e. Established in underdeveloped areas, as defined in Industrial Enterprise Act	30% of the normal rate (for 10 yrs from the year of establishment)
f. Industry established in SEZ recognized in mountain areas or hill areas by the GON	Up to 10 yrs 100% exempt and 50% rebate in subsequent years
g. Industry established in SEZ other than mountain and hill areas recognized by the GON	100% exempt up to first 5 yrs and 50% rebate in subsequent years
h. Dividend distributed by the industry established in SEZ	100% exempt for first 5 years and 50% rebate on subsequent 3 years
i. Income derived by the foreign investors from investment in SEZ (Source of income-use of foreign technology, management service fee and royalty)	50% of applicable tax rate
j. On capitalization of accumulated profit through bonus share by Special Industry, Agro-based industry or industry related with tourism for expansion of capacity of industry	No dividend tax
k. Import income of information technology industries at IT park as declared by GoN	50% of normal tax rate
l. Institution having licensed to generate, transmit, and distribute electricity shall be allowed if the commercial activities started in terms of electricity generation, generation and transmission, generation and distribution or generation, transmission, distribution before mid-April 2024 and these exemptions shall also be available for solar, wind and other alternative energy companies	100% exempt up to seven years and 50% rebate on subsequent 3 years
m. If person involved in exploration and extraction of petroleum and natural gas starts commercial operation by mid-April 2019.	100% exempt up to 7 years and 50% rebate in subsequent 3 years

n. Income from export of goods produced by manufacturing industries	75% of normal tax rate
o. Income from construction and operation of road, bridge, airport and tunnel or income from investment in tram and trolley bus	60% of applicable tax rate (i.e.20%)
p. Income of manufacturing Industry, tourism service industry and hydropower generation, distribution and transmission industry listed in the security exchange (i.e. capital market)	85% of applicable tax rate
q. Industry established in least developed areas producing brandy, wine, cider from fruits	60% of applicable tax rate up to ten years
r. Royalty from export of intellectual asset by a person	75% of applicable tax rate
s. Income from sale of intellectual asset by a person through transfer	50% of applicable tax rate
t. Special industry with capital of NRS 1 billion and providing direct employment to more than 500 persons throughout the year	100% exemption for first five years from the date of operation of business and 50% concession for next 3 years
u. For those special industries in operation, if capital is increased to NRS 1 billion, installed capacity is increased by 25% and provided employment to more than 500 persons throughout the year	100% concession for 5 years and 50% concession for next 3 years on income generated due to increased capacity
v. Industry related to tourism industry or international flight operation entity established with capital investment of more than NRS 2 billion	100% concession for 5 years from commencement of business and 50% concession for next 3 years
w. For those entities in operation related to tourism or international flight operation, if capital is increased to NRS 2 billion and installed capacity is increased by 25%	100% concession for 5 years and 50% concession for next 3 years on income generated due to increased capacity

Other tax incentives

Traditional cottage industries are not subject to income tax and VAT.

Dividends received from resident companies to resident and non-resident persons are taxed at a final rate of 5%.

Expenditure incurred on R&D and the installation of pollution control equipment or processes is immediately deductible from taxable income up to 50% of adjusted taxable. The balance is available for deduction through tax depreciation (if qualifying).

Persons are allowed a deduction for donation to approved institutions (i.e. educational, religious and social organizations) up to a limit of 5% of their adjusted taxable income not exceeding NRS 100,000. No income tax shall be levied on the income of certain cooperatives incorporated under the Cooperative Act 2048 conducting agricultural, forestry and other agriculture based activities. Similarly, savings and credit cooperatives operating in rural areas will be exempt from income taxes.

Dividend distributed by industry in SEZ will be tax-exempt for 5 years from the date of commercial transaction and will be taxed at a 50% rebate for 3 years thereafter.

Other Incentives

- Industries importing plant, machinery and equipment required for direct production process falling under chapter 84 of the harmonized customs classification will attract custom duty at 2.5% only.
- Industry in SEZ will get full exemption from VAT while importing machinery, equipment, spare parts, and raw materials and up to 3 vehicles. Furthermore, these industries can avail certain other benefits under VAT Act.
- No excise duty shall be levied on goods to be produced by industries in SEZ.
- Any duties or taxes levied on the raw materials, auxiliary raw materials, etc. used for producing goods for export/deemed export are entitled to get a refund of such duties and taxes based on the quantity of export. The application for this must be submitted within a year of the date of export for duty refund.
- Export-oriented industries may obtain a bonded warehouse facility. The raw materials for the products

of such nature can be imported without paying any customs duty or sales tax by just entering the details of such transactions in a passbook made available by the Department of Customs. The quantity of such raw materials used for manufacturing of exportable products is deducted from the quantity entered in the passbook upon export of finished products. However, the industry must also submit a bank guarantee sufficient to cover the duties. The finished product must be exported within 10 months from the date of import of raw materials. The industry intending to avail of such facility must apply to the Department of Customs.

- Sub-contracting within industries and accelerated rate of depreciation shall be available, along with such other facilities as may be specified by the GoN from time to time.

C. FOREIGN TAX RELIEF

A resident person may claim a foreign tax credit for an income year for any foreign income tax paid by the person to the extent to which it is paid with respect to the person's assessable foreign income for the year. A person may elect to relinquish a foreign tax credit for the year and claim a deduction for foreign income tax for which the credit is available.

D. CORPORATE GROUPS

There is no provision in Nepal for consolidation of accounts for tax purposes or provisions for group taxation.

E. RELATED PARTY TRANSACTIONS

In any arrangements between associated persons, the IRD may, by a notification in writing, distribute, apportion, or allocate the amounts to be included or deducted in the income between the persons as to reflect their taxable income or tax liability when the arrangements are operated by them according to general market practices (at arm's length).

F. WITHHOLDING TAX

A non-resident company carrying on business in Nepal is subject to tax in the same way as a resident company i.e. on income from a source within or deemed to be within Nepal. Payments are subject to withholding tax as follows:

TITLE	DETAIL	RATE
Dividends	Dividends paid by resident companies and partnership firms shall be withheld to the resident and nonresident person both as final withholdings.	5%
Payment to Employees/ Workers	Any amount paid to an employee or worker in lieu of employment is subject to withholding tax. The annual gross earning of an employee is estimated at the beginning of each fiscal year and estimated tax liability ascertained. Tax is withheld each month proportionately on taxable income.	Rate specified in schedule 1
Contract Payments	Tax shall be withheld on payment made under a contract.	1.5% (in case of resident) 5% (in case of non-resident)
Payment of Service fee	Withholding tax on service payments to VAT registered person.	1.5%
Payment of Service fee	Payment to nonresident or non VAT registered person	15%
Payment of Service fee	The tax withholding rates for services provided under the service contract by a foreign subcontractor shall attract a withholding tax from invoices raised without VAT.	15%

Insurance premium	Insurance premium paid to nonresident insurance companies attracts tax which is construed as final tax withholding.	15%
Rent	Payment of Rent is subject to withholding tax.	10%
Interest	Withholding tax is not required for payment of interest to the resident bank or financial institutions. Withholding tax is not required for payment of interest to the Central Bank or Central and State Governments.	No TDS
Interest	Where the interest is paid to a bank or financial institution carrying on a bona fide banking business, which is resident of the other contracting state and is the beneficial owner of the interest.	tax shall not exceed 10% of the gross amount of interest
Others	Payments of fees, royalties, commissions, bonus, rent, interest, windfall gains to non-resident after withholding of applicable withholding taxes will construe to be final tax and it will not require filing of tax returns.	15%

G. EXCHANGE CONTROL

The Nepali rupee is convertible for all current account transactions. Earners of foreign exchange are permitted to retain 100% of their earnings and to open a foreign exchange account in Nepal to hold them.

However, approval from the NRB is required for payments to any person living outside of Nepal. Provisions exist for foreign investors, who have received permission to invest in convertible currency, to repatriate the proceeds from the sale of that investment, the profits or dividends from that investment, and the principal and interest paid on any foreign loans.

H. PERSONAL TAX

For a natural person to be resident of Nepal, s/he has to satisfy any of the following three conditions:

- His/her habitual place of abode is in Nepal;
- S/he resides in Nepal for 183 days or more in any period of 365 consecutive days; or
- S/he is a public servant of government of Nepal, deputed by the employer in any foreign country.

Dual residence is not recognized for the purpose of Nepalese tax. There is no separate provision for taxing the income of short-term visitors. Depending on the length of stay, they will be classified as resident or non-resident and the Nepal-sourced income shall be taxed accordingly. Every person is required to submit a tax return within three months of the end of the income year. The tax filing deadline may be extended for another 3 months.

A resident employer while making salary payment with its source in Nepal is required to withhold taxes at the time of payment or accrual on the principle of PAYE. Income from employment of a resident person is taxed in Nepal irrespective of where its source is located. In case of a non-resident, only Nepal-sourced income is taxed. The entity shall withhold taxes on all remuneration paid to expatriates and local staff at the following rates and deposit with the tax authorities every month. The tax liability of an expatriate in Nepal will be as taxed as a resident or a non-resident.

Tax Band	**Tax Rates for the financial Year 2016-17**			
Resident	**Individual**		**Couple**	
(a) First Slab	Up to 350,000	1%[1]	Up to 400,000	1%[1]
(b) Second Slab	350,001 to 450,000	15%	400,001 to 500,000	15%
(c) Third Slab	450,001 to 2,500,000	25%	500,001 to 2,500,000	25%
(d) Balance Exceeding NRS 2,500,000	> 2,500,000	35%	> 2,500,000	35%

1. A 1% social security tax is imposed on the first bracket of taxable income of salary earners and should be deposited in a separate revenue account with the IRD.

A non-resident person shall be taxed at a flat rate of 25% on the Nepal-sourced earned remuneration. Remuneration earned or received from the exercise of employment is taxed as income from employment. Employment income is defined to include:

- Wages, salary, leave pay, overtime pay, fees, commission, prizes, gifts, bonuses and other facilities;
- Personal allowances including cost of living, subsistence, rent, entertainment and transport allowance;
- Reimbursement of costs;
- Payment for the agreement to any conditions of employment;
- Retirement contributions; and
- Other payments made in respect of the employment.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Country	Dividends	Interest	Royalty	Service fee
Non-treaty countries	5%	5/15% (NOTE 5)	15%	15%
Treaty countries:				
Austria	5*/10**/15%	At most 15/10% (NOTE 1)	At most 15%	15%
China	At most 10%	At most 10%	At most 15%	15%
India	5***/10%	At most 10%	At most 15%	15%
Korea	5*/10**/15%	At most 10%	At most 15%	15%
Mauritius	5****/10**/15%	At most 10/15%(NOTE 2)	At most 15%	15%
Norway	5*/10**/15%	At most 15/10% (NOTE 1)	At most 15%	15%
Pakistan	10**/15%	At most 10/15%(NOTE 2)	At most 15%	15%
Qatar	At most 10%	At most 10%	At most 15%	15%
Sri Lanka	At most 15%	At most 15/10% (NOTE 1)	At most 15%	15%
Thailand	At most 15% (NOTE 3)	At most 10/15%(NOTE 4)	At most 15%	15%

*5% if beneficial owner of shares is a company and it holds at least 25% of shares of the company paying the dividends.

10% if beneficial owner of shares is a company and it holds at least 10% of shares of the company paying the dividends.*5% if beneficial owner of shares is a company and it holds at least 10% of shares of the company paying the dividends.

****5% if beneficial owner of shares is a company and it holds at least 15% of shares of the company paying the dividends.

NOTE 1 Interest shall not exceed 10% if interest is paid to a bank, which is a resident of the other Contracting State and is the beneficial owner of the interest.

NOTE 2 Interest shall not exceed 10% if the beneficial owner is a financial institution, an insurance company or an investment company receiving income from financial investments.

NOTE 3 If beneficial owner of shares is a company and it holds at least 15% of shares of the company paying the dividends.

NOTE 4 15% of the gross amount of interest if it is received by a financial institution (including insurance companies).

NOTE 5 5% if paid to a natural person, not related to business, by financial institutions, listed company or entity issuing debentures, on deposit, loans, bonds, or debentures. 15% in all other cases.

NETHERLANDS

MEMBER FIRM

City	Name	Contact Information
Amsterdam	Jan Roeland	+31 20 653 18 12
		jan.roeland@pkf.nl
Delft	Ruud van der Linde	+31 15 261 31 21
		ruud.van.der.linde@pkf.nl
Rotterdam	Huub Nacken	+31 10 450 40 20
		huub.nacken@pkf.nl
Woerden	Frenk van Vliet	+31 348 41 62 62
		frenk.van.vliet@pkf.nl

BASIC FACTS

Full name:	The Kingdom of the Netherlands
Capital:	Amsterdam; Seat of Government: The Hague
Main language:	Dutch
Population:	17.08 million (2018 estimate)
Monetary unit:	1 Euro (EUR) = 100 cents
Internet domain:	.nl
Int. dialling code:	+31

KEY TAX POINTS

- Corporation tax is payable by residents and non-residents at progressive tax rates.
- There is no special tax rate for capital gains, but gains and losses are included in the company's general taxable income.
- There is withholding tax on dividends but not on interest or royalties.
- Under the participation exemption, dividends and capital gains arising on qualifying shareholdings by a Dutch parent company are free from corporate income tax.
- The Netherlands operate an extensive treaty network.
- Under certain conditions, a parent company may form a 'fiscal unity' with 'wholly owned' (at least 95%) subsidiaries, so that all the companies are taxed as one.
- Companies and individuals are subject to a municipal tax on the ownership of real estate in the Netherlands, based on market value. Purchasers of real estate in the Netherlands are liable to transfer tax.
- Individuals resident in The Netherlands are subject to personal income tax on their worldwide income. Foreign taxes on foreign-sourced income are normally relieved, either under double tax treaties or under Dutch unilateral rules. Non-residents are liable for personal income tax only on income derived from a limited number of Dutch domestic sources such as income received for duties performed within The Netherlands and income from Dutch real estate.
- There is a 'box' system for individuals, whereby there are three boxes for income (work and home; substantial interest in companies with limited liability; and savings and investment) each with their own tax rate.

- Gift tax (on gifts received from a Dutch resident) and inheritance tax (on an acquisition under the law of succession from a person tax resident in the Netherlands at the date of death) are payable by a person receiving a donation or the inheritance respectively. The rates are the same for both taxes and depend of the value of what is received and the degree of relationship.
- A special exemption applies for the transfer of business assets due to inheritance or donation.

A. TAXES PAYABLE

COMPANY TAX

Corporate tax is payable by corporations in The Netherlands (resident taxpayers) and by certain corporations not established in The Netherlands that receive income from sources in The Netherlands (non-resident taxpayers). The term corporation includes companies whose capital consists of shares, co-operatives and other legal entities which conduct business.

The main types of corporations as referred to in the Corporate Tax Act are the joint stock company with limited liability (NV) and the closed company with limited liability (BV). Whether a corporation is resident in The Netherlands depends on the facts and circumstances. Relevant factors include the location of the effective management, the head office and the place where the general meeting of shareholders is held. Under the Corporate Tax Act, all corporations incorporated under Dutch law are resident in The Netherlands but this unilateral tax residency may be overruled by a tax treaty.

The corporate tax rates for 2018 are:

- Taxable profit up to and including EUR 200,000 = 20%; and
- Taxable profit above EUR 200,000 = 25%.

Notwithstanding last year's government plans to increase the first bracket, the Dutch government announced to lower the corporate tax rates instead. Based on the announced plans, the future corporate tax rates will be:

Year	For profits up to EUR 200,000	For profits in excess of EUR 200,0000
2018	20%	25%
2019 (proposed)	19%	24%
2020 (proposed)	17.5%	22.5%
2021 (proposed)	16%	21%
2022 (proposed)	16%	21%

Note that the different rates apply to bands of income rather than to the profit of the company as a whole. A company with a taxable profit of EUR 250,000 would be taxed at 20% on the first EUR 200,000 and 25% on EUR 50,000. Taxpayers are obliged to file a tax return every year within five months following the end of the year concerned. An extension of this time limit may be permitted. Tax is payable within two months upon receipt of an assessment. A provisional assessment for the current year may be raised to lower or prevent 8% Dutch tax interest on the net corporate tax payable.

CAPITAL GAINS TAX

There is no special tax rate for capital gains but gains and losses are included in the company's general taxable income.

BRANCH PROFITS TAX

Dutch source income of non-resident companies is taxed at the same rates as applicable to resident companies. There is no additional branch profit tax.

VALUE ADDED TAX (VAT)

Value added tax (VAT) is a general consumer tax included in the price paid by consumers for goods and services. Consumers pay this tax indirectly and VAT entrepreneurs remit it to the tax department. Based on EU Directives, the general types of taxable activities are:

- The supply of goods;
- The rendering of services;
- The acquisition of goods by entrepreneurs;

- The importation of goods.

There are three rates of VAT:

- The standard rate is 21%;
- A reduced rate of 6%, which mainly applies to food, books, newspapers and drugs (it has been proposed to increase this tax rate to 9% in 2019);
- The zero rate, which is mainly applied to goods and services involved in international trade, so that goods can be exported free of VAT.

The period to which VAT tax returns relate may be a month, a quarter of a year or a whole year. A quarterly VAT tax return is standard. The tax return must be submitted within a month of the end of the period to which it relates. The tax owed must also be paid within this period. Excise Duty is levied on certain consumer goods, including petrol and other mineral oils, tobacco products, alcohol, alcoholic beverages and non-alcoholic beverages. Like VAT, excise duty is included in the price paid by consumers for these goods. The tax is remitted by the manufacturers and importers of the goods concerned.

The basic rule for the place of service for services to businesses (B2B services), in principle, is deemed to be where the customer resides or is established. For services to consumers (B2C services), the basic rule is that VAT is levied in the country in which the supplier is established. However, for e-commerce services VAT is levied in the country in which the consumer is resident. The reverse charge mechanism is obligatory for VAT on cross-border services within the EU. EU listings for services provided intracommunity must be completed. The rules provide a simplified procedure for reclaiming EU VAT for business established within the EU. In principle, these claims are filed with the business' own national tax authorities.

FRINGE BENEFITS TAX

Bonuses to employees are taxed at the normal income tax rates. Another method of rewarding employees is to give them options instead of shares in the company. Options are taxed when exercised or sold on the difference between the market value and the option purchase price against normal tax rates. If a Dutch company issues options and/or shares, the costs are deemed to be non-deductible from the taxable income of the company (subject to certain exceptions).

LOCAL TAXES

There are several municipal taxes of which real estate tax is the most important. Companies and individuals are subject to a municipal tax on the ownership and the use of real estate in The Netherlands, based on the market value of the property. The amount of tax due varies widely among municipalities but is generally a comparatively small percentage of value or income of the property in question. There are no local income taxes in The Netherlands.

OTHER TAXES

The Netherlands does not levy capital tax on the issued share capital. A 6% transfer tax is levied on the acquisition of real estate situated in The Netherlands and rights related to Dutch real estate. For residences, a reduced rate of 2% applies. Transfer tax is also levied on the transfer of shares in a socalled qualifying real estate company and if the shareholding reaches a certain threshold. A double asset threshold will have to be met in order to qualify as a real estate company: owning more than 50% real estate (foreign and Dutch) and at the same time owning 30% or more Dutch real estate. Furthermore, 70% of the total real estate (Dutch and foreign) of the company has to be used in the "real estate business". Besides broadening the scope regarding qualifying companies, additional measures have been introduced to catch arrangements that would previously have escaped the transfer tax, such as by linking associated transactions. The purchaser is liable for this tax.

B. DETERMINATION OF TAXABLE INCOME

Corporate tax is levied on the taxable amount. This is taxable profit received in a year minus deductible costs and losses. The loss carry back period is restricted to one year and the loss carry forward period to nine years (the Dutch government announced that in the near future the loss carry-forward period will be limited to six years). The taxable profit is also reduced by extra allowances such as investment allowances.

INVESTMENT ALLOWANCE

Dutch law provides that investment in qualifying fixed assets generates a deduction from taxable profits. For the 2018 tax year, the deduction is only available in respect of qualifying investments of between EUR 2,300 and EUR 314,673. The deduction is calculated as set out in the following schedule:

Investment	Investment Allowance
EUR 0 to EUR 2,300	EUR 0
EUR 2,301 to EUR 56,192	28% of the investment
EUR 56,193 to EUR 104,059	EUR 15,863
EUR 104,059 to EUR 312,176	EUR 15,873 decreased with 7.56% of the portion of the investment which exceeds EUR 104,891
Above EUR 312,176	EUR 0

Higher investment allowances are permitted for energy investments (i.e. investments which are energy efficient). The investment deduction does not reduce the costs of the assets for tax depreciation purposes. The investment deduction is subject to repayment if assets are disposed of within a certain period of time.

INNOVATION BOX

The innovation box is a corporate tax incentive introduced to promote innovative technology development activities and investments in new technologies. A number of conditions must be fulfilled in order to qualify.

A Dutch taxpayer has to be the owner of intellectual property which needs to be developed in-house. R&D contracting, i.e. outsourcing parts of R&D projects to other companies, is possible although not unlimited because at least a (qualitatively) substantial part of the R&D project management needs to be performed by the taxpayer in the Netherlands. In case of outsourcing over 30% of a project to foreign group companies, the innovation box benefits could be limited. Since 2017 it is also mandatory to show an R&D-certificate covering the R&D process resulting in these IP rights. R&D-certificates are granted by RVO (a Dutch government agency) only when an R&D project has been tested as sufficiently innovative. (Note: R&D-certificates also provide for wage tax subsidy based on the amount of R&D hours and -costs per project).

Larger companies (> EUR 50 million annual revenue) also need additional IP protection such as a patent in order to apply for the innovation box, except when the IP is related to software. Profits in connection with this specific IP are eligible for innovation box benefits (qualifying profits). Methods to determine which part of the taxable annual profit this relates to is to be pre-discussed/negotiated with the Dutch Tax Authorities and laid down in a tax ruling. Qualifying profits are effectively only taxed at a 7% corporate income tax rate, instead of the general corporate income tax rate of 20-25%. Losses on innovative activities may be deducted at the standard rate of 20-25%.

DEPRECIATION

In general, fixed assets can be depreciated. Dutch tax law includes specific rules that potentially limit the depreciation of assets (e.g. real estate, goodwill, and other fixed assets). Tax depreciation on real estate is limited so that the tax written down value cannot drop below certain thresholds. In practice this will mean that depreciation of real estate used for investment purposes cannot be depreciated below its value for the purposes of the Valuation of Immovable Property Act (known as WOZ-value). For real estate used in a business, the limit will be 50% of the WOZ-value. It is expected that from 2019 onwards also real estate used in a business cannot be depreciated at less than 100% of the WOZ-value.

Depreciation of purchased goodwill is limited to a maximum charge of 10% per annum. The general depreciation period of all other assets (such as cars, computers etc.) is limited to a maximum charge of 20% per annum. Certain business assets, not including business assets that are leased out, can be depreciated in an arbitrary manner. Self-created intangible assets (except for goodwill), can be depreciated at once in the year the intangibles are developed or created.

STOCK / INVENTORY

The following stock valuation methods are permitted: valuation based on cost, valuation based on cost or market value (whichever is lower), or the base stock method. The cost of the stock can be determined by either the FIFO or the LIFO method.

CAPITAL GAINS AND LOSSES

Capital gains or losses are assessed as normal corporate income and taxed accordingly.

DIVIDENDS

Dividends are assessed as normal income and taxed accordingly. Dividends qualifying for the participation exemption are tax exempt from the taxable income for corporate tax purposes. For Dutch residents, withholding tax can normally be subtracted from the total (personal or corporate) income tax to be paid. Foreign dividend withholding tax on dividends which are tax exempt under the Dutch participation exemption cannot be offset against corporate tax payable.

INTEREST DEDUCTIONS

Under present law the following is applicable. Interest is generally deductible. However, when paid to shareholders or related parties or, in case of acquisition holdings and, in case of excessive participation interest, limitation rules may apply. Limitation on the deductibility of inter-company interest, inter alia, affects interest paid on debts arising from:

a) Dividends and capital repayments declared but unpaid;

b) Dividends and capital repayments declared and paid when financed through an inter-company loan;

c) The acquisition of the shares of a company from a group company through an inter-company loan. The interest deduction is not denied if the taxpayer demonstrates either an overriding business reason for the transaction or the interest received by the Dutch or foreign creditor is subject to tax at a rate which is reasonable by Dutch standards ("compensatory tax requirement");

d) Thin capitalisation rules have been abolished together with the introduction of a deduction limitation for excessive participation interest (see hereinafter under f.);

e) Limitation on interest deduction concerning acquisition holdings: The interest paid or accrued on intra-group and third party debt arising as a result of the acquisition of Dutch target companies that subsequently become part of a fiscal unity or that are merged with the target company is not deductible, if:

   - The interest exceeds EUR 1,000,000; and,
   - In the case of "unhealthy financing". This is where the debt in the year of acquisition exceeds 60% of the acquisition price. This percentage subsequently declines by 5% over the following seven years to 25%.

   We would like to point out that the aforementioned limitation on interest deductions does not restrict the deduction of interest on third party debts that were used to acquire target companies that do not form a fiscal unity with the Dutch acquisition company (however see hereinafter under (f)). Furthermore, a grandfathering rule applies for acquisitions that resulted in a fiscal unity or a legal (de)merger with the target company that occurred before 15 November 2011. As of 2017 stricter rules have been implemented to address certain perceived loopholes in the current legislation, in short implemented are: (i) stricter rules regarding the calculation of the standalone profit of the acquiring company aimed at avoiding optimization of interest deduction by way of certain debt push down structures, (ii) stricter rules that should result in an effective application of the seven years period and (iii) a stricter application of grandfathering rules enacted in 2012.

f) Deduction limitation for excessive participation interest: These rules focus on the matching of exempt participation income and interest expenses. The new rules disallow the deduction of interest costs relating to excess debt deemed to be associated with the acquisition price of participations. However, the first EUR 750,000 of excessive participation interest is always deductible. Operational participations acquired from third parties in general will be excluded from this rule (so called "expansion participations"). However, be aware that the definition needs further clarification and that participations financed through specific, aggressive tax planning structures are also excluded from the exemption. The excess debt for purposes of this rule will be based on a mathematical rule. Dutch holding companies are likely to be affected by this limitation rule if the following cumulative conditions are met:

   (i) The accumulated amount of interest expenses and other financing expenses exceeds EUR 750,000 per annum; and

   (ii) The holding company's average equity base for tax purposes during the year is lower than the average amount of the accumulated price of its subsidiaries; and

   (iii) The holding company has acquired shares in subsidiaries or made capital investments in subsidiaries which do not qualify as a true expansion (of the group).

LOSSES

In general, losses may be offset against the taxable profits of the preceding year and carried forward for a period of nine years. In the future the carry-forward loss compensation period will be limited to six years. The options for setting off losses for holding companies are limited.

FOREIGN SOURCE INCOME

Object exemption of profits and losses of foreign permanent establishments (PE)

Up until 2012, foreign PE losses were deductible from the worldwide tax profits of Dutch taxpayers, while foreign PE profits were generally exempted. As of 1 January 2012 the following amendments apply:

- An object exemption for (active) foreign PEs, which removes the positive and negative results of the PE from the Dutch taxpayer's tax base and therefore aligns the taxation of foreign PEs more closely with foreign exempt participations;
- A tax credit for foreign low taxed passive PEs this is applicable if the activities of the foreign PE consist primarily of passive investing or leasing and the profit of the foreign PE is not subject to a reasonable rate of taxation, (i.e. a tax rate generally of at least 10%); and
- A measure to allow the final liquidation losses of a PE from the Dutch taxable profit.

TAX INCENTIVES

Tax incentives are offered towards the cost of education and training projects, improvements in working conditions and research projects. Tax incentives are also applicable to companies investing in specified locations or developing new ideas, processes or products. Beneficial tax rules are applicable to investments by individuals in companies that invest in environmentally friendly projects.

PARTICIPATION EXEMPTION

The Dutch participation exemption provides for an exemption from corporate tax on dividends and capital gains arising in respect of (domestic or foreign) shareholdings owned by a Dutch parent company. Capital losses and acquisition and disposal cost are not deductible, except for a capital loss arising upon liquidation of the participation. In general, a Dutch entity can benefit from the participation exemption if it holds at least 5% of the nominal paid-up capital of another company and one of the three below-mentioned tests is met:

i) The subsidiary is not held as a (deemed) portfolio investment ("Motive test"). This motive test should be met if the subsidiary is not merely held with the purpose to generate a return that can be expected from normal asset management; or

ii) The subsidiary is subject to a profit tax resulting in a taxation that is reasonable according to Dutch standards ("Tax test"); or

iii) The aggregated assets of the subsidiary consist for more than 50% of non-portfolio assets or of portfolio investment assets of which the proceeds are taxed at a reasonable tax rate according to Dutch standards ("Asset test"). For purpose of the asset test, real estate assets are deemed to be non-portfolio assets.

In case the applicability of the participation is based on the tax test or asset test, the subsidiary is considered to be a so called "qualifying portfolio investment". As of 1 January 2016 anti-hybrid rules are implemented via the participation exemption. The anti-hybrid rules aim to prevent double-non-taxation through the use of hybrid financing. The rules are however not limited to hybrid loans only. The participation exemption is no longer applicable to payments, or other forms of remuneration, received from a subsidiary to the extent that these payments are, legally or de facto, directly or indirectly, deductible for corporate income tax purposes in the payer's country. The rule applies to payments that are actually deducted and to payments that are, by their nature, deductible even if these payments are limited due to anti-abuse legislation. There are no grandfathering rules for existing financing arrangements.

C. FOREIGN TAX RELIEF

A resident company is taxed on its worldwide income. Certain types of foreign sourced income (for instance income derived from foreign real estate) are exempt from tax, either unilaterally or pursuant to treaty provisions. The exemption is calculated as a pro rata reduction of the amounts of tax computed on worldwide income. For the rules concerning the treatment of foreign permanent establishments see above under foreign source income. Other types of foreign income are normally fully taxable in the Netherlands but a credit for

foreign tax may be granted under various tax treaties or, unilaterally, with respect to dividends, royalties and interest derived from certain developing countries.

D. CORPORATE GROUPS

Under certain conditions, a parent company may form a 'fiscal unity' with one or more 'wholly owned' (95%) Dutch subsidiaries. For the purpose of corporation tax, this means that all the companies in the fiscal unity are taxed as one. The main conditions are as follows:

- The parent company must own at least 95% of the shares of the Dutch subsidiary (95% of the voting rights and 95% of the profit rights);
- The parent company and the subsidiaries must have the same fiscal year;
- Creation and dissolution of the fiscal unity can take place at any moment within the year;
- A fiscal unity with a company which is established under the laws of a foreign country but having its place of effective management in The Netherlands is possible. A fiscal unity with a non-resident company carrying on a trade through a permanent establishment in The Netherlands is also possible;
- Following recent case law, the scope of the fiscal unity legislation has broadened. For example based on this case law it is now also possible to form a fiscal unity between Dutch sister companies owned by an EU/EEA parent or between a Dutch parent and its indirect Dutch subsidiary held via an EU/EEA intermediate company.

The main advantages of a fiscal unity are that the losses of one company can be set off against profits from another, that fixed assets can be transferred at book value from one company to another (subject to an anti-abuse provision) and that only one tax return has to be filed. Nevertheless, due to a conflict with EU law, as of 25 October 2017 new Dutch anti-abuse legislation has been announced which effectively disregards the Dutch fiscal unity when applying other Dutch corporate tax anti-abuse legislation.

E. RELATED PARTY TRANSACTIONS

Transactions between related parties that are not concluded at arm's length basis may be disregarded or may be adjusted appropriately for Dutch tax purposes. As of 1 January 2016 The Netherlands implemented supplementary transfer pricing documentation requirements in line with the OECD's BEPS Action Plan 13. In line with this the Netherlands implemented the standardized three-tiered approach for transfer pricing documentation consisting of the Country-by-Country report (group turnover in excess of EUR 750 million), the master file and the local file (group turnover in excess of EUR 50 million) and nonstandardised transfer pricing documentation (group turnover below EUR 50 million). The requirements are applicable for fiscal years starting on or after 1 January 2016. The Netherlands also accepts

documentation drawn up in English.

F. WITHHOLDING TAX

The Netherlands does not levy withholding tax on interest or royalties only on dividends. Dividends paid to residents or non-residents are subject to a 15% withholding tax. For non-residents the withholding tax may be reduced under a tax treaty.

No withholding tax on dividends will be imposed if the recipient of the dividend is a tax resident in a tax treaty country, unless anti-abuse legislation is applicable. In principle, the anti-abuse legislation covers situations in which a recipient of the Dutch dividend is interposed to lower or prevent Dutch dividend withholding tax which would have been levied if another recipient would have received the dividend. Even if the anti-abuse legislation is applicable, the Dutch dividend withholding taxation is still limited by the EU Parent Subsidiary Directive and by double tax treaties.

G. EXCHANGE CONTROL

There are no exchange controls currently in force in The Netherlands.

H. PERSONAL TAX

Individuals resident in The Netherlands are subject to personal income tax on their worldwide income. Foreign taxes on foreign-sourced income are normally relieved, either under double tax treaties or under Dutch unilateral rules. Non-residents are liable for personal income tax only on income derived from a limited number of Dutch domestic sources such as income received for duties performed within The Netherlands and income from Dutch real estate. The residence of an individual is determined by actual circumstances. One of

the most relevant considerations is whether the individual has his most permanent personal and/or economic ties with The Netherlands.

Income tax is a tax on the annual income of individuals which is levied at progressive rates. Personal circumstances are, however, taken into account and certain expenses are deductible. There is a personal allowance (by tax credits) dependent on individual circumstances. The Netherlands has a system of personal income tax known as the 'box system' which works as follows:

- There are three boxes of income each with its own tax rate, one of which is progressive (Box 1) and two of which are fixed (Boxes 2 and 3);
- If the income in a box is negative, it cannot be offset against positive income in another box;
- There is only one exemption to this rule. In very special circumstances, losses of Box 2 can be offset against positive income of Box 1.

The boxes are:

- Box 1: Taxable income from work and home (the main residence only);
- Box 2: Taxable income from substantial interests in companies (usually BV or NV);
- Box 3: Income from savings and investment.

Box 1: The taxable income which will be taxed in Box 1 includes business income, income from employment or former employment (pension), income derived from certain periodic payments, income from other activities and income from a person's main home. This income is reduced by a number of deductible items which, broadly speaking, are associated with this income. An important one is the interest paid on a mortgage for a main home. The interest on mortgage loans entered into as of 2013 will only be tax deductible if the loan is fully repaid within 30 years at least on an annuity basis. Loans entered into before 1 January 2013 will be grandfathered. The tax rates in Box 1 for 2018 are:

Taxable income EUR	UnderAOW-age[1]	AboveAOW-age[6]
0 – 20,142	36.55%[2]	18.65%[4]
20,142 -33,994	40.85%[3]	22.95%[5]
33,994 - 68,507	40.85%	40.85%
Over 68,507	51.95%	51.95%

Notes:

1. Pension age according to the General Old Age Pensions Act.
2. Comprises income tax of 8.90% and 27.65% social security contributions.
3. Comprises income tax of 13.2% and 27.65% social security contributions.
4. Comprises income tax of 8.90% and 9.75% social security contributions.
5. Comprises income tax of 13.2% and 9.75% social security contributions.
8. For tax payers born before 1 January 1946 the taxable income in the second bracket is EUR 20,142 - EUR 34,404 and the third bracket is EUR 34,404 - EUR 68,507.

If an individual leases a property to a BV (or NV) in which he or she has a substantial interest (see hereinafter), the resulting income and capital gains on that property are also taxed in Box 1. One of the specific rules of the Dutch tax system is that interest paid on a mortgage to finance the main residence (only one per tax resident) is tax deductible. There are some specific rules which, in some cases, prevent full tax deductibility of the interest paid on mortgage. Other personal allowances are, for instance, pension premiums.

Box 2: The income from substantial interests is classified in this box. An individual who holds 5% or more of the shares (or profit-sharing certificates) of a private company with limited liability (BV) or a company limited by shares (NV) is considered to have a substantial interest. To determine whether an individual has a substantial interest, the shares of his partner, relatives or relatives by marriage are taken into consideration as well. Not only is income on the shares but also profits from the sale of such shares taxed in Box 2. The tax rate is 25%.

Box 3: Income from savings and investments is taxed in this box and applies to both residents and non–residents. This box includes assets like investment portfolios, saving accounts and real estate (except the

main residence which is classified in Box 1). Income from assets in this box is fixed at 4% of the total net value (assets minus liabilities) at 1 January of the fiscal year. Until 2016 this fixed income is taxed at a fixed rate of 30%, so the effective rate in Box 3 is 1.2% of the net equity (assets minus liabilities). Actual dividends, interests and rental income are not taxed separately. Withholding taxes on dividends on shares taken into account in Box 3 are credited against the total income tax due.

Effective as from 1 January 2017 a new system of levying taxes in box 3 is introduced. In short box 3 now will have three brackets with different effective rates, based on a fixed income. The rates will be set at the beginning of every tax year. The fixed tax rate remains 30%. See the next table:

Bracket	Box III equity (EUR)	Fixed Income	Effective Box III Tax Rate
1	0 - 100,800*	2.02%	0.61%
2	100,801 - 1,008,000	4.33%	1.3%
3	1,008,001 or more	5.38%	1.61%

*A tax free amount of EUR 30,000 is taken into consideration in this bracket, so the actual bracket is EUR 30,000 - EUR 100,000.

There are no local income taxes. A withholding tax (called 'wage tax') is levied on employment income. The rate of the wage tax equals the Box 1 personal income tax.

THE 30% RULING

In The Netherlands there are special conditions for certain foreign employees who work for an employer who is obliged to withhold Dutch wage tax for a maximum of eight years. They can obtain a 30% tax free allowance for extra territorial costs provided they have a special knowledge or capability which is not, or is rarely, available on the Dutch domestic job market. As of 2012 the "specific knowledge" criterion in principle is fulfilled if a minimum salary requirement is met. Some other restrictions have been introduced, such that the 30% ruling no longer applies for people living in a radius of 150 km from the Dutch borders. (In February 2015 the EU Court of Justice ruled that the 150 km requirement in the 30% ruling in principle is not against the freedom of movement within the EU.)

SHORT STAY IN THE NETHERLANDS

Based on a resolution of 12 January 2010 of the Secretary of Finance for employees who work within a worldwide group and are sent to The Netherlands for less than 60 days over a 12 month period, no Dutch taxes are levied under certain conditions.

INHERITANCE TAX

An inheritance and gift tax applies in the Netherlands. In general, these taxes are payable by the person receiving a gift (from a Dutch resident) or an inheritance (from a person who lived in the Netherlands at the date of death). The rates are the same for both taxes and depend on the value of what is received and the degree of the relationship. There is a minimum rate of 10% and a maximum rate of 40%. There are several exemptions for both gift tax and inheritance tax depending on the circumstances. A special exemption applies to the transfer of business assets due to inheritance or gift. This exemption applies to the total value of the business assets up to EUR 1,071,987 (2018), and 83% of the value exceeding EUR 1,071,987. The exemption applies per business, not per beneficiary.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

The Netherlands does not levy withholding taxes on interest, royalties and rentals nor on personal services. The Netherlands only levies withholding taxes on (payments that qualify as) dividends.

	Dividends[2] (%)		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying Companies (%)		
Domestic rates				
Companies	15[1]	0[2]	0/15[3]	0[4]
Individuals	15			
Treaty countries:				

Albania	15	0/5[5]	0/5/10	10
Argentina	15	10[6]	0/12	3/5/10/15
Armenia	15	0/5[7]	0/5	5
Aruba	15	5/7.5[8]	0	0
Australia	15	15	10	10
Austria	15	5[9]	0	0/10
Azerbaijan	10	5[10]	0/10	5/10
Bahrain	10	0[11]	0	0
Bangladesh	15	10[12]	7.5/10	10
Barbados	15	0[13]	5	0/5
Belarus	15	0/5[14]	5	3/5/10
Belgium	15	0/5[15]	0/10	0
Bosnia and Herzegovina	15	5[16]	0	10
Brazil	15	15	10/15	15/25
Bulgaria	15	5[16]	0	0
Canada	15	5[17]	0/10	0/10
China	10	0[18]/5[16]	10	6/10
Croatia	15	0[11]	0	0
Curaçao	15	0[19]/15	0	0
Czech Republic	10	0[20]	0	5
Denmark	15	0[11]	0	0
Egypt	15	0[20]	12	12
Estonia	15	5[16]	0/10	0/5/10
Ethiopia	5/15	5/10/15[21]	5	5
Finland	15	0[22]	0	0
France	15	5[16]	0/10	0
Georgia	15	0/5[23]	0	0
Germany	15	5[15]	0	0
Ghana	10	5[15]	0/8	8
Greece	15	5[16]	8/10	5/7
Hong Kong	10	0[24]	0	3
Hungary	15	5[16]	0	0
Iceland	15	0[11]	0	0
India	10/15	5/10/15[25]	10/15	10/20
Indonesia	15	5[16]/10[26]	5/10	10
Ireland	15	0[27]	0	0
Israel	15	5	10/15	5/10
Italy	15	5/10[28]	10	5
Japan	10	0/5[29]	0/10	0

Jordan	15	0[30]/5[15]	5	10
Kazakhstan	15	0/5[31]	0/10	10
Korea	15	10[6]	10/15	10/15
Kosovo	15	5[16]	0	10
Kuwait	10	0[11]	0	5
Latvia	15	5[16]	10	0/5/10
Lithuania	15	5[16]	10	5/10
Luxembourg	15	2.5[32]	0/2.5/15	0
Macedonia	15	0[11]	0	0
Malaysia	15	0[33]	10	8
Malta	15	5[16]	10	0/10
Mexico	15	0/5[34]	0/5/10	10
Moldova	15	0[35]/5[16]	0/5	2
Montenegro	15	5[16]	0	10
Morocco	25	10[36]	10/25	10
Netherlands Antilles	15	8.3[37]	0	0
New Zealand	15	15	10	10
Nigeria	15	12.5[38]	12.5	12.5
Norway	15	0[39]	0	0
Oman	10	0[11]	0	8
Pakistan	20	10[6]	10/15/20	5/15
Panama	15	0[40]	0/5	5
Philippines	15	10[12]	0/10/15	15
Poland	15	5[15]	0/5	5
Portugal	10	0[15]	10	10
Qatar	10	0[41]	0	5
Romania	15	0[20]/5[15]	0	0
Russia	15	5[42]	0	0
Saudi Arabia	10	5[15]	5	7
Serbia	15	5[16]	0	10
Singapore	15	0[33]	10	0
Slovak Republic	10	0[20]	0	5
Slovenia	15	5[15]	0/5	5
South Africa	0/10	0/5[43]	0	0
Spain	15	5[44]	10	6
Sri Lanka	15	10[6]	5/10	10
St. Maarten	15	0[11,30]	0	0
Suriname	20	7.5/15[45]	5/10	5/10
Sweden	15	0[20]	0	0

Switzerland	15	0[11,30]	0	0
Taiwan	10	10	0/10	10
Tajikistan	15	15	0	0
Thailand	25	5[16]	10/25	5/15
Tunisia	20	0[11]	7.5	7.5
Turkey	20	15[46]	10/15	10
Uganda	5/15	0[47]	0/10	10
Ukraine	15	0/5[48]	0/2/10	0/10
United Arab Emirates	10	0[49]/5[15]	0	0
United Kingdom	15/10	0[50]	0	0
United States	15	0/5[51]	0	0
Uzbekistan	15	0/5[52]	0/10	0/10
Venezuela	10	0[20]	0/5	5/7/10
Vietnam	15	5/7[53]	5/10	5/10/15
Zambia	15	5[16]	10	10
Zambia (New Treaty) 55	15	5[54]	10	7.5
Zimbabwe	20	10[6]	10	10

Notes:

1. A final dividend withholding tax is levied on dividends, liquidation proceeds and other profit distributions, whether in cash or in kind, paid by resident companies to non-resident shareholders. The rate is 15%, unless a reduced rate applies under a tax treaty.
2. Under the domestic law implementing the provisions of the EU Parent-Subsidiary Directive, dividends, liquidation proceeds and other profit distributions paid by resident companies to their EU parent companies are exempt from dividend withholding tax. For this exemption, it is required that the EU parent is subject to corporate income tax in its state of residence and owns at least 10% of the capital (or 10% of the voting rights under tax treaties where this criterion is used, i.e. the treaties with Germany, Ireland, Italy and the United Kingdom) of the Netherlands subsidiary. The foreign parent may not be a transparent entity and may not have a function comparable with a Netherlands taxable or exempt investment institution.
3. There is no domestic withholding tax on interest, except for interest on participation loans, which are subject to a 15% withholding tax.
4. There is no domestic withholding tax on royalties.
5. The 5% reduced rate applies if the beneficial owner is a company which holds directly or indirectly at least 25% of the capital of the company the capital of which is wholly or partly divided into shares paying the dividends. The 0% rate applies if the beneficial owner is a company which holds directly or indirectly at least 50% of the capital of the company the capital of which is wholly or partly divided into shares paying the dividends and has invested more than USD 250,000 in the capital of the dividend-paying company.
6. The 10% reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the dividend-paying company.
7. The 5% reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the dividend-paying company. The 0% rate applies if the profits out of which the dividends are paid have been effectively subject to the normal rate of corporate income tax in the Netherlands and the dividends are exempt from tax in the hands of the recipient company in Armenia (item XI of the Protocol).
8. The 7.5% reduced rate applies if the dividend is derived by a company the capital of which is wholly or partially divided into shares and which is a resident of the other country and which holds at least 25% of the paid-up capital of the company owning the dividend. The 5% reduced rate applies if the dividend

is subject to a tax on profits at a rate of at least 5.5% in the country of which the company deriving the dividend is a resident.

9. The 5% reduced rate applies if the company receiving the dividends holds directly or indirectly at least 25% of the capital of the dividend-paying company.
10. The 5% reduced rate applies if the beneficial owner is a company which holds directly at least 25% of the capital of the dividend-paying company and provided that an investment of at least 200,000 EUR has been made in the capital of the dividend-paying company.
11. The 0% reduced rate applies if the beneficial owner is a company the capital of which is wholly or partly divided into shares and which holds directly at least 10% of the capital of the dividend-paying company.
12. The 10% reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the dividend-paying company.
13. The 0% reduced rate applies if the beneficial owner is (a) a company that, under conditions, owns directly 10% of the capital in the dividend-paying company (b) is a bank or insurance company (c) a contracting state, a political subdivision or local authority (d) a headquarter company of a multinational group owning at least 10% of the capital of the dividend-paying company or (e) a pension fund.
14. The 5% reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the dividend-paying company. The 0% reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 50% of the capital of the dividend-paying company and provided that an investment of at least 250,000 EUR has been made in the capital of the dividend-paying company or which holds directly at least 25% of the capital of the dividend-paying company and whose investment in the capital of the dividend-paying company is, directly or indirectly, guaranteed or insured by the government of the other state.
15. The 5% reduced rate applies if the beneficial owner is a company which holds directly at least 10% of the capital of the dividend-paying company. The 0% rate applies to dividends qualifying for the EU Parent- Subsidiary Directive.
16. The 5% reduced rate applies if the recipient is a company (other than a partnership) which holds directly at least 25% of the capital of the dividend-paying company.
17. The 5% reduced rate applies if the beneficial owner is a company (other than a partnership) that owns at least 25% of the capital of, or that controls directly or indirectly at least 10% of the voting power in the dividend-paying company.
18. The 0% rate applies if the beneficial owner is the government of the other contracting state, any of its institutions or any other entity the capital of which is wholly owned directly or indirectly by the other contracting state.
19. The 0% rate applies if (i) the receiving company owns at least 10% of the capital of the dividend-distributing company and the shares of the receiving company are regularly traded at the stock exchange or at least 50% of the shares of that company are owned by companies whose shares are regularly traded at the stock exchange (ii) the recipient is a pension fund (iii) the recipient is the government or a government body (iv) the receiving company is qualifying headquarters company or (v) a company with sufficient substance.
20. The 0% rate applies if the recipient is a company the capital of which is wholly or partly divided into shares and which is a resident of the other state and holds directly at least 25% of the capital of the dividend-paying company.
21. 10% if the dividend-paying company is Ethiopian, 15% if the dividend-paying company is Dutch. The 5% reduced rate applies if the beneficial owner of the dividends is (i) a company (other than a partnership) which is a resident of the other contracting state and holds directly at least 10% of the capital of the dividend-paying company or (ii) a pension fund.
22. The 0% rate applies if the Finnish company owns at least 5% of the capital in the Dutch company or for payments to a pension fund.
23. The 5% rate applies if the beneficial owner is a company which holds directly or indirectly at least 10% of the capital of the dividend-paying company. The 0% rate applies if the beneficial owner is a company which holds directly or indirectly at least 50% of the capital of the dividend-paying company and has invested more than USD 2 million in the capital of the dividend-paying company.
24. The 0% rate applies if the beneficial owner is (a) a company (other than a partnership) holding at least 10% of the capital of the dividend-paying company (subject to conditions) (b) a pension fund or scheme (c) a contracting state or a political subdivision or local authority or an institution created by the

government of a contracting state or a political subdivision or local authority thereof or (d) a company which does not qualify under the conditions mentioned under (a), provided certain requirements are met.

25. The rate under the treaty is 15%. However, under the application of a most favoured nation clause the rate is reduced to 10% (Germany-India treaty). The rate is further reduced to 5% on qualifying dividends, i.e. a minimum holding of 10% (the rate is 5% under the India-Slovenia treaty).
26. The 10% reduced rate applies if the beneficial owner is a pension fund, subject to certain conditions.
27. The 0% rate applies if the recipient is a company the capital of which is wholly or partly divided into shares and which is a resident of the other state and holds directly at least 25% of the voting power in the dividend-paying company.
28. The 5% reduced rate applies if the beneficial owner is a company which has held more than 50% of the voting shares of the dividend-paying company for a period of 12 months preceding the date of the dividends were declared. The 10% rate applies if the beneficial owner is a company which has held at least 10% of the voting shares of the dividend-paying company for a period of 12 months preceding the date the dividends were declared.
29. The 5% rate applies if the beneficial owner is a company that has owned, directly or indirectly, shares representing at least 10% of the voting power of the dividend-paying company for the period of 6 months ending on the date on which entitlement to the dividends is determined. The 0% rate applies if the beneficial owner is (i) a company that has owned, directly or indirectly, shares representing at least 50% of the voting power of the dividend-paying company for the period of 6 months ending on the date on which entitlement to the dividends is determined or (ii) a pension fund, provided that such dividends are not derived from the carrying on of a business, directly or indirectly, by such pension fund.
30. The 0% rate applies if the beneficial owner is a pension fund.
31. The 5% reduced rate applies if the beneficial owner is a company which holds directly or indirectly at least 10% of the capital of the dividend-paying company. The 0% rate applies if (a) the Kazakhstan company owns at least 50% of the capital of the Dutch company and that participation has a value of at least USD 1 million and (b) Kazakhstan has secured the participation.
32. The 2.5% reduced rate applies if the recipient is a company the capital of which is, wholly or partly, divided into shares or corporate rights assimilated to shares by the taxation law of the other state, which company controls directly at least 25% of the capital of the dividend-paying company.
33. The 0% rate applies if the beneficial owner is a company the capital of which is wholly or partly divided into shares and which holds directly or indirectly at least 25% of the capital of dividend-paying company.
34. The 5% rate applies if the beneficial owner is a company which holds, directly or indirectly, at least 10% of the capital of the dividend-paying company. The 0% rate applies so long as a company resident in the Netherlands is not subject to tax in the Netherlands in respect of dividends received from a company resident in Mexico (Protocol, art. VII), which is currently the case, subject to conditions.
35. The 0% rate applies if (a) the Moldovan company holds at least 50% of the shares of the Dutch company and the investment amounts to at least USD 300,000 or (b) the investment is guaranteed or insured by the Dutch government or its agency or instrumentality.
36. The 10% rate applies if the recipient is a company the capital of which is wholly or partly divided into shares and holds directly at least 25% of the capital of the dividend-paying company, on conditions that the relationship between the two companies was not established or is not maintained principally for the purposes of benefiting from this reduced rate.
37. The 8.3% rate applies if the recipient is a company that owns at least 25% of the capital in the Dutch company and is subject to tax on profits at a rate of at least 8.3% in the Netherlands Antilles.
38. The 12.5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the dividend-paying company.
39. The 0% rate applies if the beneficial owner is a pension fund or a company (other than a partnership) which holds directly at least 10% of the capital of the dividend-paying company.
40. The 0% rate applies if (a) the beneficial owner is a company which owns directly at least 15% of the capital and certain other conditions are met (b) the dividends are received by a contracting state, a political subdivision or local authority thereof or (c) the beneficial owner is a company which holds directly at least 15% and is the headquarter company of a multinational corporate group.
41. The 0% rate applies if the beneficial owner is a company the capital of which is wholly or partly divided into shares and which holds directly at least 7.5% of the capital of the dividend-paying company.

42. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the dividend-paying company and has invested at least 75,000 EUR in it.
43. The rates under the treaty are 5% and 10%. However, under the application of a most favoured nation clause (introduced by the 2008 Protocol), the rates are reduced to 0% for all dividends. Under the MFN clause in the South Africa-Sweden treaty (introduced by the 2010 protocol), the rates for all dividends are reduced to 0%. The rates under the South Africa-Sweden treaty are reduced to 0% by way of the South Africa-Kuwait treaty. Please note that this only applies in the Netherlands, by way of the Dutch Court Decision No. AWB - 15 395, Lower Court, Zeeland-West Brabant, 19 October 2015.
44. The 5% rate applies if the Spanish company owns at least 50% of the capital in the Netherlands company or if the Spanish company owns at least 25% of the capital in the Netherlands company and another Spanish company also owns at least 25% of such shares.
45. The 7.5% rate applies if the recipient is an entity the capital of which is wholly or partly divided into shares and which has direct control of at least 25% of the capital of the dividend-paying entity, provided that the relationship between the two companies has not been created or maintained in the first place for the purpose of enjoying the benefit of that reduced rate. The 15% rate applies if the 7.5% rate does not apply, if such dividends are not included in the base on which the tax is levied in the country of which the recipient is a resident. The 20% rate applies in all other cases.
46. The 15% reduced rate applies if the recipient is a company (other than a partnership) which holds directly at least 25% of the capital of the dividend-paying company.
47. The zero rate applies if the Ugandan company owns directly at least 50% of the capital in the Netherlands company as long as a company resident in the Netherlands is not subject to tax in the Netherlands in respect of dividends received from a company resident in Uganda (Protocol, article IX), which is currently the case, subject to conditions.
48. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 20% of the capital of the dividend-paying company. The 0% rate applies if the beneficial owner is a company (other than a partnership) (i) which holds directly at least 50% of the capital of the dividend-paying company and provided that an investment of at least USD 300,000 has been made in the capital of the dividend-paying company or (ii) whose investment in the capital of the dividend-paying company is guaranteed or insured by the government of the other state, the central bank or any agency or instrumentality (including a financial institution) owned or controlled by that government.
49. The 0% rate applies to dividends paid to a public body or pension fund.
50. The 0% rate applies if the UK company receiving the dividends owns at least 10% of the voting power of the company distributing the dividends, or when the dividends are received by a pension fund, or a cultural, scientific or educational organization.
51. The 0% rate applies if the US company (i) owns at least 80% of the voting power in the Dutch company for the 12-month period ending on the date the dividends are declared and (ii) owned at least 80% of such voting power prior to 1 October 1998 or qualifies under certain provisions of the limitation on benefits article of the treaty. The 5% rate applies if the US company owns directly at least 10% of the voting power in the Dutch company.
52. The 5% rate applies if the Uzbek company owns directly at least 25% of the capital in the Netherlands company. The 0% rate applies so long as a company resident in the Netherlands is not subject to tax in the Netherlands in respect of dividends received from a company resident in Uzbekistan (Protocol, article VII), which is currently the case, subject to conditions.
53. The 5% reduced rate applies if the Vietnamese company owns at least 50% of the capital in the Dutch company or if the value of the participation is at least USD 10 million. The 7% rate applies if it owns at least 25% of the capital. The 7% rate applies so long as a company resident in the Netherlands is not subject to tax in the Netherlands in respect of dividends received from a company resident in Vietnam (Protocol, article VII), which is currently the case, subject to conditions.
54. The 5% reduced rate applies if the beneficial owner is a company which holds directly at least 10% of the capital of the dividend-paying company or if the beneficial owner is a pension fund. 55. Effective 1 January 2019.

NEW ZEALAND

MEMBER FIRM

City	Name	Contact Information
Dunedin	Jono Bredin	+64 3 951 3162
		jono@pkfbmr.nz
Christchurch	Gordon Hansen	+64 3 366 6706
		gordon@pkfgf.co.nz

BASIC FACTS

Full name:	New Zealand
Capital:	Wellington
Main language:	English, M āori
Population:	4.74 million (2018 estimate)
Monetary unit:	1 New Zealand Dollar ($NZ) = 100 Cents
Internet domain:	.nz
Int. dialling code:	+64

KEY TAX POINTS

- Income tax is payable by resident individuals on their worldwide income. Non-resident individuals pay tax on New Zealand-sourced income only.
- Income tax is payable by New Zealand resident companies on income derived from all sources. Non-resident companies pay tax on income sourced in New Zealand.
- There is no comprehensive capital gains tax. However, where a capital asset is bought for the clear purposes of resale, any profits or gains are regarded as ordinary income. There are also specific income tax provisions in relation to certain land transactions that are similar to a capital gains tax.
- A value added tax called goods and services tax (GST) is levied on the supply of goods and services in New Zealand at a rate of 15%.
- There is a controlled foreign company (CFC) regime, a foreign investment fund (FIF) regime, and there are transfer pricing and thin capitalisation rules.
- Credits are available in New Zealand for the lesser of foreign tax paid or New Zealand tax payable on foreign income, regardless of whether a Double Taxation Agreement (DTA) is in place provided they are of the same nature as income tax. The credits may be subject to limits imposed by DTAs
- Where there is at least 66% common ownership, revenue losses can be transferred between New Zealand tax resident companies. Where there is 100% common ownership between New Zealand tax resident companies, dividends between companies can be exempt, consolidated returns can be lodged and revenue and capital items can be transferred. Company losses can be carried forward indefinitely so long as the same shareholders hold more than 49% of the shares from the date of the losses are incurred until they are utilised.
- A look through company (LTC) regime exists whereby small closely held companies who elect to become an LTC must pass losses (or profits) directly to shareholders. LTC losses are unable to be carried forward. A foreign company cannot be a LTC. Non-resident shareholders can hold shares in a LTC. However, if a non-resident holds more than 50% of the shares any foreign-sourced income must not exceed the greater of NZD 10,000 or 20% of the LTC's gross income for the year.
- Dividends, interest and royalties paid to non-residents are subject to non-resident withholding tax (NRWT) at varying rates.

A. TAXES PAYABLE

COMPANY TAX

Income tax is payable by New Zealand resident companies on non-exempt income derived from all sources. Non-resident companies are required to pay tax on income sourced in New Zealand. Resident companies are companies that are incorporated in New Zealand, or have their head office or centre of management in New Zealand, or control of the company is exercised by directors in New Zealand. The tax year usually runs from 1 April to 31 March, although different balance dates are available in certain circumstances (one example is to align with an overseas parent's balance date). Tax is payable in instalments (referred to as 'provisional tax') if a company's residual income tax (total tax less available credits) exceeds NZD 2,500 per annum.

Income tax returns must be filed with the Inland Revenue Department within four months of the balance date or by 31 March of the following year where the company is enrolled with a tax practitioner that has an extension of time arrangement. The tax rate for companies is 28%. Tax paid is added to an "Imputation Credit Account" (ICA) and is available to shareholders as a tax credit in New Zealand when dividends are "imputed".

PARTNERSHIPS

General partnerships are not separate legal entities. This means that they have no existence separate from the individual partners that comprise them. Limited partnerships have both separate legal status and flow through tax treatment.

TRUSTS

Taxation of trusts is complex and based on the tax residence of the settlor. In general terms, distributions to beneficiaries of resident trusts are taxed at beneficiaries' marginal tax rates, provided that distributions are made in the income year or within a defined period after the end of the income year (maximum 12 months). In contrast, distributions made to New Zealand tax resident beneficiaries of foreign trusts are classified as 'taxable distributions' unless they are made from trust corpus or unrelated party capital gains. Taxable distributions are taxed at beneficiaries' marginal tax rates regardless of the distribution date. Trustee income is taxed at the flat rate of 33%. The trust regime does not apply to unit trusts. Unit trusts are deemed to be companies and are taxed accordingly. Foreign trusts (no resident settlor) are not taxed on foreign sourced income but can be subject to tax at a penal rate of 45% on both revenue and capital distributions in certain circumstances. There are also additional disclosure requirements.

CAPITAL GAINS TAX

There is no comprehensive capital gains tax in New Zealand. However, where a capital asset is bought for the clear purpose of resale, any profits or gains will be regarded as ordinary income.

There are special tax rules that apply to the taxation of land (including buildings fixed to the land). The rules tax not only land bought with the intention of resale but certain land that is developed/subdivided, land sold by entities in the business of dealing, developing or building. Land sold by associates of the entities in business will also be taxable if sold within 10 years of either acquisition or building completion in the case of builders. Land where more than 20% of the profit is attributable to a rezoning will be taxable if the sale occurs within 2 years. There are certain exemptions.

Any profit on the sale of residential land purchased after 1 October 2015 and sold within 5 years of acquisition will be taxable. There is an exemption for a person's "main home". There are strict disclosure rules that must be completed before a sale can be completed. Certain sales made by non-tax residents will be subject to withholding tax.

BRANCH PROFITS TAX

There is no branch profits tax in New Zealand. New Zealand branches of foreign companies are taxed on New Zealand-sourced income only at the corporate tax rate.

SALES TAX / GST (VALUE ADDED TAX)

There is no sales tax in New Zealand, although there are levies on sales of certain products such as alcohol, tobacco and fuel. A value added tax called Goods and Services Tax (GST) is levied at 15% on the supply of goods and services in New Zealand. There are various exceptions including exported goods and services which are charged at 0%. Most land and buildings transactions are also zero rated as are the sale of businesses as a going concern between GST registered parties. A non-tax resident business that has a "taxable activity" in New Zealand and makes "taxable supplies" exceeding NZD 60,000 (registration threshold)

must register for GST. A non-resident business may be able to register for GST in New Zealand even if it does not have a taxable activity in New Zealand. This will enable them to claim back New Zealand GST paid on purchases. The entity must have an activity in its own country that is similar to a “taxable activity” as defined in the New Zealand GST legislation.

From 1 October 2016 new rules apply GST to cross-border “remote services” supplied by non-New Zealand resident suppliers (including e-books, music, videos and software purchased from offshore websites) to New Zealand-resident consumers, by requiring the offshore supplier to register and return GST on these supplies if they exceed the registration threshold.

Supplies of remote services by non-resident suppliers to New Zealand GST-registered recipients for their taxable activity are treated as being supplied outside New Zealand and therefore not subject to GST, unless the supplier chooses otherwise. Where the supplier chooses to treat the supply as made in New Zealand, the supply is zero-rated. The non-resident supplier is then able to claim back any New Zealand GST costs incurred in making the zero-rated supplies. Note that supplies of remote services to a non-registered person resident (consumers) in New Zealand cannot be zero-rated and 15% GST will apply if the supplier is registered for GST (this will be compulsory if the zero rated supplies and supplies to consumers exceed NZD 60,000).

FRINGE BENEFITS TAX (FBT)

FBT is payable by employers on benefits provided to employees. The rate is up to 49.25% of the taxable value of the benefit provided. The FBT year runs from 1 April to 31 March. FBT is payable and returns must generally be filed by the 20th day of the month following the quarters ending 30 June, 30 September, 31 December and 31 March.

KIWISAVER

KiwiSaver is a workplace savings scheme designed to help New Zealanders save for their retirement. It is primarily aimed at employees but all New Zealand residents under the age of 65 may join a KiwiSaver scheme. All eligible employees starting a new job are automatically enrolled in a KiwiSaver scheme and must opt out if they do not want to be part of the scheme. Employees contribute either 3%, 4% or 8% of their gross earnings. Employers are required to contribute to their employee's KiwiSaver account at the minimum of 3% of the employee's gross salary or wage.

OTHER TAXES
GIFT DUTY

The gift duty regime was abolished with effect from 1 October 2011. Prior to this, gift duty applied at graduated rates to transfers of property for less than market value, unless a specific gift duty exemption applied.

ESTATE DUTY

New Zealand no longer has any assets tax imposed on death nor on inheritance.

LAND TAX

New Zealand does not impose a land tax, although local authorities impose “rates” to pay for their services.

STAMP DUTY

New Zealand does not impose stamp duty on the transfer of property.

B. DETERMINATION OF TAXABLE INCOME

Taxable income is determined by ascertaining gross income less all allowable deductions. Generally, to be deductible, expenses and losses must relate directly to the derivation of gross income. Certain expenditure is specifically non-deductible and special rules apply in respect of the categories listed below.

DEPRECIATION

Depreciation rates are set by the Inland Revenue. Application can be made for a special rate. Straightline or diminishing-value depreciation methods can be used for each particular asset. Assets acquired on or after 19 May 2005 and which cost less than NZD 500 can be expensed immediately. From the 2012 income year no depreciation allowance is available for buildings having a useful life of more than 50 years (as determined by IRD) when first built.

RESEARCH AND DEVELOPMENT (R&D) TAX DEDUCTIONS

Taxpayers are allowed to allocate certain R&D tax deductions to tax years arising after the year in which the related expenditure is incurred. This means that deductions will not be lost if there is a shareholding change (that breaches the 49% continuity period) between when the expenditure is incurred and when the deduction is recognised by the taxpayer.

From 1 April 2015 a new tax credit regime was introduced for innovative start-ups to enable them to "cash out" an amount of their tax losses arising from qualifying R&D expenditure. Instead of carrying the tax loss forward to apply against future assessable income, the company receives a refundable tax credit. To qualify a company must be resident in New Zealand (and not be treated as non-resident under a double tax agreement). Companies that eventually earn assessable income or make a successful return on their investment through a non-taxable capital gain will have their cashed-out losses reinstated as losses to carry forward by repaying the value of the cashed-out loss out of the gain made. The regime specifically defines the qualifying R&D and there are a number of eligibility requirements that must be met.

STOCK / INVENTORY

Trading stock is generally valued in accordance with accounting principles. Livestock is valued under specified schemes.

CAPITAL GAINS AND LOSSES

Capital gains and losses on disposal of assets are neither assessable nor deductible. The disposal of depreciable assets will involve tax adjustments where there is a loss on sale or depreciation recovered.

DIVIDENDS

Generally, dividends received by resident companies from other resident companies are taxable. Dividends can be imputed by attaching credits arising from tax paid by the company. The maximum rate at which imputation credits can be attached to dividends will be 28% of the gross dividend (cash dividend plus imputation credits). Provided these dividends are fully imputed (28%) there is no longer a 5% resident withholding tax required.

A credit for overseas tax paid by a company is limited to the NZ tax payable (28%). Foreign dividends received by NZ companies are wholly exempt. Tax on dividends received from entities with Portfolio Investor Entity (PIE) status are capped at 28% and are exempt income to the recipient if tax has been deducted at the correct rate.

INTEREST DEDUCTIONS

No interest deduction is allowed unless it is payable in deriving gross income or necessarily payable in carrying on a business for the purpose of deriving gross income. Companies (except in limited circumstances) are entitled to automatic interest deductions. Thin capitalisation rules limit the interest deduction available to New Zealand entities controlled by a single non-resident. Transfer pricing rules also apply to the rate of interest.

LOSSES

Broadly, a company can carry forward net losses indefinitely provided a continuity of ownership (49% of minimum voting, dividend and capital rights) is maintained from the beginning of the year of the net loss, to the end of the year of carry forward.

INVESTMENT ALLOWANCES

There are no investment allowances in New Zealand.

CONTROLLED FOREIGN COMPANIES

New Zealand operates a controlled foreign companies' (CFC) regime to ensure that foreign-sourced income is included in the New Zealand resident's tax return. CFCs with less than 5% attributable income (e.g. passive income such as rent, royalties, dividends and interest) or CFCs that are Australian resident and subject to Australian tax are not required to calculate CFC attributed income.

Broadly a foreign company will be regarded as a CFC where five or fewer New Zealand residents hold at least a 50% interest or have 'de facto' control.

FOREIGN INVESTMENT FUNDS

The Foreign Investment Fund regime complements the CFC regime and seeks to tax New Zealand residents on an accrual basis where the resident holds a non-controlling interest in a foreign entity.

C. FOREIGN TAX RELIEF

Credits are generally available for the lesser of the foreign tax paid or the New Zealand tax payable on the foreign income.

D. CORPORATE GROUPS

Where there is 66% (or greater) common ownership, tax losses can be transferred by New Zealand resident companies by way of subvention payments (where a profitable company makes a payment to a loss company up to the amount of that loss) or direct offset. Dividends between New Zealand resident companies with 100% common ownership (a wholly owned group) are exempt. Where there is 100% common ownership of New Zealand resident companies, consolidated tax returns can be lodged, and revenue and capital items transferred within the group.

LOOK-THROUGH COMPANY

A look-through company has separate legal personality for corporate law purposes but shareholders are taxed on the underlying profit and loss based on their proportionate share of interests held at the applicable marginal tax rate for that entity.

E. RELATED PARTY TRANSACTIONS

New Zealand has comprehensive transfer pricing and thin capitalisation rules to counter arrangements that seek to reduce the taxable income of New Zealand entities by shifting profits to related entities not resident in New Zealand.

F. WITHHOLDING TAXES

A 33% withholding tax is required to be deducted from dividends with a credit for imputation credits attached (subject to the exceptions referred to under 'Dividends' above). Withholding tax is also deducted from interest with limited exemptions. Dividend, interest and royalty payments made to non-residents are subject to non-resident withholding tax (NRWT). The NRWT rate depends on whether the non-resident is a taxpayer of a country which has a double tax agreement with New Zealand. (Please refer to Section I below).

NRWT (Non-Resident Withholding Tax) payable on a fully imputed dividend paid to a non-resident is 0% if the non-resident has a 10% or more direct voting interest in the paying company; or the non-resident has less than a 10% direct voting interest in the company but the post-treaty tax rate for the dividend is less than 15%. Non-resident shareholders with less than 10% direct voting interests in the paying company are able to receive a supplementary dividend and foreign investor tax credit with imputed dividends. The foreign investor tax credit offsets the 15% non-resident withholding tax deducted.

Withholding tax is also deductible from payments made to non-resident contractors, with exemptions available in certain circumstances. Where interest is paid to non-associated parties resident overseas, a 2% approved issuer levy (AIL) can apply on election instead of NRWT.

G. EXCHANGE CONTROL

There are no exchange controls in New Zealand. While foreign investment into New Zealand is encouraged, sensitive assets are protected by the Overseas Investment Act 2005. Consent must be obtained from the Overseas Investments Office for the acquisition of most land, fishing quotas and significant business assets (exceeding NZD 100 million).

H. PERSONAL TAX

Income tax is payable by New Zealand residents on their worldwide income. Non-resident individuals pay tax on New Zealand-sourced income only. An individual is resident in New Zealand if personally present for more than 183 days in any 12-month period or if the individual has a 'permanent place of abode' in New Zealand. Individuals arriving to live in New Zealand may qualify for a temporary tax exemption on foreign income as a transitional resident. All foreign-sourced income will be exempt, except for employment income connected with employment performed while resident in New Zealand and income from services. The exemption applies

to the first 48 months (four years) following arrival in New Zealand. To qualify, an individual cannot have been tax-resident in New Zealand during the previous ten years.

Income tax is payable on gross income less any allowable deductions. Gross income includes employment income, business income, rents, interest and dividends. Employment income (salary/wages) has tax payments (PAYE) deducted from each salary/wage payment by the employer. Self-employed individuals and those receiving income with no tax deducted at source pay provisional tax in instalments based on their previous year's taxable income. The income tax rates for individuals are as follows:

Taxable Income (NZD)	Rate of Tax
0 - 14,000	10.5%
14,001 - 48,000	17.5%
48,001 - 70,000	30%
70,001 and over	33%

ACCIDENT COMPENSATION (ACC) LEVIES

All employees must pay an ACC earner's levy to cover the cost of non-work related injuries. Earner's levy is charged at a flat rate which may vary for each year. For employees, the levies are collected by the employer and paid to the Inland Revenue Department as part of the PAYE payments. Employers are liable to pay a residual claims levy. Self-employed persons pay a self-employed work levy and the earner levy. The residual claims levy rate is determined by the type of activity carried on by the selfe-mployed person.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)	Interest 1 (%)	Royalties (%)
Non-resident corporations and individuals:			
Non-treaty countries:			
General	30 final	15 final	15 final
Fully imputed	15 final[1]	--	--
Fully imputed non-cash	Nil final	--	--
Treaty countries:			
Australia	0/5/15[2]	0/10	5
Austria	15	10	10
Belgium	15	10	10
Canada	5/15[3]	0/10	5/10
Chile	15	10/15	5/10
China	15	10	10
Czech Republic	15	10	10
Denmark	15	10	10
Fiji	15	10	15
Finland	15	10	10
France	15	10	10
Germany	15	10	10
Hong Kong	0/5/15[4]	0/10	5
India	15	10	10

Indonesia	15	10	15
Ireland	15	10	10
Italy	15	10	10
Japan	0/15[5]	0/10	5
Korea	15	10	10
Malaysia	15	15	15
Mexico	0/5/15[6]	10	10
Netherlands	15	10	10
Norway	15	10	10
Papua New Guinea	15	10	10
Philippines	15	10	15
Poland	15	10	10
Russia	15	10	10
Samoa	5/15[3]	10	10
Singapore	5/15[3]	10	5
South Africa	15	10	10
Spain	15	10	10
Sweden	15	10	10
Switzerland	15	10	10
Taiwan	15	10	10
Thailand	15	10/15	10/15
Turkey	5/15[7]	10/15	10
United Arab Emirates	15	10	10
United Kingdom	15	10	10
United States	0/5/15[8]	0/10	5
Vietnam	5/15[9]	10	10

NOTES:

1. Refer to para F above: NRWT will be 0% if non-resident holds 10% or more direct voting interest.

2 The 5% rate applies if the beneficial owner of the dividends is a company which holds directly at least 10% of the voting power in the company paying the dividends. The 0% rate applies if the beneficial owner is a company that is a New Zealand resident that has owned, directly or indirectly through one or more residents of either Contracting State, shares representing 80% or more of the voting power of the paying company for a 12 month period ending on the date the dividend is declared and the New Zealand beneficial owner (i) is a publicly traded company, or (ii) is owned directly or indirectly by one or more such publicly traded companies or by companies which would qualify for treaty benefits in respect of the dividends if they had direct shareholding in the dividend-paying company, or (iii) has received a determination of entitlement to the treaty benefits. The 0% rate also applies if the New Zealand beneficial owner of the dividends holds directly no more than 10% of the voting power of the Australian company paying the dividends, and the beneficial owner is the New Zealand State, or political subdivision or a local authority thereof (including a government investment fund.

3 The 5% rate applies if the beneficial owner is a company that holds directly at least 10% of the voting power in the paying company.

4 The 5% rate applies if the beneficial owner is a company which holds directly at least 10% of the voting power in the paying company. The 0% rate applies to dividends paid to a company owning

directly or indirectly at least 50% of the voting power of the paying company and which meets specified requirements (listing, eligibility for treaty benefits, etc.). The 0% rate also applies if dividends are paid to, among others, the New Zealand Government or the Central Bank.

5 The 0% rate applies if the beneficial owner of the dividends is a resident of New Zealand and is a company that has owned directly or indirectly, for the period of 6 months ending on the date on which entitlement to the dividends is determined, at least 10% of the voting power of the company paying the dividends and the company that is the beneficial owner of the dividends (i) is a listed and publicly traded company (ii) has at least 50% of its voting power in the aggregate owned directly or indirectly by 5 or fewer companies referred to in (i) and (iii) the requirements of a limitation on benefits clause must be met.

6 The treaty rate is 15%. However, under the application of a most favoured nation clause based on the Australia- New Zealand treaty, a 5% rate applies if the beneficial owner of the dividends is a company which holds directly at least 10% of the voting power in the company paying the dividends. A 0% rate applies if the beneficial owner is a company that is a New Zealand resident that has owned, directly or indirectly through one or more residents of either Contracting State, shares representing 80% or more of the voting power of the paying company for a 12 month period ending on the date the dividend is declared and the New Zealand beneficial owner (i) is a publicly traded company, or (ii) is owned directly or indirectly by one or more such publicly traded companies or by companies which would qualify for treaty benefits in respect of the dividends if they had direct shareholding in the dividend-paying company, or (iii) has received a determination of entitlement to the treaty benefits (cf. the 0% rate under footnote 1).

7 The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the paying company, provided that such dividends are exempt from tax in Turkey.

8 The 5% rate applies if the beneficial owner is a company that owns directly at least 10% of the voting power of the dividend-paying company. The 0% rate applies if a company shareholder owns 80% or more of the voting shares of the dividend-paying company for a 12-month period ending on the date on which entitlement to the dividend is determined and qualifies under certain provisions of the limitation on benefits article of the treaty.

9 The 5% rate applies if the beneficial owner is a company which holds directly at least 50% of the voting power in the dividend-paying company.

NICARAGUA

MEMBER FIRM

City	Name	Contact Information
Managua	Aldo Eli Guerra L.	+505 8886 6076 aldo.guerra@pkfnicaragua.com.ni

BASIC FACTS

Full name:	Nicaragua
Capital:	Managua
Main language:	Spanish
Population:	6,27 million (2018 estimate)
Monetary unit:	Nicaraguan Cordoba (NIO)
Internet domain:	.ni
Int. dialling code:	+505

A. TAXES PAYABLE

COMPANY TAX

The main Nicaraguan taxes are:

1) Income tax.

2) Value Added Tax(VAT).

3) Consumption selective tax.

A company is resident in Nicaragua if it is incorporated or domiciled in the country or has its place of effective management in Nicaragua. Nicaragua has introduced the concept of a permanent establishment (PE), under which a PE may be treated as a resident for tax purposes.

The general income tax rate is 30% or a definitive minimum tax of 1% on gross income obtained during the fiscal year, whichever is higher. Income earned by non-resident individuals from Nicaraguan sources is generally subject to 15% final withholding tax. Calculation of taxable income depends on the classification of the income.

Territoriality principle:

The income tax system is based on the territoriality principle. Companies are subject to income tax only on their Nicaraguan-source income. Nicaraguan-sourced income comprises:

- Income from property located in Nicaragua;
- Income from services supplied to Nicaraguan residents (including services provided by persons not physically present in Nicaragua);
- Income from assets or rights and any other type of passive income in Nicaraguan territory; and
- Income from businesses activities carried out in Nicaragua, regardless of where that income is received.

Tax period:

The tax year generally runs from 1 January to December 31 of each year, although a taxpayer may request permission to adopt one of the following tax periods: April-March or October-September. The tax return must be filed within 3 months after the company's year-end.

Classification of income

- Income or taxable gross income. Taxable income is defined as gross income, less costs and expenses allowed by Nicaraguan legislation. Taxable income includes labour income, income from economic activities and capital income and capital gains (or losses). Certain income is exempt.
- Non-taxable income or gross income (not constitutive of income).

CAPITAL GAINS TAX

A withholding tax rate of 10% is levied on capital gains realized by non-resident individuals through selling real estate property located in Nicaragua.

BRANCH PROFITS TAX

Branches of foreign companies are taxed in the same manner as subsidiaries. There is no branch remittance tax.

VALUE ADDED TAX (VAT)

VAT is an indirect tax levied for acts performed on Nicaraguan territory on the following activities:

- The sale of goods, provision of services, or use or enjoyment of property, the payment shall be made monthly to the tax administration within the fifteen (15) days to the taxable period, or in smaller instalments;
- The import or admission of goods or merchandise, in the Declaration or customs form of import, prior to removal of the goods or merchandise of the enclosure or customs warehousing; and
- The disposal back on imports or internment of goods or goods with customs exemption.

Filing and payment

The VAT return must be filed in the month following the tax period and any VAT due must be paid at that

time. Taxpayers falling within the scope of the large taxpayer regime must submit a VAT return every 15 days.

Taxable persons:

Taxable persons are individuals, legal entities and any economic unit that performs taxable transactions, including the state, autonomous regions, national institutions and municipalities. Tax-exempt persons include: universities and centres for superior technical education, central government and its municipalities, the army and national police forces, members of diplomatic or consular posts of foreign nations (under reciprocity treatment), as well as international organizations and missions, churches and religious foundations, and entities declared exempt from tax by the Constitution. Tax exemptions are also granted by specific laws in respect of certain activities (e.g. tourism, exports and free zones).

Rates

The standard VAT rate is 15%, except for exports of domestic production goods and services abroad, which will be zero-rated.

LOCAL TAXES

Nicaragua's income tax law affects the whole national territory equally.

OTHER TAXES ON CORPORATIONS

Capital Duty
No

Payroll tax
Payroll tax must be withheld at progressive rates, ranging from 0% to 30%.

Real property tax
The municipalities levy a 1% tax on the value of real estate.

Social security
An employer is required to contribute 19% of the gross salary of each employee to social security, subject to a maximum per employee salary of NIO 88,005.78 for 2018.

Stamp duty
Stamp duty is levied on certain types of documents issued in Nicaragua or abroad that produce effects in Nicaragua. The amount varies depending on the transaction.

Transfer tax
No

Other
Mining and oil companies are subject to taxes in addition to the income tax.

OTHER TAXES ON INDIVIDUALS

Capital Duty
No

Real property tax
The municipalities authorities levy a real property tax on the occupation of real property.

Social security
The employee is required to contribute 6.25% of his/her gross salary to social security, subject to a maximum salary of NIO 88,005.78 for 2018.

Stamp duty
Stamp duty is levied on certain types of documents issued in Nicaragua or abroad that produce effects in Nicaragua. The amount varies depending on the transaction.

Capital acquisitions tax
No

Inheritance/estate tax
If the property is required to be registered with the Public Record of Property, an occasional withholding tax will apply at rates ranging from 1% to 4%.

B. DETERMINATION OF TAXABLE INCOME

The net taxable income of a corporation or partnership is determined by subtracting all allowable deductions from gross taxable income. Generally, expenditures and/or losses are deductible provided they are incurred in gaining or producing taxable income, or preserving the source of income. Special rules apply in respect of certain expenditures.

DEPRECIATION

Depreciation is allowed in regard of tangible fixed assets. Depreciation is generally calculated at a fixed annual percentage in accordance with the straight-line method. However, an accelerated depreciation regime is available for exporters under a specific law to promote exports. Maximum depreciation rates for assets are as follows:

Buildings:	Rate (%)
Used for commercial purposes	5
Used for industrial purposes	10
Fixed installations used for agricultural purposes	10
Buildings for rent	3.33

Equipment and machinery	Rate (%)
Used for industrial purposes in general	
Fixed machinery	10
Not permanently attached to buildings	14
other	20
Used in agricultural industries	20

Amortization of intangible assets or deferred expenses is allowed as a deduction.

STOCK / INVENTORY

The Income Tax regulations only allow the use of the average-cost method according to the normal course of operations. No other method is allowed.

CAPITAL GAINS AND LOSSES

A withholding tax rate of 10% is levied on capital gains realized by non-resident individuals through selling real estate properties located in Nicaragua.

LOSSES

Losses may be carried forward for three years. The carryback of losses is not permitted.

FOREIGN SOURCE INCOME

Both residents and non-residents are subject to tax on Nicaragua-sourced income only (however, residents have a base amount that is exempt from taxes). All foreigners who intend to reside indefinitely in Nicaragua are considered residents for tax purposes.

The applicable income tax rates are:

- Employment Income of Residents: progressive up to 30% (base amount is tax-exempt);
- Employment Income of non-residents: flat 20%;
- Taxation on interest: 10% withholding tax;
- Taxation on dividends: 10% withholding tax;
- Taxation on capital gains: the same as employment income.

TAX INCENTIVES

Reduced tax rates are available to companies operating in the tourism and energy sectors.

Incentives Act for Tourism Industry in Nicaragua

The Law of Incentives for the Tourism Industry of Nicaragua provides a number of tax incentives for investment in this sector ranging from investment in the areas of accommodation, food and beverage, travel agencies to tourist transportation, airlines, among others. These incentives are:

- Exemption of 80 to 100 % of the income tax (IR) for a period of ten years.
- Exemption of property tax for a period of ten years.
- Exemption of Value Added Tax (VAT) applicable to design services, engineering and construction services.
- Exemption of import tax and VAT on the local purchase of goods, furniture, equipment, ships and vehicles of 12 passengers or more or cargo vehicles, this must be declared necessary for the establishment and operations of the tourism activity by the Tourism Board; and on the purchase of equipment that contribute to save water and energy and those necessary for the safety of the project.
- Exemption of import tax and VAT on the purchase of non-luxury materials and fixtures of the building.
- In case of reinvestment: if at the end of the incentive regime for ten years, the investor decides to reinvest at least 35% of the value of the originally approved investment, he/ she can receive all the benefits for ten additional years.

C. FOREIGN TAX RELIEF

The Nicaraguan tax system is based on the territoriality principle. Foreign-sourced income is not taxed and thus no foreign tax credit is granted.

D. CORPORATE GROUPS

Group taxation is permitted only when previously approved by the tax authorities. The economic group must submit a business case to the tax administration justifying the economic reason of their request.

Thin capitalization

The Nicaraguan tax system does not impose any form of thin capitalization rules.

Controlled foreign companies (CFCs)

Nicaragua does not have any CFC rules.

E. RELATED PARTY TRANSACTIONS

Transfer pricing provisions have come into effect on 30 June 2017 (enacted by Law No. 822). The transfer pricing rules apply to transactions conducted between an individual or legal entity domiciled or resident in Nicaragua and its related entities resident abroad and entities operating under a special tax regime.

The TP rules: (1) include the arm's-length principle and related-party definition; (2) regulate the criteria that taxpayers must follow to perform a comparability analysis; and (3) establish the transfer pricing methods to apply when assessing the arm's-length principle. The tax authorities are authorized to adjust prices when taxpayers do not comply with the arm's-length principle.

The TP rules also include provisions for Advance Pricing Agreements. Taxpayers are able to request an APA for up to five tax periods.

Taxpayers must prepare transfer pricing documentation on an annual basis. Law No. 822 sets out a general framework for the supporting documentation requirement. Taxpayers must have the transfer pricing documentation prepared by the time they file their tax returns. They must maintain the transfer pricing documentation in case it is requested by the tax authorities. If the tax authorities request the documentation, taxpayers have 10 business days to submit it.

F. WITHHOLDING TAX

Dividends

Dividends paid to a nonresident are subject to a 15% withholding tax. The rate increases to 17% if the payment is made to a resident of tax haven jurisdiction.

Interest
Interest paid to a nonresident or nonfinancial institution is subject to a 15% withholding tax. The rate increases to 17% if the payment is made to a resident of a tax haven jurisdiction.

Royalties
A 15% withholding tax applies to patent royalties paid to a nonresident. The rate increases to 17% if the payment is made to a resident of a tax haven jurisdiction.

Technical service fees

Technical service fees paid to a nonresident are subject to a 15% withholding tax. The rate increases to 17% if the payment is made to resident of a tax haven jurisdiction.

Branch remittance tax

There is no branch remittance tax in Nicaragua.

Other
A 1.5% withholding tax is levied on reinsurance premiums. Income from insurance premiums and income from maritime and air transport are subject to a 3% withholding tax. The rate in other cases generally is 15%. Income from immovable property derived by non-resident companies is subject to a final withholding tax rate of 15% on 70% of the gross amount

G. FOREIGN EXCHANGE CONTROL

There are foreign exchange controls, and the Nicaraguan Central Bank issues foreign exchange rates on a monthly basis. There are no restrictions on the import or export of capital.

Repatriation payments may be made in any currency. In principle, residents may hold bank accounts in any authorized currency, and non-residents may do so in special cases.

H. PERSONAL TAX

Basis
Residents and nonresidents are taxed on Nicaraguan-sourced income only.

Residence
A national or a foreign individual who remains in Nicaragua for more than 180 day during the calendar year, even if not continuously, is considered a resident for tax purposes.

Filing status
A married couple living together may elect joint or separate assessment.

Taxable income
Taxable income includes income from employment, trading income and income from investments in Nicaragua that exceed NIO 100,000

Capital gains
Capital gains are subject to a 10% tax.

Deductions and allowances
A deduction equal to 25% of education, health and professional services expenses is granted annually up to a maximum of NIO 20,000, provided supporting invoices are maintained.

Rates
The rates for a resident individual are progressive up to 30%. The rate is 15% for a non-resident individual deriving Nicaraguan-sourced income,

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Nicaragua has not concluded any double tax treaties.

NIGERIA

MEMBER FIRM

City	Name	Contact Information
Lagos	Tajudeen Akande	+234 903 000 1352 +234 802 303 9317 tajudeen.akande@pkf-ng.com

BASIC FACTS

Full name:	Nigeria
Capital:	Abuja
Main language:	English
Population:	195 million (2018 estimate)
Monetary unit:	Nigerian Naira (NGN)
Internet domain:	.ng
Int. dialling code:	+234

KEY TAX POINTS

- All companies operating in Nigeria outside the oil and gas sector of the economy are required to pay income and education tax. The rate is 30% of total profit for income tax and 2% of assessable profit for education tax.
- VAT is imposed on non-exempt supplies of goods and services within Nigeria as well as on goods imported. Export goods are non-taxable. The standard rate is 5%.
- Certain payments to domestic companies and individuals and non-resident companies/investors are subject to withholding tax at a rate ranging between 2.5% and 10%.
- A resident person is assessable to tax on his global income, i.e. income accruing in, derived from, brought into or received in Nigeria. Non-resident persons pay tax on the portion of their income sourced in Nigeria.

A. TAXES PAYABLE

COMPANY TAX

All companies operating in Nigeria outside the oil and gas sector of the economy are required to pay income and education tax. The rate is 30% of total profit for income tax and 2% of assessable profit for education tax. Total profit is profit after deducting previous year losses carried forward and capital allowances. Assessable profit is obtained prior to deducting capital allowances. A lower income tax rate of 20% is applicable to a Nigerian company that is engaged in manufacturing or agricultural production, mining of solid minerals or wholly export trade, within the first five years of operation, and where the turnover does not exceed NGN 1 million.

Resident companies pay tax on their worldwide income. Non-resident companies are taxed on the proportion of their income earned in Nigeria. Companies are deemed to be resident companies if they are registered or incorporated in Nigeria. The fiscal year runs from 1 January to 31 December. A company can choose any date for its accounting year-end but must file returns not later than six months after its accounting year-end. Tax can be paid in a maximum of six equal monthly instalments if a taxpayer files self-assessment and applies for payment in instalments.

Minimum tax is payable where a company has no taxable profit or the tax payable is less than the minimum tax calculated as the highest of:

- 0.5% of gross profit;
- 0.5% of net assets;
- 0.25% of paid-up share capital;
- 0.25% of turnover up to NGN 500,000;

Plus:

- 0.125% of turnover in excess of NGN 500,000.

Exemption from Minimum tax: a company would not be liable for minimum tax if it meets any of the following conditions:

- It carries on agricultural trade or business;
- It has at least 25% imported equity capital;
- It is still within its first four calendar years of operations.

PETROLEUM PROFIT TAX

Companies in the oil and gas sector are regulated by separate tax laws. Tax rates are different for resident companies in the upstream sector of the oil and gas industry. The rates range from 50% for some of the new production sharing contracts to 65.75% for others in the first five years, during which all pre-operation expenses are expected to be fully amortised, and 85% of their chargeable profits thereafter. The tax rate in the downstream sector is 30%.

Chargeable profit is profit of the company after deducting allowances. Petroleum companies are required to file their returns of estimated tax within two months into a new accounting year and commence payment of the tax in 12 monthly instalments pending determination of the result of their operations at the close of the year. Both estimated and final taxes are computed in US dollars and payment made in US dollars in accordance with returns filed.

CAPITAL GAINS TAX

Capital gains and losses are treated differently from regular business transactions of individuals, partnerships and companies in Nigeria. Gains arising from the disposal of assets are taxed at a rate of 10%. Taxable assets include land and building situated in Nigeria, as well as plant and machinery. Corporate securities are exempted from Capital Gains Tax.

Inflation is rarely taken into account in determining capital gains. Payment of capital gains tax can be postponed if the proceeds on disposal of an asset are reinvested in acquiring similar assets. Capital losses cannot be charged against normal trading income but can be carried forward to offset against future capital gains tax from the same source.

BRANCH PROFITS TAX

There is no branch profits tax in Nigeria. Non-Nigerian companies operating branches, which are exempted from local incorporation by the Federal Government, are treated as separate entities and taxed on income earned from their activities in Nigeria. Activities of non-Nigerian companies, which would attract tax in Nigeria and other special issues, are spelt out in the laws. Examples are turnkey projects, allocation of income and expenditure between the foreign company and its branch in Nigeria, transfer pricing etc.

VALUE ADDED TAX (VAT)

VAT is imposed on non-exempt supplies of goods and services within Nigeria as well as on goods imported. Export goods are non-taxable. The standard rate is 5%. VAT is generally assessed by a taxable person who supplies taxable goods and services and payment is made when filing monthly returns. Transactions on basic food items produced within the country, books and educational materials, plant and machinery for use in Export Free Zone, agricultural equipment, and all medical and pharmaceuticals products and services, amongst others, are exempt from VAT.

OTHER TAXES
CUSTOMS AND EXCISE DUTY

Customs duties are levied on goods coming into the country at varying rates from 5% to 75% of the import value at each port of entry. Excise duties are payable on designated locally manufactured goods in the country.

STAMP DUTIES

A number of transactions attract stamp duties. These include incorporation of companies, increase in companies' authorised share capital, mortgage bonds, debenture and dealing in securities, settlement of estates and conveyance of property. Recently, the Central Bank of Nigeria directed that electronic transfers and teller deposits from NGN 1,000 and above paid into any current account shall be liable to NGN 50 stamp

duty. This charge will apply to each eligible transaction and is payable by the receiving account.

LOCAL TAXES

States in Federation (there are now 36 states) have a variety of local taxes in their areas of jurisdiction. Local taxes include motor vehicles' licence/registration, consent fees for transfer of property in real estate, property tax, gaming/casino tax, water rates etc. Local Councils impose charges and several other taxes.

B. DETERMINATION OF TAXABLE INCOME

Taxable profit of a company is determined by ascertaining its income on ordinary activities and subtracting all allowable deductions based on financial results of the preceding year. To be deductible, expenses must be of a revenue nature and incurred wholly, exclusively, necessarily and reasonably for earning the income reported. Donations to certain bodies are not allowable for tax purposes.

CAPITAL ALLOWANCES / DEPRECIATION

Capital allowances are granted to companies against taxable income in lieu of the wear and tear of business assets. Rates of capital allowances are highest (95%) for expenditure on replacement plant and machinery for mining, agricultural production, industrial plant and machinery, and motor vehicles used for public transportation. In addition, reconstruction investment allowance of 10% is available to companies in their first year of acquisition of plant and equipment and investment allowance at 15% for companies in gas utilisation. Companies and other organisations engaged in research and development activities also enjoy 20% investment tax credit on their qualifying expenditure for that purpose.

Other business assets such as factory buildings, furniture and fittings enjoy capital allowances at lower rates but generally at 50% initially and 25% annually in other cases.

STOCK / INVENTORY

Closing stocks have to be appropriately valued at the lower of cost or net realisable value. Accepted valuation methods are first-in-first-out (FIFO) and weighted average but last-in-first-out (LIFO) valuation is not acceptable. Valuation method once adopted must be consistently followed.

CAPITAL GAINS AND LOSSES

Capital gains and losses as discussed above are excluded from regular trading operation of a company and assessed separately under different tax laws.

DIVIDENDS

Dividends received by a Nigerian company from other domestic companies are excluded in the determination of taxable income to the extent that such distribution has suffered withholding tax in the hands of the recipient. Dividends paid to non-resident companies and investors attract withholding tax of 10%, which is the final tax, while dividends distributed by Unit Trusts and pioneer companies during the pi oneer period are tax-exempt in the hands of recipients and withholding tax is not deductible for such dividend. The tax law requires any company that intends to declare an interim dividend in any financial year to pay tax at 30% of the profit from which dividend is to be paid before the payment of such dividend.

INTEREST

Interest paid on loans used for business operations are allowable for tax purposes. For a new business, such interest is capitalised prior to starting commercial production. Interest income received by lending institutions on loans to export oriented companies and agricultural businesses are granted tax exemptions depending on tenure and moratorium of the loans.

LOSSES

Normal business losses can be carried forward indefinitely except for insurance companies who can only carry forward losses for a maximum of four years.

TAX INCENTIVES:
GOVERNMENT INCENTIVES TO INDUSTRY

The Nigerian Investment Promotion Commission (NIPC) and Federal Inland Revenue Service (FIRS) recently issued a compendium of fiscal incentives and sector-wide fiscal concessions based on the 2016 Fiscal Policy. These incentives fall within the following broad categories:

1 General Tax based Incentives;
2 Sector Specific Incentives;
3 Tariff based Incentives;
4 Export Incentives;
5 Special Economic Zones.

Enterprises which fulfil the required criteria are free to apply for the following specific incentives:

1. PIONEER STATUS

100% tax-free period for an initial three years and additional one or two years upon renewal for pioneer industries that produce products declared as "pioneer products" under the Industrial Development (Income Tax Relief) Act and by the Federal Government of Nigeria periodically.

2. RURAL INVESTMENT ALLOWANCE

There is tax relief available of between 15% to 100% of the cost of providing basic infrastructure such as roads, water, electricity, where such facilities are located at least 20 km. from similar facilities provided by the government and it is tax deductible.

3. REPLACEMENT OF INDUSTRIAL PLANT AND MACHINERY

Plant and machinery purchased to replace old ones are to enjoy a final 95% capital allowance in the first year and the remaining 5% to be retained as the book value until the final disposal of the asset.

In addition, an investment tax credit of 15% was granted for such replacements with effect from 1 January 1996.

4. RESEARCH AND DEVELOPMENT (R&D)

There is an incentive of 120% tax deductible expenses provided the research and development is carried out in Nigeria and 140% for R&D on local raw materials.

Expenses incurred by other companies in respect of R&D are tax deductible for a company but the amount deducted must not exceed 10% of the company's total profit for that year of assessment.

5. ABOLITION OF EXCISE DUTY

In order to boost local industries, stimulate trade and reduce business costs, the Government decided that all excise duties be abolished with effect from 1 January 1998 but from 1 January 1999 excise duties were re-introduced on the following specific products:

- Spirits and other spirit-based alcohol;
- Cigarettes, cigars, cheroots and cigarillos;
- Other manufactured tobacco and tobacco-manufactured substitutes.

6. EXPORT PROCESSING ZONE INCENTIVES

For duly approved enterprises operating within export processing zones, the following incentives are available;

i. Exemption from federal, state and local government taxes, levies and rates;
ii. 100% foreign ownership of investment;
iii. Free transferability of capital, profits and dividends by foreign investors;
iv. Rent free land at construction stage;
v. Duty free, tax free on import of raw materials for goods destined for re-export;
vi. Waiver on all import and export licenses;
vii. Waiver on expatriate quotas for foreign personnel;
viii. Any company within the export processing zone that has incurred expenditure in respect to building and plant equipment in an approved manufacturing activity is liable to be granted 100% capital allowance in any year of assessment.

7. TAX RELIEF FOR EXPORT ORIENTED ENTERPRISES

a. The profit or gains of 100% of export oriented undertakings established outside an export free zone shall be fully exempted from income tax for three consecutive assessment years provided that:

i. The undertaking is 100% oriented;

ii. The undertaking is not formed by splitting up or the reconstruction of a business already in existence;

iii. It manufactures, produces and exports during the relevant year, and the proceeds or goods exported during the year are not less than 75% of its turnover for the year;

iv. The undertaking is not formed by transfer of machinery or plant previously used for any purpose to the new undertaking or, where it does, the written down value does not exceed 25% of the total value of the plant and machinery;

v. That the undertaking repatriates at least 75% of the export earnings to Nigeria and places this in the domiciliary account with a bank in Nigeria.

b. There is also an export expansion grant scheme which provides a post-shipment incentive designed to stimulate export oriented activities.

8. OIL & GAS FREE ZONE INCENTIVES

For duly approved enterprises operating within oil and gas free zones, the following incentives are applicable;

i. Exemption from federal, state and local government taxes, levies and rates;

ii. 100% foreign ownership of investment;

iii. Free transferability of capital, profits and dividends by foreign investors;

iv. Rent free land at construction stage;

v. Exemption from federal, state and local government taxes, levies and rates;

vi. Duty free import of goods;

vii. Waiver on import and export licensing;

viii. Waiver on expatriate quota for foreign personnel.

9. SOLID MINERALS INCENTIVES

Companies engaged in the mining of solid minerals are entitled to claim initial and annual allowances as follows:

- Initial Allowance: 95%;
- Annual Allowance: Nil.

In addition, they are granted a tax-free holiday for the first three years of operation.

10. TAX INCENTIVES FOR COMPANIES IN GAS UTILIZATION (DOWNSTREAM OPERATIONS)

Companies engaged in the marketing and distribution of natural gas for commercial purposes, are eligible for;

i. Tax exemption for a three years period in the first instance and an additional period of two years subject to satisfactory performance;

ii. Dividend paid during this tax-free period which will also not suffer withholding tax deductions where the investment for the business was in foreign currency or imported plant and machinery during the period was not less than 30% of its share capital;

iii. As an alternative to i. above, an additional investment allowance of 35% which shall not reduce the value of the asset;

iv. Accelerated capital allowance after the tax free period in i. above; an annual allowance of 90% with 10% retention for investment in plant and machinery;

v. Investment allowance of 15% which shall not reduce the value of the asset;

vi. Tax deductibility of any loan obtained with the prior approval of the Minister charged with the responsibility for Finance

11. TAX INCENTIVES FOR HOTELIERS AND TOURISM SERVICES

25% of income derived from tourism by hotels in convertible currencies will be exempted from tax with effect from 1996 provided such incomes are set aside and put in a reserve fund to be utilised within five years in expansion or the construction of new hotels, conference centres and new facilities useful for tourism development.

12. TAX EXEMPTION ON INTEREST ON BONDS AND SHORT-TERM SECURITTIES AND PROCEEDS FROM DISPOSAL OF GOVERNMENT AND CORPORATE SECURITIES

Effective from 2011, there is a tax exemption for interest earned on;

i. Short term Federal Government securities such as treasury bills and promissory notes;

ii. Bonds issued by Federal, State and Local Government and their agencies;

iii. Bonds issued by corporate bodies including supra-nationals.

With the exception of bonds issued by the Federal Government, the exemption is for a ten year period.

The incentives set out in this section are in no way exhaustive and neither are the quantum nor percentage of relief mentioned fixed for all time. There is therefore the need to ascertain the current operative figures at the time of making investments.

C. CORPORATE GROUPS

There are no provisions for consolidation of accounts for group taxation in Nigeria.

D. RELATED PARTY AND ARTIFICIAL TRANSACTIONS

Related party transactions are required by the tax laws to be disclosed separately and the tax officials are given power to determine whether the transactions are at arm's length and the necessary adjustment to be made to make-up the liability. When a disposition is not, in fact, given effect to and the transaction is artificial or fictitious, the transaction may be set aside by the Revenue authorities.

In March 2012 the Tax authority published transfer pricing (TP) guidelines on "connected taxable person" which include various categories of entities, individuals, companies, partnerships, joint ventures, trusts or associations. This regulation shall apply to transactions between connected persons within and outside Nigeria carried on in a manner consistent with the arm's length principle and includes:

(i) Transactions between a permanent establishment (PE) and its head office or other related branches. Branches are treated as separate entities;

(ii) Sales and purchase of goods and services;

(iii) Sales, purchase or lease of tangible assets;

(iv) Transfer, purchase or use of intangible assets;

(v) Provision of services;

(vi) Lending or borrowing of money;

(vii) Manufacturing arrangement;

(viii) Any other transaction which may affect profit and loss or any matter incidental to the foregoing.

For each tax year, a connected taxable person shall, without notice or demand, make a disclosure in the prescribed form (through a TP disclosure form) with details of transactions that are subject to this regulation. The TP disclosure form and other necessary document shall be filed along with the connected persons' annual income tax returns for each tax year.

On 21 January 2018, the FIRS announced the signing of the Income Tax (Country-by-Country reporting) Regulations 2018 (the CbCR Regulations) by the President. This follows from the ratification of the Multilateral Competent Authority Agreement on the Exchange of Country-by-Country Reports (CbCR MCAA) by Nigeria in January 2016 and the subsequent ratification by the Federal Executive Council in August 2016. The CbCR Regulations were signed to comply with the recommendations in the final report on Action 13 ("Transfer Pricing Documentation and Country-by-Country Reporting") of the OECD Base Erosion and Profit Shifting (BEPS) project which requires signatory countries to develop local rules regarding CbC reporting to enhance transparency in tax administration.

Under the CbCR Regulations, multinational enterprises (MNEs) are required to provide the FIRS with the necessary information on their global allocation of income, economic activities and taxes paid in countries where they have economic footprints.

The CbCR Regulations, once they will have been gazetted, will require MNEs headquartered in Nigeria with an annual turnover equal to or exceeding 750 million EUR (or the equivalent in NGN) to disclose information of their business activities to the FIRS on an annual basis. This information will automatically be available to other CbCR MCAA signatory countries. Similarly, the FIRS will have access to relevant global information of MNEs with subsidiaries in Nigeria.

E. EXCHANGE CONTROL

Exchange control regulations have been abolished in Nigeria. Under the new foreign exchange and investment promotion laws, a foreign investor is guaranteed unconditional transferability of funds through an authorised dealer in freely convertible currencies in respect of:

- Dividends or profit (net of taxes) attributable to the investment;
- Payment in respect of loan serving where a foreign loan has been obtained;
- The remittance of proceeds (net of all taxes) and other obligations in the event of a sale or liquidation of the enterprise or any interest attributable to the investment. Authorised dealers of foreign currencies need to notify the Central Bank of Nigeria of any cash transfer to or from a foreign country of any sum in excess of USD 10,000.

A tax clearance certificate must, however, be obtained by anyone wishing to remit dividend and interest funds outside the country.

F. WITHHOLDING TAXES

Certain payments to domestic companies and individuals and non-resident companies and investors are subject to withholding tax at the following rates:

	Corporate Bodies (%)	Individuals(%)
Dividends	10	10
Interest	10	10
Director Fees	10	10
Rent (including hire of equipment)	10	10
Royalties	10	5
All aspect of building, construction and related activities	5	5
All aspects of contract activities or agency arrangements including contracts for supply (excluding survey, design and deliveries)	5	5
Management services	10	5
Consultancy and professional fees	10	5
Technical services	10	5
Commissions	10	5

Withholding tax paid by a resident person and companies in Nigeria is payment on account of tax and can be used to offset part of personal and companies' income tax except in the case of dividend and interest (franked investment income) where withholding tax becomes a final tax. Withholding tax paid by non-resident individuals and companies is a final tax.

G. PERSONAL TAX

While the above outline applies mainly to companies, different tax rules and principles apply to individuals in employment, sole traders, partners in a partnership and trustees as outlined below. The concept of residence determines the extent to which the income of taxpayer is liable to Nigerian tax. A resident person is assessable to tax on his global income, i.e. income accruing in, derived from, brought into or received in Nigeria. An individual is regarded as resident in Nigeria in an assessment year if he/she:

(i) Is domiciled in Nigeria;

(ii) Sojourns in Nigeria for a period or aggregate periods amounting to 183 days or more in a 12 month period; or,

(iii) Serves as a diplomat or diplomatic agent of Nigeria in a country other than Nigeria.

The profit of a trade, profession or vocation is liable to tax in Nigeria regardless of the period such a trade, profession or vocation has been carried on. Income from employment, however, is liable for tax when a person becomes a resident. Non-resident persons pay tax on the portion of their income sourced in Nigeria. They become liable for tax from the day they begin to carry on a trade, business, profession or vocation in Nigeria. Double tax treaties have been concluded with a number of countries and double tax relief applies to such income. The pay-as-you-earn (PAYE) system of collection is in operation. There are a number of allowances against total income.

INCOME TAX TABLE

(1) Relief shall be granted thus:

- Higher of 1% of gross income;
- Or a consolidated relief allowance on income at a flat rate of NGN 200,000 plus 20% of gross income.

(2) Tax Exempt Income: The following deductions are tax exempt:

(a) National Housing Fund Contribution;

(b) National Health Insurance Scheme;

(c) Life Assurance Premium;

(d) National Pension Scheme;

(e) Gratuities.

(3) After the relief allowance and exceptions have been granted in accordance with paragraphs 1 and 2 of the Schedule to the New Personal Income Tax (Amendment) Act 2011, the balance of income shall be taxed as specified in the following tax table, subject to a minimum of 1% of gross income whichever is higher.

- First NGN 300,000 at 7%;
- Next NGN 300,000 at 11%;
- Next NGN 500,000 at 15%;
- Next NGN 500,000 at 19%;
- Next NGN 1,600,000 at 21%;
- Above NGN 3,200,000 at 24%.

Note:

- Gross emolument is defined to include benefits in kind, gratuities, superannuation and any other income derived solely by reason of employment.
- Principal place of residence to include places where branch offices and operational site of companies are situated.
- Operational sites are defined in the bill to include oil terminals, oil platforms, flow stations, construction sites, etc. with a minimum of 50 workers.
- Full tax exemption to be granted on interest from bonds issued by Federal, State and Local Governments and their Agencies, corporate entities and interest earned on short-term securities.
- Interest for default in tax remittance to be charged at the bank base lending rate on an annual basis.
- Individual tax clearance certificates (TCC) to be required for change of ownership of vehicles and application for land title transfer or perfection.
- Due date for filing employee tax returns to be 31 January.
- Stiffer criminal penalties for non-compliance. The penalty for late filing by corporate bodies is NGN 500,000 and NGN 50,000 for individuals.
- Tax officers to apply for a warrant from the High Court before levying any distress on a taxpayer.
- "Itinerant worker" includes an individual irrespective of his status who works at any time in any state during a year of assessment (other than as a member of the armed forces) for wages, salaries or livelihood by working in more than one state for a minimum of 20 days in at least three months of every assessment year. The relevant tax authorities are empowered to collect taxes from an itinerant worker.

SOCIAL SECURITY

Nigeria operates a national contributory pension scheme. The required rate to be contributed by the employer has been increased to a minimum of 10% (previously 7.5%) of the employee's monthly emoluments while the required rate to be contributed by the employee increased to a minimum of 8% (previously 7.5%) of his/her monthly emoluments.

H. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)	Interest (%)	Royalties (%)	Technical/ Management fees (%)
Non-treaty countries	10	10	10	10
Treaty countries:				
Belgium	7.5	7.5	7.5	10
Canada	7.5	7.5	7.5	10
China	7.5	7.5	7.5	10
Czech Republic	7.5	7.5	7.5	10
France	7.5	7.5	7.5	10
Netherlands	7.5	7.5	7.5	10
Pakistan	7.5	7.5	7.5	10
Philippines	7.5	7.5	7.5	10
Romania	7.5	7.5	7.5	10
Slovak Rep.	7.5	7.5	7.5	10
South Africa	7.5	7.5	7.5	10
Spain[1]	7.5	7.5	7.5	10
United Kingdom	7.5	7.5	7.5	10

Notes:

1. The Federal Government of Nigeria, on 26 January, 2018, ratified the double tax treaty between Nigeria and Spain making it a part of the country's domestic law. The treaty is expected to enter into force three months after the exchange of notifications by the parties to the treaty.

NORWAY

MEMBER FIRM

City	Name	Contact Information
Oslo	Rolf Arentz-Hansen	+47 465 00 764 rah@pkfblr.no pkf@pkfblr.no

BASIC FACTS

Full name:	Kingdom of Norway
Capital:	Oslo
Main language:	Norwegian
Population:	5.34 million (2018 estimate)
Monetary unit:	Norwegian Krone (NOK)
Internet domain:	.no
Int. dialling code:	+47

KEY TAX POINTS

- The tax rate on income in Norway has been reduced from 28% in 2014 to 23% in 2018. To offset the shortfall in revenues, tax on dividends has increased correspondingly, keeping the combined tax on company revenue and dividends at approximately the same level, between 46.5 and 47.0%.
- Company tax is payable by Norwegian resident companies on income from all sources. Nonresident companies pay tax on income sourced in Norway.
- There is no separate capital gains tax. Capital gains are treated as ordinary income and capital losses are treated in the same way as trading losses.
- A credit is available for overseas tax payable against Norwegian tax on the same income. Foreign tax on business income may be deducted as an alternative to taking a tax credit.
- Group companies cannot file consolidated tax returns. Where there is more than 90 % common ownership, income can be transferred between resident companies as a means of off-setting profits with losses within the group.
- The arm's length principle generally applies to transactions between related parties.
- Withholding tax must be deducted from dividends paid to non-residents, although there is no withholding on dividends paid to corporate shareholders resident in and performing real economic activities in the EEA. Interest and royalties are not subject to withholding tax.
- Income tax in payable by residents on income derived from all sources. Non-residents only pay tax on Norwegian-sourced income.

A. TAXES PAYABLE

COMPANY TAX

Company tax is payable by Norwegian resident companies on non-exempt income derived from all sources. Non-resident companies are required to pay tax on income sourced in Norway. A company is treated as resident if it has its central management and control or head office located in Norway and, for all practical purposes, a company registered in Norway is also considered a resident.

The company tax rate on income is 23% (down from 24% for 2017). The tax year is usually the calendar year, although this can be deviated from in certain circumstances, such as to align with non-Norwegian parent company's financial year. The tax year follows the financial year. Tax is payable in four instalments in the year following the tax year.

The first two instalments on 15 February and 15 April, are based on the last tax assessment, normally being the year before the tax year. The balance after the final tax assessment is payable in two instalments, three and eight weeks after the final tax assessment is made, but not earlier than 20 August. Company tax returns must be filed by the end of May for the preceding tax year. It is possible to get an agreed postponement.

CAPITAL GAINS TAX

There is no separate capital gains tax. Capital gains are treated as ordinary income and capital losses are treated in the same way as trading losses. However, gains on the disposal of shares of resident companies are exempt from tax (and losses on such disposals are not deductible). 3% of dividends received from companies that are tax residents in EEU is taxed as ordinary income unless the receiving part holds more than 90% of the shares and voting power in the company paying the dividend. Dividends are fully taxable if received from a non-EEU resident or if the dividend is deductible for the distributing company.

BRANCH PROFITS TAX

There is no separate branch profits tax in Norway. Non-resident companies carrying on a business in Norway are taxed on the profits of that business in the same way as resident companies.

VALUE ADDED TAX (VAT)

VAT is levied on the sale of most merchandise and services and on imported goods and services. The VAT rate is 25% (15% on food, 12% on passenger transport, broadcasting, cinema tickets, sports events, leisure parks and experience centre tickets and letting of rooms in hotels, motels and tourist cabins, etc.). Some goods are exempt but VAT on the purchase of materials and goods is still deductible for these businesses. This also applies to exports, newspapers, certain periodicals and international transportation. Other areas are exempt without any credit for input tax. This is the case for health services and financial services.

FRINGE BENEFITS TAX (FBT)

Both residents and non-residents are taxed on fringe benefits. The value of the benefits is taxed as the top slice of employment income. The highest marginal tax rate is 46.6%.

SOCIAL SECURITY CONTRIBUTIONS

Employers are liable to pay social security contributions relating to salaries and benefits paid to their employees. The fee levied is 14.1 % in central areas. Lower rates are available for certain employees in areas in the north of Norway. Social security tax is payable at a rate from 5.1% to 11.4% for individuals, see 'H. Personal Tax; Other Taxation' below.

LOCAL TAXES

Property taxes in some urban areas are levied at a maximum 0.7% of the tax value of the property.

OTHER TAXES

Real estate transactions are subject to 2.5% Stamp Duty.

B. DETERMINATION OF TAXABLE INCOME

The taxable income of a company is determined by ascertaining assessable income and then subtracting all allowable deductions. Generally, to be deductible, losses and expenses must relate to producing the assessable income. Some items such as entertainment expenses and gifts are specifically non-deductible. Only realised expenses are deductible. Special rules apply to the categories listed below.

DEPRECIATION

Book depreciation is not allowable for tax purposes. Assets with an expected life of more than three years and costing more than NOK 15,000 should be depreciated on a declining-balance method using the following maximum rates:

Description	Rate (%)
Office machinery	30
Purchased Goodwill	20
Trucks, trailers, buses, taxis and vehicles for disabled persons	24[1]
Cars, agricultural tractors, machinery, tools, instruments etc.	20
Ships, drilling platforms, vessels, etc.	14
Aeroplanes	12
Power stations, power lines	5
Industrial buildings, hotels, restaurants	4[2]
Office buildings	2
Technical installations in buildings	10

NOTES:

1 Electrical powered vans: 30% from 2017;

2 Buildings and installations with an economic life less than 20 years: 10%. Buildings for farm animals: 6%.

STOCK / INVENTORY

All trading stock held at the beginning of the tax year and at the end of the tax year must be taken into account when determining taxable income. Stock is valued at cost without regard to real value. Work in progress and finished products are valued at direct variable cost of materials and labour. Real value is not taken into account. Accepted valuation method is FIFO not average cost or LIFO.

CAPITAL GAINS AND LOSSES

See text above.

DIVIDENDS

Dividends are not deductible for income tax purposes for the dividend paying company. Dividends received from other Norwegian companies are tax-exempt under the participation exemption. However, 3 % of the dividend is added to the recipient's taxable income unless it holds more than 90% of the shares and voting power in the company paying the dividend. See also “H. Personal Tax” below

INTEREST DEDUCTIONS

All interest costs on business debt are deductible. As from 2014, there is a 'thin capitalisation' limitation applicable for companies that have net interest expense (interest expense less interest income from both external and from related parties) exceeding NOK 5 million.

Net interest expense exceeding 30% of taxable EBITDA is non-deductible to the extent there are related-party interest expenses. Interest on debt guaranteed by a related party is in this context regarded as related-party interest expense. Non-deductible interest expense after this rule can be carried forward for 10 years. There is no carry-forward of unused allowable interest expense. Additional rules apply for oil and gas production.

LOSSES

Losses may be carried forward. Losses may generally not be carried back but, when a company liquidates, the losses of the year of liquidation may be offset against profits of the two preceding years. There are certain limitations on the usage of losses carried forward after sale or merger of a company and after a company has ceased operating a line of business.

FOREIGN SOURCED INCOME

Norway has rules designed to ensure that profits sourced in low tax countries are included in the controlling Norwegian company's taxable income. Generally, income from a foreign company will be included if 50% or more of the company is owned or controlled by Norwegians. A low tax jurisdiction applies where the tax payable is less than two-thirds of the tax that would have been payable in Norway.

INCENTIVES

Generally, there are no special incentives, although research and development credits are granted to small and medium sized companies under qualifying circumstances.

C. FOREIGN TAX RELIEF

Deductions are available for foreign tax paid or, as an alternative, a credit may be available against Norwegian tax payable on that income.

D. CORPORATE GROUPS

Group companies cannot file consolidated tax returns. Under special circumstances, taxable income can be transferred between companies residing in Norway. The requirement is that there is more than 90% common ownership of the companies.

E. RELATED PARTY TRANSACTIONS

Transfer pricing should be based on an arm's length principle. Norwegian tax law gives the tax authorities the power to raise assessments if transactions between the taxpayer and associated companies are not based on an arm's length principle.

F. WITHHOLDING TAX

Withholding taxes must be deducted from dividends paid to non-residents at a rate of 25%, although there is no withholding on dividends paid to corporate shareholders resident in and performing real economic activities in the EEA. Interest payments and royalties are not subject to withholding taxes. See section “I. Treaty and non-Treaty withholding tax rates on dividends from Norway” below for the applicable withholding tax rates.

G. EXCHANGE CONTROLS

Most exchange controls were phased out in 1990. However, all imports of capital in cash exceeding NOK 25,000 should be reported to the Bank of Norway. Other transfers of capital need not be reported.

H. PERSONAL TAX

Income tax is payable by Norwegian residents on income derived from all sources world-wide. Non-residents are only required to pay tax on Norwegian-sourced income. Residency is determined by domicile or where the individual has spent, or intends to spend, more than six months of the tax year. Under almost all Norwegian tax treaties, foreign-earned income is exempt from Norwegian tax. Where there is no treaty, credit for foreign taxes is given up to the amount of Norwegian tax on foreign income. Income tax is payable on assessable income less allowable deductions. Assessable income includes business income, employment income, certain capital gains, rent and interest income. Some expenses incurred in earning the assessable income are deductible. Some actual expenses can be replaced by standard deductions.

The general combined rate of the national and municipal income taxes is 23%. A lower rate of 19.5% applies for the counties of Finnmark and Nord-Troms. A personal allowance of NOK 54,750 is deducted before calculation of the taxes.

OTHER TAXATION

All income from capital is taxable at 23%. However, the value of dividends chargeable to tax is reduced by an amount representative of a risk-free return on the invested capital. The rate was 0.6 % for the 2015 tax year. The rate is published in January in the year following the tax year. However, dividends and gains and losses from sale of shares and other investments are multiplied by a factor to arrive at the taxable amount. The factor was 1.24 in 2017 and has increased to 1.33 in 2018.

An additional progressive national income tax is payable on "gross personal income" (which includes gross income from employment or self-employment, including pensions). With effect from 1 January 2016 the rates of the national income tax are:

Taxable income (NOK)	Rate (%)
Up to 169,000	0
169,001 – 237,900	1.4
237,901 – 598,050	3.3
598,051 – 962,050	12.4
Over 962,050	15.4

In addition, social security taxes are paid. Employees pay 8.2 % of gross salary income. For selfemployed individuals the rate is 11.4 %. For persons below the age of 17 years, or above the age of 69 years, the rate is 5.1 %. Wealth tax is charged on the net tax value of assets above NOK 1,480,000 at a rate of 0.85%. Property transferred by gift or on death after 31 December 2013 is no longer subject to inheritance tax.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES ON DIVIDENDS FROM NORWAY

	Ordinary Rates (%)	Parent / Subsidiary (%) [1]	Parent / Subsidiary Rate Requirements(%)
Non-treaty countries:	25	25	
Treaty countries:			
Albania	15	5	25% capital participation
Argentina	15	10	25% capital participation
Australia	15	50	10% voting stock Listed companies that meet the requirements of Article 10(3)
Austria	15	0	
Azerbaijan Republic	15	10	30% capital participation and an investment of at least $ 100,000
Bangladesh	15	10	10% capital participation
Barbados	15	5	10% capital participation
Belgium (2)	15	5	25% capital participation
Benin	20	20	
Bosnia Herzegovina (3)	15	15	
Brazil	25	25	
Bulgaria (2)	15	5	10% capital participation
Canada	15	5	10% voting power
Chile	15	5	25% voting power
China	15	15	
Croatia (3)	15	15	
Cyprus	15	0	10% capital
Czech Republic	15	0	10% capital
Denmark (Nordic Country)	15	0	10% capital
Egypt (2)	15	15	
Estonia	15	5	25% capital
Faroe Islands	15	0	10% capital
Finland (Nordic Country)	15	0	10% capital
France	15	05	25% of the share capital >10% capital, <25% of the share capital
Gambia	15	5	25% capital
Georgia	10	5	10% capital
Germany (2)	15	0	25% capital
Greece	20	20	
Greenland	15	5	10% capital
Hungary	10	10	

Iceland (Nordic Country)	15	0	10% capital
India	10	10	
Indonesia	15	15	
Ireland	15	5	10% capital
Israel (2)	15	5	50% voting power
Italy (2)	15	15	
Ivory Coast	15	15	
Jamaica	15	15	
Japan	15	5	25% voting power
Kazakhstan	15	5	10% capital
Kenya	25	15	25% voting power
Latvia (2)	15	5	
Lithuania	15	5	25% capital
Luxembourg	15	5	25% capital
Macedonia	15	10	25% capital
Malawi	15	5	10% capital
Malaysia (2)	0	0	
Malta	15	0	Company holding 10% of the capital for at least 2 years
Mexico	15	0	25% capital
Montenegro (3)	15	15	
Morocco	15	15	
Nepal	15	5 10	25% share capital >10%, <25% of the share capital
Netherlands	15	0	10% capital
Netherlands Antilles	15	5	25% capital
New Zealand (2)	15	15	
Nordic Countries	15	0	10% capital
Pakistan	15	15	
Philippines	25	15	10% voting power
Poland	15	0	Company holding 10% of the capital for at least 2 years
Portugal	15	5	Company holding 10% of the capital for at least 1 year
Qatar	15	5	Company holding 10% of the capital
Romania	10	10	10%
Russia	10	10	
Senegal	16	16	
Serbia (3)	15	15	25%

Sierra Leone (4)	5	0	50% voting power
Singapore (2)	15	5	25% capital
Slovak Republic (2) (5)	15	5	25% capital
Slovenia	15	0	15% capital
South Africa	15	5	25% capital
South Korea	15	15	
Spain	15	10	25% capital
Sri Lanka	15	0	
Sweden (Nordic Country)	15	0	10% capital
Switzerland	15	0	10% capital
Tanzania	20	20	
Thailand	15	10	10% capital
Trinidad and Tobago	20	10	25% voting power
Tunisia	20	20	
Turkey	15	5	20% capital (if dividend is exempt from tax for the recipient in its state of residence)
Uganda	15	10	25% capital
Ukraine	15	5	25% capital
United Kingdom	15	0	10% capital
United States (2)	15	15	
Venezuela	10	5	10% capital
Vietnam	15	5 10	At least 70% of the share capital >25%, <70% of the share capital
Zambia	15	15	25%
Zimbabwe	20	15	25% capital

NOTES:

1. Unless otherwise indicated, the reduced treaty rates given in this column apply if the recipient company owns at least 25 % of the capital in the Norwegian company.
2. The agreement is subject to renegotiation.
3. The tax treaty with Yugoslavia of 1 September 1983 is temporarily suspended. Agreement on certain subjects continues for Croatia, Bosnia and Herzegovina and Montenegro.
4. The tax treaty between Norway and the UK of 2 May 1951 was by an exchange of notes on 18 May 1955 extended to a number of British colonies that later become independent states. Today the agreement only applies for Cyprus and Sierra Leone.
5. The tax treaty with Czechoslovakia from 27 June 1979 shall be further applied to the Slovak Republic.

The rate for non-treaty countries should be used if the shareholder has not provided proof of tax residency in a treaty country. This means, in general, that the reduced rates cannot be used if the shares are held in nominee accounts. A shareholder in a treaty country for which the 25% has been withheld may apply for a refund of the excess taxes retained.

OMAN

MEMBER FIRM

City	Name	Contact Information
Muscat	Percy Bhaya	+968 2456 3195 prbhaya@pkfoman.com muscat@pkfoman.com

BASIC FACTS

Full name:	Sultanate of Oman
Capital:	Muscat
Main language:	Arabic, English
Population:	4.83 million (2018 estimate)
Monetary unit:	Omani Rial (OMR)
Internet domain:	.om
Int. dialling code:	+968

KEY TAX POINTS

- A five-year tax holiday is available to manufacturing companies if certain conditions are met.
- Capital gains are generally taxed as ordinary corporate income, although profits/losses on the sale of securities listed on the Muscat Securities Market are not taxable/deductible.
- Branches in Oman of foreign companies are subject to tax on their profits. Allowance for allocated head office expenditure is on a restricted basis.
- Withholding taxes apply at a rate of 10% to foreign companies with no permanent establishment in Oman receiving certain types of payments including dividends, interest, royalties, management fees, research and development, use or right to use computer software, and provision of services.
- There is no personal income or wealth tax in Oman.

A. TAXES PAYABLE

Oman has adopted a global tax system whereby a company in Oman is taxed on its worldwide income, subject to provisions in Oman tax law and double tax treaties to avoid international double taxation.

The Executive Regulation (ER) to the Income Tax Law provides the detailed rules which apply to the tax treatment of certain income and expense items, thin capitalisation rules and 18 different forms to be completed for tax purposes.

COMPANY TAX

Under the Income Tax Law, the income tax rate applicable to any business establishment, Omani company or permanent establishment (i.e. foreign branch) would be 15% of taxable income for financial years starting from 1 January 2017 onwards. However, small taxpayers meeting specific criteria would be taxed at 3% on declared taxable income.

PETROLEUM COMPANIES

The tax rate for taxpayers engaged in petroleum exploration shall be 55% of the taxable income in respect of any income derived from the sale of petroleum.

TAX EXEMPTIONS:
SHIPPING ACTIVITIES

Income accruing to an Omani company/establishment from carrying on its activity in the field of shipping shall be exempt from tax. Furthermore, the income from the shippinglair transport activities accruing to any person

shall be exempt from tax, provided similar treatment is accorded on a reciprocal basis in the foreign country in which the said person is incorporated or where its effective management and control are exercised.

INVESTMENT FUNDS

Income accruing to an investment fund set up in Oman under Capital Market Law or to an investment fund set up outside of Oman to deal in Omani securities listed on the Muscat Securities Market (MSM) shall be exempt from tax.

PRIORITY SECTOR ACTIVITIES

Income accruing to Omani companies/establishments from carrying on their main activity in the field of industry in accordance with the Law for Unified Industrial Organization of Gulf Co-operation Council Countries, except for project execution contracts, shall be exempted from tax. The exemption provided above shall be for a non-renewable period of five years beginning from the date of commencement of production, based on an application made by the taxpayer which is required to be approved by the Ministry of Commerce & Industry and the Secretary General of Taxation.

TAX YEAR

The tax year is the calendar year, although a special permit can be obtained from the Ministry of Finance for a different fiscal / accounting period.

PROVISIONAL AND ANNUAL RETURNS OF INCOME

Provisional tax is to be paid and a provisional return of income is to be filed within three months of the end of the accounting period. An annual return and annual tax settlement are due at the end of six months following the close of the accounting period.

The same should be filed along with the audited financial statements prepared in accordance with International Accounting Standards (IAS).

CAPITAL GAINS TAX

Capital gains are normally regarded as part of ordinary corporate income and the total income is taxed at the aforesaid applicable corporate income tax rates. However, capital gains realized from the sale of shares and securities listed on the Muscat Securities Market (MSM) are exempted from income tax. Similarly, capital losses on the sale of securities listed on the MSM are not allowed as a deductible expense.

BRANCH PROFITS TAX

Branches of foreign companies are taxed in Oman at corporate income tax rates. Allowance for allocated head office expenditure is on a restricted basis.

OTHER TAXES

Municipal taxes and other taxes charged are as follows:

Description	Rate
Hotel income	5%
Annual rental of leased premises	5%
Leisure and cinema income	10%
Tax on home owners using the drainage system	10%
Electricity bills	0.5% to 2%
Hotels and restaurant bills	5%

VOCATIONAL TRAINING LEVY

The vocational training levy on employers in the private sector is set at OMR 300 per expatriate employee for two years.

SOCIAL SECURITY PREMIUM

Employers are required to pay a social security premium equal to 18.5% of the gross salaries of its Omani employees. Of this amount, 7% is recoverable from the Omani employees.

CUSTOMS DUTIES

A Common Customs Union exists for the six Gulf Co-operation Council States ("GCC") namely, Saudi Arabia, Kuwait, Bahrain, Qatar, UAE and Oman. A uniform customs tariff of 5% is imposed on the importation of goods into a GCC State, payable at the first point of entry into the GCC. Goods can then move freely within the GCC subject to proper documentation being available. Customs duties are levied on certain categories of imported goods. The rates range from 5% to 100%.

B. DETERMINATION OF TAXABLE INCOME

Taxable income is computed in accordance with the generally accepted accounting principles/IFRS applied on a consistent and regular basis. The accrual basis is generally to be used although, in special cases, the Director of Income Tax may approve cash basis of accounting. As a basic rule, all expenses which are incurred wholly for the purposes of business and are incurred to generate the gross income are allowed to be deducted provided they are reasonable considering the value of services received. Any expense or cost incurred to generate income which is exempted from income tax will not be allowed as a deductible expense. Remuneration to working partners and owners is allowed on a restricted basis. Certain charges have been specified as not deductible and certain charges have been restricted to specific amounts by the tax law.

TAX DEPRECIATION - BUILDINGS AND CIVIL WORKS

(a) Depreciation shall be allowed for any accounting period on capital expenditure incurred in the acquisition of any building used for the purposes of the business during that period. The amount allowed to be deducted shall be determined in accordance with the following percentages:

  (1) 4% annually for depreciation of buildings constructed with selected materials.

  (2) 10% annually for depreciation of quays, jetties, pipelines, roads and railways.

  (3) 15% annually for depreciation of buildings constructed with other than the selected materials mentioned above, or prefabricated buildings.

  (4) 100% annually for depreciation of buildings used as hospitals or educational institutions. The taxpayer in this case may choose the rate in this Clause, or the rates in the foregoing Clauses (1) and (3).

(b) The percentages of depreciation mentioned in Clauses (1), (2) and (3) of the foregoing para. shall be doubled if buildings are used for industrial purposes. These purposes shall not include the use of buildings for the purposes of storage, office, accommodation for workers or for other commercial purposes.

(c) Depreciation shall be allowed for any accounting period at the rate of 15% annually on capital expenditure incurred on the acquisition of any ship or aircraft used for business purposes during that period.

TAX DEPRECIATION - PLANT AND MACHINERY, FURNITURE I FIXTURE AND OTHER ASSETS

(a) Machinery and plant shall be allocated to pools with annual rates of depreciation specified for them as follows:

  (1) 33% annually for the first pool, comprising:
  Tractors, cranes and other heavy machinery and plant similar in nature and use, computers, vehicles and self-propelling machines, fixtures, fittings, and furniture. It also comprises computer software and intellectual property rights.

  (2) 10% annually for the second pool, comprising drilling rigs.

  (3) 15% annually for the third pool, comprising any other machinery and plant which are not included in (1) and (2) above.

(b) The amount to be deducted as depreciation in respect of a pool for the accounting period shall be calculated by applying the percentages specified in para. a) above on the depreciation base of that pool. For any accounting period, the depreciation base in the case of any pool shall be determined to be the excess of the amount resulting from applying Clause 1 of this para. after deducting the amount resulting from applying Clause 2 of this para. as follows:

(1) The depreciation base of that pool for the accounting period immediately preceding that accounting period after deducting the depreciation allowed for this pool for the accounting period immediately preceding that accounting period. This depreciation base shall be increased by the total capital expenditures incurred in acquiring the machinery, plant or other assets falling under the same pool during that accounting period.

(2) The disposal value of all capital assets falling in that pool that were disposed of during that accounting period.

STOCK / INVENTORY

Omani tax regulations do not specifically establish which methods of inventory valuation must be used, nor how inventory flows are to be determined. At present, any of three methods - average, FIFO or LIFO - are deemed to represent the 'actual cost' required by tax rules. Reserves and provisions for inventory shortages and obsolescence are not acceptable as a deductible expense for tax purposes but actual losses and write-offs are allowed in the year in which they occur provided they are supported with adequate documentation as specified in the Executive Regulation to the Income Tax Law.

DIVIDENDS

Tax is not imposed on dividends received by a company through shares in the capital of the other Omani companies i.e. companies registered in Oman. Dividends received from foreign companies will be subject to tax at the tax rate applicable to business income.

INTEREST DEDUCTIONS

Interest paid on the bank borrowing used for business purposes is deductible. Interest paid on loans from partners I members / related parties are allowed on a restricted basis as specified in the Executive Regulation.

LOSSES

Losses are not allowed to be carried forward for more than five subsequent assessment years. However, companies which are engaged in industry/Priority Sector activities can indefinitely carry forward their losses incurred during the exempted period of the first five years, and deduct them in subsequent years until the losses are fully absorbed by set off against the profits of future years. The net loss should first be offset before the losses of the subsequent tax years.

C. FOREIGN TAX RELIEF

The Sultanate of Oman has entered into agreements for the avoidance of double taxation (DTA) and the prevention of avoiding income tax with France, India, Tunisia, United Kingdom, Mauritius, Italy, Pakistan, Algeria, Lebanon, China, Yemen, South Africa, Sudan, Seychelles, Iran, Canada, Turkey, Syria, Republic of South Korea, Singapore, Thailand, Uzbekistan, Belarus, Brunei, Netherlands, Moldova, Vietnam, Belgium, Croatia, Japan, Switzerland, Spain and Morocco. Some DTAs are not in force as they await ratification from the respective governments. Currently, most of the foreign airlines carrying on business through an establishment in Oman are exempted from income tax either through comprehensive DTAs or through limited DTAs. The foreign airlines which earn income through an establishment in Oman, and which do not have comprehensive DTAs or limited DTAs, would be exempted from tax provided reciprocal tax exemption is granted in the airline's home country. The countries whose airlines have signed agreements for tax relief are India, Kuwait, Jordan, the Netherlands, Tanzania, Sri Lanka, Iran, Singapore, Sweden and Switzerland.

Income earned overseas by an Omani company will be taxed in Oman. A corresponding tax credit in Oman will be given to the extent of Omani tax, i.e. 15% or foreign tax paid on that income whichever is lower in respect of DTA countries. In respect of non-DTA countries, a tax credit is unilaterally allowed by Oman for tax paid by Omani business entities outside of Oman subject to the overall limit of Omani tax on foreign income, subject to certain conditions.

D. CORPORATE GROUPS

There are no provisions for group taxation or for offsetting losses of one company against another.

E. RELATED PARTY TRANSACTIONS

Transactions with related parties are subject to detailed scrutiny to confirm that prices are at arm's length, and that expenses exclude an element of profit in case of transactions between a head office and its branch and 100% subsidiary companies.

F. WITHHOLDING TAX

Withholding tax applies to payments (income to the recipient accruing in Oman) made by an Omani taxpayer or government body to a foreign person which does not have a permanent establishment in Oman or to a foreign company that has a permanent establishment in Oman but such payment does not form part of its taxable income in Oman, for:

(1) The use, or right to use, of computer software (includes using the software of an overseas supplier);

(2) Royalties;

(3) Management fees;

(4) Research and development;

(5) Performance of services; and

(6) Dividends on shares or interest (as per informal clarification obtained only dividends paid by joint stock companies shall attract withholding tax).

Royalties include:

1. Consideration for the use or the right to use of:
   a) Intellectual or proprietary right either for artistic, literary or scientific work, including computer software, cinematograph films, or films or tapes or discs or any other means used for radio or television broadcasting.
   b) Patents, trademarks, design, drawing, models and secret process or formula.
   c) Industrial, commercial or scientific equipment.
2. Consideration for information concerning industrial, commercial or scientific experience.
3. Consideration for granting rights of exploitation of mining or any other natural resources.

The domestic withholding tax rate on the above is 10%. Omani withholding tax may be reduced or eliminated if the foreign company is based (resident) in a country with which Oman has a DTA. Withholding tax must be paid within 14 days following the month of payment or credit, whichever is earlier and Income Tax Form 18 must be filed with the Tax Authority. The obligation to deduct this tax shall rest with the company or the permanent establishment which pays the above amount.

G. EXCHANGE CONTROL

There are no exchange controls in any form on inward or outward investment or on repatriation of capital or profits, either by nationals or expatriates.

H. PERSONAL TAX

Currently, there is no personal income tax or wealth tax in Oman.

I. TREATY WITHHOLDING TAX RATES

The following rates for royalties apply wherever DTAs are ratified by the government of both countries and treaties are in force:

	Dividends[1] (%)		Interest[2] (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	10	10	10	10
Individuals	10	n/a	10	10
Treaty countries:				
Algeria	10	5[3]	5	10
Belarus	5	0/5[4]	5	10
Brunei	5	0/5[5]	10	10

Canada	15	5[6]	10	10
China	5	5	10	10
Croatia	0	0	5	10
France	0	0	0	7
India	12.5	10[7]	10	15
Iran	10	0/10[8]	10	10
Italy	10	0/5[9]	5	10
Japan	10	5[10]	10	10
Korea (Republic of)	10	5[11]	5	8
Lebanon	10	5	10	10
Mauritius	0	0	0	0
Moldova	5	5	5	10
Morocco	10	5[12]	10	10
Netherlands	10	0[13]	0	8
Pakistan	12.5	5[14]/10[7]	10	12.5
Portugal	15	5[16]/10[15]	10	8
Seychelles	5	0[5]/5	5	10
Singapore	5	0[5]/5	7	8
South Africa	10	0[5]/5[12]	0	8
Spain	10	0[17]	5	8
Switzerland	15	5[11]	5	8
Syria	7.5	5	10	18
Thailand	10	10	10/15	15
Tunisia	0	0	10	5
Turkey	15	10[18]	10	10
United Kingdom	0/15	0/15[19]	0	8
Uzbekistan	7	0[5]/7	7	10
Vietnam	15	5/10[20]	10	10
Yemen	5	5	10	10

Notes:

1. Dividends are subject to withholding tax at the rate of 10% as of 27 February 2017.
2. Interest paid to non-resident companies without a permanent establishment is subject to withholding tax at the rate of 10% as from 27 February 2017.
3. The 5% rate applies if the beneficial owner is a company that owns at least 15% of the capital of the dividendpaying company.
4. The 0% rate applies if dividends are paid to the Government of the other contracting State, the Central Bank, the State General Reserve Fund of Oman and any other statutory body.
5. The 0% rate applies to dividends paid by a company to the Government of the other contracting State.
6. The 5% rate applies if the beneficial owner is a company which controls directly or indirectly at least 10% of the capital in the dividend-paying company.
7. The 10% rate applies if the beneficial owner is a company which owns at least 10% of the shares of the

dividend-paying company.

8. The 0% rate applies to dividends paid by an Omani company to Iran governmental institutions, governmental companies, the Central Bank or other banks wholly owned by the Iran government.
9. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 15% of the capital of the dividend-paying company. The 0% rate applies to dividends beneficially owned by the Omani state general reserve fund (see item 5 of the Treaty's Protocol).
10. The 5% rate applies if the beneficial owner is a company that has owned directly or indirectly, for the period of 6 months ending on the date on which entitlement to the dividends is determined, at least 10% of the voting shares of the dividend-paying company.
11. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the dividend-paying company.
12. The 5% rate applies if the beneficial owner is a company which holds at least 10% of the capital of the dividendpaying company.
13. The 0% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the dividend-paying company.
14. Dividends beneficially owned by the Omani state general reserve fund are subject to 5% Pakistani withholding tax.
15. The 10% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the dividend-paying company.
16. The 5% rate applies to dividends beneficially owned by the government of a contracting state, a political or administrative subdivision, a local authority or the Central Bank thereof as well as statutory bodies or institutions wholly owned by the government in the case of Oman.
17. The 0% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 20% of the capital of the dividend-paying company.
18. The 10% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 15% of the capital of the dividend-paying company.
19. The 15% rate applies to dividends beneficially owned by REITS other than those owned by a contracting state, a central bank, a pension fund or a statutory body or institution wholly or mainly owned by the government of a contracting state, as may be agreed between the competent authorities of the contracting states.
20. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 60% of the capital of the dividend-paying company. The 10% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% but less than 60% of the capital of the dividendpaying company.

PAKISTAN

MEMBER FIRM

City	Name	Contact Information
Karachi	Faheem Rauf	+92 21 3531 5175 faheemrauf@pkf.com.pk
Lahore	Nouman Razaq Khan	+92 42 3750 3381-82 nouman@pkf.com.pk
Sialkot	Zulfiqar Ahmed Nasir	+92 52 460 1454 zanasir@pkf.com.pk
Islamabad	Ejaz Hussain Rathore	+92 51 282 5775 ejaz@pkf.com.pk

Multan	Muhammad Talib	+92 61 451 0242
		talib@pkf.com.pk
Peshawar	Zeeshan Ali	+92 91 52 79691
		zeeshan@pkf.com.pk

BASIC FACTS

Full name:	Islamic Republic of Pakistan
Capital:	Islamabad
Main language:	English, Urdu and 18 regional languages
Population:	207.8 million (as per 2017 census)
Monetary unit:	Pakistani Rupee (PKR)
Internet domain:	.pk
Int. dialling code:	+92

KEY TAX POINTS

- Income/Profits of corporate entities are taxed at 30% and companies falling under the category of a small company are taxed at 25%.
- The tax rates for a branch of a company incorporated outside Pakistan are the same as those applicable to resident companies. However, such a Branch Office operating in Pakistan through a Permanent Establishment is entitled to set off all expenses incurred in or outside Pakistan, including the allocation of a share of Head Office General and Administrative Expenses.
- Some sources of income are taxed on a presumptive tax basis, where the withholding tax suffered on such income constitutes full and final discharge of tax liability.
- In certain cases withholding tax on services is considered to be a minimum tax. Some other classes of taxpayers also have to pay minimum tax in relation to their turnover.
- Where a resident taxpayer derives foreign-source income on which income tax has been paid in the foreign territory, a proportionate tax credit is allowable in respect of that income in Pakistan.
- In allowing expenses for the tax computation, some conditions, like payment through crossed cheque and compliance with withholding tax requirements do apply.
- All tax statements (returns) filed within due time are accepted under self-assessment, and the declared results are deemed to be an assessment. However, a certain percentage of the tax returns is selected for tax audit through computer balloting by the Federal Board of Revenue. Commissioners also have powers to select some cases for audit. Returns not filed within the prescribed time are also subject to mandatory selection for tax audit.
- The Assessments completed on the basis of return can be amended on the basis of definite information, coming in possession of the tax officials, gathered through tax audit or otherwise. The assessment can also be amended, where it is considered to be erroneous and prejudicial to the interest of revenue.
- The tax authorities have the power in respect of a transaction between associates to distribute, apportion, or allocate income, deductions, or tax credits between such associates to reflect the income that would have been realized in an at arm's-length transaction.
- VAT (locally termed as 'sales tax') is a Federal tax, ordinarily levied at 17% on the value of goods, unless specifically exempt, or chargeable under reduced rate or zero rated. The tax is subject to input tax adjustments.
- Sales tax on Services, which is a provincial levy, is also charged by each Province, under its own laws. The tax rates range from 5% to 17% on the value of taxable services.

A. TAXES PAYABLE

COMPANY TAX

The tax rates are summarized as follows:

- All other companies 30%
- Banking company 35%
- Small company 25%
- Modaraba 25%

FINAL TAX REGIME:

Resident taxpayers and, at their option, non-resident taxpayers not having a permanent establishment in Pakistan, are subject to a presumptive tax regime (PTR), where taxes withheld at source on the sale of goods and execution of contracts or collected at the time of import (for other than industrial raw materials), are considered a final tax liability in respect of income arising from the sale, contract, or import. In the case of exports, tax collected at the time of realisation of foreign-exchange proceeds is treated as a final tax for that income. Certain contracts for services and contracts for advertisement services rendered by television satellite channels are also subject to PTR.

BUILDER AND DEVELPOVER

For projects initiated and approved during tax year 2017, tax on builders and developers has been fixed on the basis of measurement of land and a building's covered area taking into consideration the locality where it is situated and whether it has been included in the final tax regime.

INCOME FROM RENTAL PROPERTY

Income from property of Individuals and the Association of Persons (AOP) is charged as a separate block of income, at various slabs based on gross rentals ranging from PKR 200,000 to amounts exceeding PKR 2,000,000 from 5% to 20% whereas the rental income of companies is subject to tax at the normal corporate tax rates.

Taxation of a permanent establishment (PE) of a non-resident

The following principles shall apply in computing taxable income of a PE:

- It is a distinct and separate entity dealing independently with the non-resident of which it is a PE.
- In addition to business expenditure, executive and administrative expenditure, whether incurred in Pakistan or elsewhere, will be allowed as a deduction.
- Head office expenditure, including rent, salaries, travelling, and any other expenditure that may be prescribed, shall be allowed as a deduction in proportion to the turnover of the PE in the same proportion as the non-resident's total head office expenditure bears to its worldwide turnover.
- Royalties, compensation for services (including management services), and interest on loans (except in banking business) payable to or receivable from a PE's head office shall not be considered in computing taxable income of a PE.
- No advance tax is required to be deducted from payment to a PE of a non-resident in respect of goods imported and sold under the same condition as if tax under section 148 is duly deducted and paid.
- Payments received by a PE for business activities in Pakistan, as well as payments made by it for procurement of goods and services would be subject to certain withholding tax deductions.

Filers and Non-Filers

Persons, who have not filed their tax returns for the immediately preceding year, are termed as Non- Filers, and removed from the 'active taxpayers list', maintained and updated electronically. The Nonfilers are subject to enhanced rates for withholding and collection of tax under the following heads:

1. Tax withholding on payment of Dividend;
2. Tax withholding on payment of Profit on Debt;
3. Tax withholding on Cash withdrawals;
4. Collection of Advance tax on registration or transfer of registration of private motor vehicles;

5. Collection of Advance tax on motor vehicles;
6. Collection of Advance tax from seller of immovable property;
7. Collection of Advance tax from purchaser of immovable property;
8. Collection of Advance tax on sale of specified products to distributors, dealers and wholesalers.

BRANCH PROFITS TAX

The tax rates for a branch of a company incorporated outside of Pakistan are the same as those applicable to resident companies. Tax at the rate of 15% is levied on the transfer of profits to the head office, with an exception for companies engaged in the oil and gas exploration and production business, or as provided in the Avoidance of Double Taxation Treaties between the country of origin and the Islamic Republic of Pakistan.

Payments to a branch in Pakistan of a non-resident may be entitled to a reduced or 0% withholding tax, on meeting certain conditions and the issuance of a certificate in this regard by the Commissioner Inland Revenue.

MINIMUM TAX

Where the tax payable by a resident company is less than 1.25% of turnover, the company is required to pay a minimum tax equivalent to 1.25% of turnover, regardless of any available adjustments for carryforward losses etc. Tax paid in excess of normal tax liability can be carried forward for adjustment against tax liability of a subsequent tax year. However, such tax can only be adjusted against tax liability of the five tax years immediately succeeding the tax year for which the amount was paid.

ALTERNATE CORPORATE TAX

Companies are also subject to Alternate Corporate Tax (ACT):

- when the income of the company is not subject to tax for the year due to adjustment for carry forward business loss, or any other reason; or
- when tax payable is less than the ACT: in that case the company shall pay tax equal to ACT.

ACT is calculated at 17% on accounting profit declared by the company in its financial statements, before any tax adjustments. ACT is adjustable against normal tax, if any, payable in future years.

SALES TAX / VALUE ADDED TAX

VAT (locally termed as 'sales tax') is ordinarily levied at 17% on the value of goods, unless specifically exempt, after allowing related input credits. Significant zero-rated goods are as follows:

- Supplies and repair and maintenance of certain ships and aircraft;
- Supplies to diplomatic missions and diplomats;
- Supplies of raw materials, components, and goods for export processing zones;
- Supplies of locally manufactured plant and machinery to export processing zones and supplies of certain specified machinery to the exploration and production sector;
- Supplies to exporters.

Significant exemptions are as follows:

- Live animals and live poultry;
- Live plants;
- Vegetables, pulses, edible fruits (excluding imported fruits), certain spices, sugar cane, edible oils, etc.;
- Milk preparations;
- Newsprints, newspapers, journals, periodicals, and books;
- Agricultural produce not subjected to any process.

Concessionary rate of 5% introduced for import of plant and machinery for manufacture of dairy products including milk chillers, tabular heat exchanger and milk processing plant etc. HS Codes of certain ingredients of poultry and cattle field are aligned and the applicable rate is 10%.

Highest Retail Price

Presently, manufacturers of goods subject to duty on retail price basis are required to pay duty at the highest

retail price where more than one retail price is fixed by the manufacturers for any particular brand or variety of such goods. The Federal Board of Revenue (FBR) is authorized to specify zones or areas only for the purposes of determining highest retail price for any brand or variety of goods.

EXCISE DUTY

Federal excise duty (FED) is levied at the rate of 17% on certain types of manufacturing, import of goods, and rendering of services, except telecommunications services, which are charged at the rate of 17% (previously it was 18.5%). FED on telecommunication services, under the constitution, is to be levied and collected by the provinces. However if it is not levied by provinces at their specified rates, FED will be charged at 18.5%. Sindh, Punjab, and Khyber Pakhtunkhwa provinces have promulgated their statute, and others are expected to follow. FED on the following services on which provincial sales tax is levied, has been abolished: advertisement, shipping agents, banking, franchise and stock brokers.

PROPERTY, WATER AND CONSERVANCY TAXES

The above taxes are levied and collected annually by the provincial government and cantonments.

STAMP DUTY

Provincial stamp duty is payable on the sale or transfer of immovable property, based on the value of the property. Stamp duty is also payable on the execution of contracts and some other transactions.

B. DETERMINATION OF TAXABLE INCOME

DEPRECIATION

Normal depreciation is allowed at the following prescribed rates by applying the reducing-balance method.

Assets	Depreciation (%)
Buildings	10
Machinery, Plant and Equipment (Including ships and vehicles)	15
Furniture	15
Computer hardware	30
Aircrafts and aero engines	30
Below ground installations in mineral oil concerns	100
Offshore platform	20

All depreciable assets put into service for the first time in Pakistan during a tax year, other than road transport vehicles not plying for hire, furniture (including fixtures), plant and machinery used previously in Pakistan, or plant and machinery for which a deduction has been allowed under another section of this ordinance for the entire cost of the asset, shall be entitled to an initial allowance at 25% of the cost of the asset, except for buildings, for which the rate is 15%. Book depreciation does not need to conform to tax depreciation. Unabsorbed tax depreciation not set off against the income of the year is carried forward and added to depreciation of the assets of the same business in the following year. Tax depreciation can be carried forward without limit until fully absorbed.

STOCK/INVENTORY

Inventories are to be stated at the lower of cost or market. The first in first out (FIFO) and average methods are accepted. Conformity of methods used for book and tax reporting is desirable, and the method used should be consistently applied.

CAPITAL GAINS ON IMMOVABLE PROPERTY

After amendment through the Finance Act 2017-18, capital gains tax on the disposal of immovable property has been divided in two types i.e. on property acquired before 1 July 2016 and on property acquired on or after 1 July 2016. The following tax rates are to be applicable on such gains based on the property's holding period.

Holding Period	Tax Rate	
	Before 1 July 2016	On or After 1 July 2016
Less than 12 months	10%	10%
12 to 24 months		7.5%
24 to 48 months		5%
Securities purchased more than 48 months ago	0%	0%

CAPITAL GAINS ON DISPOSAL OF SECURITIES

Capital gains arising as a result of the disposal of securities shall be taxed depending upon the holding period. For each slab of holding period a separate tax rate shall be applicable.

Holding Period	Tax Rate	
	Acquired before 1 July 2016	Acquired on or after 1 July 2016
Less than 12 months	10%	15%
12 to 24 months	12.5%	
24 months or more but the security was acquired on or after 1 July 2013	7.5%	
Where the security was acquired before 1 July 2013	0%	0%

DIVIDENDS

Dividend income is subject to a 15% withholding tax or a lower double tax treaty rate. Withholding tax at 20% on dividend income applies for Non-Filers. The deduction at source shall be the full and final discharge of tax liability on dividend income. Gains on the disposal of future commodity contracts shall be taxed at 5% regardless of the holding period.

STOCK DIVIDENDS

A company which is quoted on the Stock Exchange:

Bonus shares issued by a quoted company:

- Must be issued to a shareholder only after collecting tax equal to 5% of the value of the bonus shares to be issued to the shareholder (including 5% bonus shares withheld as above) within a prescribed time;
- For purpose of determining value of bonus shares, the 'day-end price on the first day of closure of books' is prescribed to be used;
- The above referred tax is to be collected by the company within 15 days from the first day of closure of books;
- In case the shareholder fails to make payment of 5% tax within 15 days or the company fails to collect the tax within 15 days, the 5% bonus shares withheld by the company will be deposited by the company with the Central Depository Company (CDC) of Pakistan Limited or any other entity prescribed by the FBR;
- The bonus shares deposited with the CDC or other entity, as mentioned above, will be disposed in the mode and manner to be prescribed by FBR, and the proceeds shall be paid on behalf of the shareholder by way of credit to the Federal Government.

A company which is not quoted on the Stock Exchange:

A company not quoted on the Stock Exchange which issues bonus shares to its shareholders will deposit tax, within 15 days of the closure of the books, at 5% of the value of the bonus shares on the first day of closure of books, whether or not tax has been collected from the shareholders by the Company. Rules are to be issued by the FBR for determining the value of bonus shares of unquoted securities.

Before the issuance of bonus shares, the company liable to deposit tax shall be entitled to collect and recover the amount of tax deposited from the shareholder on whose behalf the tax has been deposited;

In case a shareholder neither makes payment of tax to the company nor collects his bonus shares within 3 months of the date of issuance of bonus shares, the company may proceed to dispose bonus shares to the extent it has paid tax on shareholder's behalf.

INTEREST INCOME

Interest earned by a company is taxed as its income from other sources. Interest earned by a nonresident company without a permanent establishment in Pakistan attracts withholding tax at the rate of 10%, except where a lower rate is provided in the related double tax treaty. The withholding tax on interest income is also the final tax on such income, except in the case of companies, where it is taxed on normal rates.

LOSSES

Operating losses may be carried forward and set off against the profits of the succeeding six years of the same business in which the losses were incurred. Unabsorbed depreciation can be carried forward indefinitely. Unabsorbed depreciation can be carried forwarded without any limitation. Carried forward losses of an entity in the case of group relief cannot be utilised if the ownership of the holding company is reduced to less than 55% and 75% if one of the companies is a listed company or none of the companies is a listed company, respectively.

Business losses can be carried forward up to a period of six years in the case of the amalgamation of two companies, under the condition that the same business is continued for a minimum period of five years. The carrying back of losses is not permitted.

INCENTIVES

Tax credits and incentives

Any relief from Pakistani income tax that is provided in any other law and not provided for in the Income Tax Ordinance or a treaty is not valid.

Tax exemptions

There are various types of tax exemptions provided for in the law, which include:

a) Exemption of income from Tax;

b) Exemption from specific provision;

c) Reduction in Tax Rate;

d) Reduction in Tax Liability.

Small companies

Activities of small companies are encouraged with a reduced income tax rate of 25%. A small company has been defined as a company that:

- Is registered on or after 1 July 2005 under the Companies Ordinance, 1984;
- Has a paid-up capital plus undistributed reserves not exceeding PKR 25 million;
- Has an annual turnover not exceeding PKR 250 million; and,
- Is not formed by splitting up or the reconstitution of business already in existence.

Charitable donations credit

Companies are allowed a tax credit equivalent to 20% of their taxable income in respect of donations to:

- Any board of education or university in Pakistan established by or under federal or provincial law;
- Any educational institution, hospital, or relief fund established or run in Pakistan by federal government, provincial government, or local government; and,
- Any approved non-profit organisation.

C. FOREIGN TAX CREDIT

Where a resident taxpayer derives foreign-source income on which foreign income tax is paid within two years from the year in which it is derived, the taxpayer is allowed a tax credit equal to the lower of:

(i) The foreign income tax paid; or,

(ii) The Pakistan tax payable in respect of that income.

However, foreign tax paid is not refundable. Foreign produced commercials to non-resident persons shall be subject to tax at 20% which shall be the final discharge of tax liability of such non-resident person.

D. CORPORATE GROUPS

A locally incorporated holding company and subsidiary of a 100% owned group may be taxed as one group by giving an irrevocable option for taxation as one fiscal unit. The relief is not available for losses prior to formation of the group. The group taxation is available if the companies are designated as entitled to avail group relief by the Securities and Exchange Commission of Pakistan.

The Group Relief where the loss of a subsidiary company is surrendered to a holding company for set off against its profit will be calculated as a percentage of shareholding held by the holding company. Previously, any company that is the subsidiary of a holding company may surrender its loss for the year to its holding company or its subsidiary, or between other subsidiaries of the holding company, provided that the holding company directly holds 55% or more of the subsidiary's capital if one of the companies is a listed company. However, if none of the companies is a listed company, the holding requirement is 75% or more. The loss can be surrendered for a maximum of three years, and the required holding is for at least five years.

E. TRANSFER PRICING

The tax authorities have the power in respect of a transaction between associates to distribute, apportion, or allocate income, deductions, or tax credits between such associates to reflect the income that would have been realized in an at arm's-length transaction.

F. PERSONAL INCOME TAX

The tax rates listed below are applicable from 1 July 2014. If more than 50% of an individual's income is derived from employment the following tax rates apply:

Exceeding PKR	Not Exceeding PKR	Amount
0	400,000	0
400,000	500,000	2% of amount exceeding 400,000
500,000	750,000	PKR 2,000 + 5% of the amount exceeding PKR 500,000
750,000	1,400,000	PKR 14,500 + 10% of the amount exceeding PKR 750,000
1,400,000	1,500,000	PKR 79,500 + 12.5% of the amount exceeding PKR 1,400,000
1,500,000	1,800,000	PKR 92,000 + 15% of the amount exceeding PKR 1,500,000
1,800,000	2,500,000	PKR 137,000 + 17.5% of the amount exceeding PKR 1,800,000
2,500,000	3,000,000	PKR 259,500 + 20% of the amount exceeding PKR 2,500,000
3,000,000	3,500,000	PKR 359,500 + 22.5% of the amount exceeding PKR 3,000,000
3,500,000	4,000,000	PKR 472,000 + 25% of the amount exceeding PKR 3,500,000
4,000,000	7,000,000	PKR 597,000 + 27.5% of the amount exceeding PKR 4,000,000
7,000,000	-	PKR 1,422,000 + 30% of the amount exceeding PKR 7,000,000

For other individuals, including self-employed individuals, the following tax rates are applicable to their income other than certain investment income

Exceeding PKR	Not Exceeding PKR	Amount
0	400,000	0
400,000	500,000	7% of amount exceeding 400,000
500,000	750,000	PKR 7,000 + 10% of the amount exceeding PKR 500,000
750,000	1,500,000	PKR 32,000 + 15% of the amount exceeding PKR 750,000

1,500,000	2,500,000	PKR144,500 + 20% of the amount exceeding PKR 1,500,000
2,500,000	4,000,000	PKR 344,500 + 25% of the amount exceeding PKR 2,500,000
4,000,000	6,000,000	PKR 719,500 + 30% of the amount exceeding PKR 4,000,000
6,000,000	3,000,000	PKR 1,319,500 + 35% of the amount exceeding PKR 6,000,000

* For AOP's (Professional firms prohibited from incorporating by any law) the tax rate will be 32% from tax year 2016 onwards.

G. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	7.5/15/20[1]	7.5/15/20[1]	10[2]	15
Individuals	7.5/15/20	--	10	15
Treaty countries:				
Austria	15	10	15	10
Azerbaijan	10	10	10	10
Bahrain	10	10	10	10
Bangladesh	15	15	15	15
Belarus	15	11	10	15
Belgium	–[4]	10/15	15	0/15/20
Bosnia and Herzegovina	10	10	20	15
Brunei	10	10	15	15
Canada	–[4]	15/20	0/25	0/15/20
China	10	10	10	12.5
Czech Republic	15	5	10	10
Denmark	15	15	15	12
Egypt	15/30	15	15	15
Finland	15/20	12	10/15	10
France	15	10	10	10
Germany	15	10	10/20	10
Hong Kong3	10	10	10	10
Hungary	20	15	15	15
Indonesia	15	10	15	15
Iran	5	5	10	10
Ireland	10	5	10	10
Italy	25	15	30	30

Japan	10	5/7.5	10	10
Jordan	10	10	10	10
Kazakhstan	15	12.5	12.5	15
Korea (South)	12.5	10	12.5	10
Kuwait	10	10	10	10
Kyrgyzstan	10	10	10	10
Lebanon	10	10	10	7.5
Libya	–[4]	–[4]	–[4]	–[4]
Malaysia	20	15	15	15
Malta	–[4]	15	10	0/10
Mauritius	10	10	10	12.5
Morocco	10	10	10	10
Nepal	15	10	10/15	15
Netherlands	20	10	10/15/20	5/15
Nigeria	15	12.5	15	15
Norway	15	15	10	12
Oman	12.5	10	10	12.5
Philippines	25	15	15	15/25
Poland	–[4]	15	–[4]	15/20
Portugal	15	10	10	10
Qatar	10	5	10	10
Romania	10	10	10	12.5
Saudi Arabia	5/10	5/10	10	10
Serbia	10	10	10	10
Singapore	10/12.5/15	10/12.5/15	12.5	10
South Africa	15	10	10	10
Spain	10	5/7.5	10	7.5
Sri Lanka	15	15	10	20
Sweden	–[4]	15	15	10
Switzerland	20	10	10	10
Syria	10	10	10	10/15/18
Tajikistan	10	5	10	10
Thailand	25	15	10/25	0/10/20
Tunisia	10	10	13	10
Turkey	15	10	10	10
Turkmenistan	10	10	10	10
Ukraine	15	10	10	10

United Arab Emirates	15	10	10	12
United Kingdom	15/20	10	15	12.5
United States	–[4]	–[5]	–[4]	0
Uzbekistan	10	10	10	15
Vietnam	15	15	15	15
Yemen	10	10	10	10

Notes:

1. Dividends (including remittance of profits to head office) are generally subject to a final withholding tax at the rate of 15% from 1 July 2017 (20% for non-filers) of the gross amount. The rate of 7.5% applies to dividends paid by a power project privatized by the Water and Power Development Authority.
2. Interest (profit on debt) is subject to withholding tax at the rate of 10% (17.5% for non-filers, unless the yield or profit paid is PKR 500,000 or less) on the gross amount.
3. Effective from 1 July 2018.
4. No reduction under the treaty, the domestic rate applies.
5. Where a US corporation has no permanent establishment in Pakistan and is a public company that owns more than 50% of the voting power in a Pakistani company engaged in an industrial undertaking, the domestic rate is reduced by 1 anna in the rupee (1 rupee = 16 annas). Otherwise, the domestic rate applies, i.e. no reduction under the treaty available.

PANAMA

MEMBER FIRM

City	Name	Contact Information
Panama	Carmen Gonzalez	+507 269 5703 cgonzalez@pkfpanama.com

BASIC FACTS

Full name:	Republic of Panama
Capital:	Panama City
Main language:	Spanish, English
Population:	4.15 million (2018 estimate)
Monetary unit:	Balboa (PAB) (at par with USD)
Internet domain:	.pa
Int. dialling code:	+507

KEY TAX POINTS

- Corporate income tax is only chargeable on revenue arising from business activities and assets situated in Panama.
- An alternative minimum income tax system applies to all companies except small companies invoicing up to USD 1,500,000 per annum.
- Tax is chargeable at 10% on the net profit arising on the sale of real estate property. A different tax calculation method applies to the sale of shares and securities.
- VAT is charged on the supply of goods and services at a standard rate of 7%, although some goods are subject to higher rates and others are exempt.
- Withholding taxes apply to the payment of dividends by Panamanian companies to all recipients. Services

and fees, interest, commissions, royalties or technical assistance fees, etc., paid or accrued to foreign recipients are subject to withholding tax only if the local payer will take it as a deductible expense.

All individuals are subject to income tax on Panamanian source income. Progressive tax rates apply.

A. TAXES PAYABLE

COMPANY TAX

Panama's income tax law affects aggregate and annual revenue from business activities conducted in Panama or from assets situated in the country, when any of the causes of such revenue occur within the national territory. The standard tax rate for companies is 25%. Companies in which the State has more than a 40% share will pay 30% income tax.

The fiscal year of companies normally corresponds to the calendar year but it is allowable to have fiscal years ending on other dates if a request is made to the Tax Department authorities. Corporate tax returns and payments are due by the end of the third month following the end of the fiscal year. An extension of one additional month may be granted if requested. Extensions to file a tax return, however, do not affect the time for payment of tax. Corporations are required to prepay their estimated tax liability in three instalments, based on the income tax of the previous fiscal year.

ALTERNATIVE MINIMUM INCOME TAX

A tax rate of 25% is applied to the net taxable income on whichever is higher between:

1. The amount of the net taxable income (traditional calculation of deducting costs and expenses from gross taxable income); and,
2. The net taxable income that arises after deducting 95.33% from gross taxable income.

If, after applying the second alternative, the company incurs losses due to the payment of the tax or, if the effective rate of the income tax exceeds 25%, it can request the Tax Department not to apply the alternative calculation. Small companies that invoice less than USD 1,500,000 gross taxable income in the fiscal year are exempt from applying the alternative calculation.

CAPITAL GAINS TAX

On sales of real estate there are two taxes involved. One is a 2% transfer tax and the other is a 10% income tax on the net profit. The 2% transfer tax rate is applied on the higher of the sales price or the registered value of the property in the Public Registry plus a 5% surcharge for each complete calendar year for which the property is held.

The 10% income tax is calculated on the net profit of the transaction. Net profit is calculated by deducting the cost of the property plus any related expenses from the sales price. The buyer of the real estate will withhold 3% of the higher amount between the sale price or the cadastre value and remit it to the Tax Department. The seller will calculate a 10% tax on the profit. If this result is higher than the 3% withheld by the buyer, the seller can choose to consider the 3% as the final tax. If the 10% of the profit is lower than the 3% withheld by the buyer, the seller can request a reimbursement for the difference.

Income from the sale of securities is taxable as follows. The buyer will withhold 5% of the sale price and remit it to the Tax Department. The seller will calculate a 10% tax on the profit. If this is higher than the 5% withheld by the buyer, the seller can choose to consider the 5% as the final tax. If the 10% of the profit is lower than the 5% withheld by the buyer, the seller can request a reimbursement for the difference. Income from the sale of government securities and those issued by companies registered with the National Securities Commission is not taxable.

BRANCH PROFITS TAX

Branches of foreign companies are subject to the same tax rates as Panamanian companies. In addition to corporate income tax, branches of foreign registered companies are subject to a 10% branch remittance tax on after-tax profits. The withholding tax is final and must be remitted along with the filing of the annual tax return.

SALES TAXES/VALUE ADDED TAX (VAT)

Many consumer services and goods are subject to a 7% value added tax. Alcoholic beverages and hotel room rentals have a 10% tax rate and cigarettes and tobacco products have a 15% tax rate. The following items are exempt from VAT:

- Food (except restaurants that serve alcoholic beverages which are taxed);
- Medicines and medical services;
- House rentals with a contract period of more than six months. House rentals with contract periods of less than six months are subject to VAT.

Companies with purchases of over USD 5,000,000 in the previous year become withholding agents, and are required to retain 50% of VAT included in their vendors' bills. Institutions that manage credit and debit cards will withhold 50% of VAT included in sales of goods or services paid with credit and debit cards. The tax authorities have published a list of companies designated as withholding agents.

LOCAL TAXES

Panama's income tax law affects the whole national territory equally.

OTHER TAXES

Other taxes are also applicable, including:

PREPAID DIVIDEND TAX

Local corporations must pay a 4% complementary tax on each fiscal year's net taxed profit on behalf of their shareholders if no dividends are declared. This 4% will be applied to dividend tax when dividends are declared. The rate for companies established in a Free Zone is 2%.

FRANCHISE TAX

Foreign and domestic corporations registered in the Public Registry are subject to an annual tax of USD 300, regardless of whether they are doing business in Panama. There is a penalty of USD 50 for late payment and, after two years of non-payment of the franchise tax, there is a restoration fee of USD 300 per year.

ANNUAL LICENCE TAX

All industrial or commercial business, except those exempted by specific laws, are required to have a license to operate. This tax is 2% of the company's net worth, including amounts owed to the foreign home office or foreign affiliated companies. The tax is payable annually up to a maximum of USD 60,000. For companies established in a Free Zone, this tax is 0.05% of the company's net worth, including amounts owed to the foreign home office or foreign affiliated companies. The tax is payable annually up to a maximum of USD 50,000.

MUNICIPAL TAX

Lucrative activities in any municipality shall pay local tax upon gross income, calculated according to the companies' category and activity.

SOCIAL SECURITY TAX

These are payments that are made monthly by employers and employees on the payroll of companies for the purpose of guaranteeing the functioning of the worker social security system and retirement benefits at the national level.

	Employer	Employer
Social Security:		
- Salary	12.25%	9.75%
- XIII Month	10.75%	7.25%
Education tax	1.5%	1.25%
Professional Risk*	0.98% - 5.67%	0

* According to activity

ANNUAL BANKING INSTITUTIONS TAX

Banking institutions are subject to an annual tax as follows:

Banks with General License	Annual Tax
Assets up to USD 100 million	USD 75,000
Assets between USD 100 and USD 200 million	USD 125,000
Assets between USD 200 and USD 300 million	USD 175,000
Assets between USD 300 and USD 400 million	USD 250,000
Assets between USD 400 and USD 500 million	USD 375,000
Assets between USD 500 and USD 750 million	USD 450,000
Assets between USD 750 and USD 1 billion	USD 500,000
Assets between USD 1 billion and USD 2 billion	USD 700,000
Assets above USD 2 billion	USD 1,000,000
During their first year of operation, new banks with general license will pay 50% of the above annual tax	
Banks with International Licence	USD 75,000
Banks for development and microfinance	USD 30,000
Exchange houses	USD 10,000

B. DETERMINATION OF TAXABLE INCOME

The net taxable income of a corporation or partnership is determined by subtracting all allowable deductions from gross taxable income. Generally, expenditures and/or losses are deductible provided they are incurred in gaining or producing taxable income, or preserving the source of income. Special rules apply in respect of certain expenditures.

ALTERNATIVE METHOD OF CALCULATING A MINIMUM NET TAXABLE INCOME

The net taxable income under this method arises after deducting 95.33% from the gross taxable income. Under this formula, the net taxable income will be 4.67% of the gross taxable income. The larger of the two amounts will be the net taxable income for the fiscal year. The alternative method of calculating a minimum net taxable income is applicable to companies with gross taxable income of USD 1,500,000 and above.

DEPRECIATION AND DEPLETION

Depreciation is normally calculated by the straight-line method over the estimated useful life of the asset. The regulations also permit the use of the sum-of-the-digits and declining-balance methods. Depletion of mines and other natural resources is based on units extracted or produced. Using any other method requires the approval of the Income Tax Department.

STOCK / INVENTORY

The Income Tax regulations allow the use of the specific cost, FIFO, retail-inventory, or average-cost method according to the normal course of operations. The method used cannot be changed by the taxpayer for at least five years and will require a written notification to the Tax Department authorities.

DIVIDENDS

The corporation declaring the dividend must withhold a 10% tax on all dividends declared from income earned within the Republic of Panama. However, dividends on bearer shares are subject to a 20% dividend tax. Dividends declared by branches or domestic subsidiaries of foreign corporations on income earned within the Panamanian territory are subject to the 10% tax as well. However, dividends on bearer shares are subject to a 20% dividend tax. Companies requiring a commercial operating license must withhold a 5% tax on dividends declared from income obtained on exports or from foreign source.

Companies established in a Free Zone must withhold a 5% tax on dividends, regardless of the source of income. Loans and advances to shareholders are subject to 10% dividend tax, except for bearer's shares which are subject to a 20% withholding tax. Capital shares can be reduced only if the total retained earnings have been distributed and the dividend tax paid.

The dividend tax may vary subject to the application of a double tax treaty.

INTEREST INCOME

The following types of interest earned are not subject to income tax:

- Savings and time deposits with banks;
- Panamanian government securities;
- Securities issued by companies registered with the National Securities;
- Commission, provided the securities were acquired through a securities exchange duly established to operate in Panama;
- Loans granted to the agricultural and agro-industrial sectors;
- Loans granted to the tourism sector.

INTEREST DEDUCTIONS

Interest is normally deductible on an accrual basis but must be capitalized if it relates to financing of real estate construction. Once the construction is completed, interest is then deductible from income.

LOSSES

Losses incurred in any given year can be taken as a valid deduction over the next five years at a carry forward rate of 20% of the loss per year, as long as this deduction does not reduce the current taxable income by more than 50%. Excess over this limitation for any given year will be lost.

SOURCE OF INCOME

Foreign-sourced income is not subject to income tax. Only income earned in the territory of Panama is subject to Panama income tax. Income received by persons or companies domiciled outside of Panama

will be considered from a Panamanian source if it arises from services or actions that benefit persons or companies located in Panama, including fees, interests and royalties. The income tax to be withheld is at the regular rates for individuals or corporations but only on 50% of the amount of income received by the recipient and may be deductible.

INCENTIVES

a. The following incentives are available to these qualifying industries and corporations:

b. Companies operating in the Colon Free Zone, or any other Free Zone in the country, are tax-exempt on profit derived from sales from the Free Zone to foreign countries;

c. Companies operating in "Ciudad del Saber" (City of Knowledge) and “Panam. Pac.fico” (Pacific Panama) are exempt of income tax, import duties and VAT. Dividend tax of 10% or 5% applies when dividends are declared;

d. For "small business" companies, income tax is calculated over a combination of the personal tax rate and corporate tax rate. Companies are considered small as long as they:

   - Are not related or affiliated to other companies;
   - Are not a result of the fractionalization of other corporations;
   - Have an annual gross income of less than USD 200,000; and,
   - Their shareholders are individual persons.

e. Financial entities, including savings and loans associations or any other legal entity that previously registers with the Tax Authorities and whose commercial line of business is that of granting mortgage loans or engaging in construction and that meet the requirements and formalities provided for, may benefit from the tax regime called "Preferential Mortgage Loans":

   - The referred preferential portion may not exceed 4% in housing loans, whose value registered at the time of financing is greater than forty thousand balboas (USD 40,000) and does not exceed eighty thousand balboas (USD 80,000);
   - The preferential portion in housing loans, whose value registered at the time of financing is greater than eighty thousand balboas (USD 80,000) and does not exceed one hundred and twenty thousand balboas (USD 120,000), shall be 2%.

C. CORPORATE GROUPS

Group taxation is not permitted in Panama.

D. RELATED PARTY TRANSACTIONS

Transactions between related parties are treated normally as long as an "arm's length" basis is used. They are shown individually in the income tax return. For purposes of paying the annual operations notice tax, the amount owed to related parties abroad is not reduced as an obligation, causing an increase in this tax.

TRANSFER PRICING

There is a transfer pricing system for import and export with non-resident related parties of goods, services and rights. These prices are based on the following methods; comparative independent price method, resale price less profit method, production cost plus profit method, profit-split method, or the transaction net margin method.

The tax authorities require a study of transfer prices with the chosen method according to the agreements between companies and also the annual presentation of a declaration of transactions with related parties.

E. WITHHOLDING TAX

Services and fees paid or accrued to individuals and to resident corporations are not subject to withholding tax, except for payments on dividends distributed from retained earnings arising from Panama-sourced income. Services and fees, interests, commissions, royalties or technical assistance fees, etc., paid or accrued to foreign recipients are subject to withholding tax only if the local payer will take it as a deductible expense. The withholding tax is at the regular rates for individuals or corporations but only on 50% of the amount of income received by the recipient. The withholding tax must be remitted to the tax authorities within 10 days following the retention or registration, whichever comes first.

The withholding tax may vary subject to the application of a double tax treaty

F. EXCHANGE CONTROL

The exchange rate in the Republic of Panama is always USD1 = B/.1.00 (BALBOA).

G. PERSONAL TAX

The rates set out below are applicable to any individual's net income earned:

Net Income	Tax amount
Up to USD 11,000	0%
From USD 11,001 to USD 50,000	15% on the amount exceeding USD 11,000 up to USD 50,000
Over USD 50,000	USD 5,850 tax on the first USD 50,000, plus 25% on amounts exceeding USD 50,000

H. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Panamanian companies or individuals that will apply the withholding tax rates indicated in the treaties must first notify this in writing to the Tax Department.

	Dividends[1] (%)	Dividends[2] (%)	Dividends[3] (%)	Service Fees (%)
Treaty countries:				
Barbados	5/7.5	5/7.5	7.5	7.5
Czech Republic	10	5/10	10	0
France	5/15	5	5	0
Ireland	5	5	5	0
Israel	5/15/20	15	15	0

Italy	5/10	5/10	10	10
Korea	5/15	5	3/10	15
Luxembourg	5/15	5	5	5
Mexico	5/7.5	5/10	10	12.5
Netherlands	15	5	5	15
Portugal	10/15	10	10	10
Qatar	6	6	6	15
Singapore	4/5	5	5	15
Spain	5/10	5	5	7.5
United Arab Emirates	5	5	5	0
United Kingdom	15	5	5	0
Vietnam4	5/7/12.5	10	10	7.5

NOTES:

1 The lower rate applies to dividends paid to foreign corporations that own a particular percentage of share capital.

2 The lower rate applies to interest paid to foreign banks and the higher rate applies to others.

3 The lower rate applies to royalties paid for the use of commercial, industrial and scientific equipment. The higher rate applies to other royalties paid.

4. Entry into force: 14 February 2017. Effective date: 1 January 2018.

I. AGREEMENT FOR TAX COOPERATION AND EXCHANGE OF INFORMATION

The Republic of Panama has agreements for tax cooperation and the exchange of information relating to taxes with the following countries: Canada, Finland, Greenland, Iceland, Norway, Sweden, The Faroes and the United States of America. These agreements apply to taxes of every kind imposed on the contracting parties.

PARAGUAY

MEMBER FIRM

City	Name	Contact Information
Asunción	Walter Hermosa	595 21 60 30 44 whermosa@pkf-controller.com.py

BASIC FACTS

Full name:	Republic of Paraguay
Capital:	Asunci.n
Main language:	Spanish, Guaran.
Population:	6.88 million (2018 estimate)
Monetary unit:	Paraguayan Guaran. (PYG)
Internet domain:	.py
Int. dialling code:	+595

A. TAXES PAYABLE

CORPORATE TAX

The Paraguayan tax system relies heavily on four basic taxes: Value Added Tax (VAT), Tax on income from commercial and industrial activities (IRACIS), Tax on Agricultural Income (IRAGRO) and Selective Consumption tax (ISC).

Corporate income tax (***Impuesto a la Renta de Actividades, Comerciales, Industriales y de Servicios,*** IRACIS) is levied upon all resident and non-resident legal entities deriving Paraguayan-source income. Non-residents without a permanent establishment or presence in Paraguay are only taxed on certain types of Paraguayan-source income. For corporate income tax purposes, taxable persons are: companies, individuals undertaking large-scale business activities, state-owned companies and government agencies, subsidiaries, branches, agencies and permanent establishments of foreign companies located in Paraguay and registered with the Paraguayan tax authorities. Companies engaged in agricultural activities are subject to a special income tax regime.

The Paraguayan tax system uses the territorial source criterion to tax income. This means that all income from property or rights within the national territory are taxed. However, the yields obtained from capital placed abroad and exchange differences thereof, are considered to be Paraguayan-sourced when the investing or beneficiary institution is based in Paraguay. An inflation adjustment is not taken into account but taxpayers are required to revalue their assets each year according to the rates set by the Government.

Corporate income tax is assessed at the rate of 10%. Additionally, a tax is levied on the distributing company at the rate of 5% on dividends or profit distributions to resident and non-resident shareholders. The tax is due at the time the dividends or profit distributions are declared by the shareholder or member's meeting, or at the time they are registered in the company's accounting books (in case the company does not carry out meetings under its by-laws). Dividends or profit distributions are considered as accrued by the recipient at that time, independently of the time of payment. The taxable base is the net amount of dividends or profit distributions, which excludes the corporate income tax paid and the profits capitalized or allocated to reserves. The taxable person is the company making the payment or distribution. The company must pay the 5% tax within 2 months from the shareholders' or members' meeting or registration in the company's accounting books.

SMALL TAXPAYER INCOME TAX (IRPC)

There is also a special tax for Small Taxpayers, which taxes income derived from commercial, industrial or non-personal services activities and whose income earned in the previous calendar year does not exceed PYG 500,000,000 (approximately USD 89,000).

The income tax on small business (***impuesto a la renta del peque.o contribuyente,*** IRPC) is levied annually at the rate of 10% on the lesser of (i) the actual net income or (ii) a presumed net income. Effective 1 January 2014, tax amendments were introduced regarding persons subject to this tax:

- a proprietorship carrying on commercial or industrial activities or performing services may be subject to this tax provided its annual accrued income in the previous tax year does not exceed PYG 500 million;
- if a proprietorship derived income in excess of this amount, it will become a taxpayer of the "income tax for commercial or industrial activities, or performance of services (IRACIS)" as from the following tax year, and will be registered as such by the tax administration; and
- a proprietorship registered as an IRACIS taxpayer may not become an IRPC taxpayer.

Subsidiaries and permanent establishments of foreign companies and companies carrying on import and/or export activities are excluded from the scope of this tax.

BRANCH PROFITS TAX

Branches are taxed at the same rate of 10% as Paraguayan domestic corporations. Profits transferred or credited to the head office are subject to a 15% withholding tax when remitted to the foreign head office. Furthermore, the payment of dividends is subject to a 5% tax rate, which has to be paid at the time of remittance and is charged to the local entity.

CAPITAL GAINS TAX

Gains on all assets, tangible and intangible, are taxable as part of profits and subject to income tax at a rate of 10%. Foreign currency exchange gains are also taxable at the same tax rate.

VALUE ADDED TAX (VAT)

VAT (***impuesto al valor agregado, IVA***) is levied on taxable supplies of goods and services as well as on imports of taxable goods and services into Paraguay. Exports are zero rated. Some specified transactions are exempt without credit for previously paid VAT. In computing tax liability, input VAT may be credited against output VAT, so that in practice only the value added to the taxpayer's supplies is taxed. VAT applies to all stages of the distribution process. VAT taxes the asset disposal or sale of services, the provision of services (excluding personal information rendered in a dependent relationship) and the importation of goods.

Are subject to payment of VAT: individuals, sole proprietorships domiciled in the country, cooperatives with the scope set forth in Law No. 438/94, and companies engaged in commercial, industrial or service activities. The tax is calculated on the sales price of the goods or the services. The standard VAT rate is 10% while a 5% rate applies to the sale of pharmaceuticals, the basic family basket and agricultural, horticultural and fruit products as well as to property rentals.

Exports of goods and services of international freight for the transport of goods are not subject to VAT. In these cases the local exporter has the right to recover the tax credit associated with the exported products, which depends on the completion of certain formalities with the Tax Administration. Paraguayan law establishes a system of withholding tax on local suppliers by exporters and certain taxpayers appointed by the Tax Administration.

SELECTIVE CONSUMPTION TAX

Excise tax is payable at the time of the import or the first sale (by local manufacturers) of certain products such as soft drinks and alcoholic beverages, cigarettes, toiletries, fuels, among others, constituting a cost to the importer or local manufacturer . The tax is paid monthly, with the exception of fuels which is on a weekly basis. The settlement and payment are carried out before removal of goods from customs, i.e. before the warrant and order release of goods for departure.

MUNICIPAL TAXES

Municipal Patent for Industries

Over the asset value applies a fee plus a fixed rate of 0.05% on the excess of the minimum amount according to the scale provided by law. Industrial companies have a discount of 20% on the resulting patent. The new industrial plants and those that expand their facilities have a discount of 25% on the resulting patent for 3 years.

Commercial Patent

Over active value applies a fixed fee plus a rate of 0.05% on the excess of the minimum amount according to the scale provided by the Act.

Vehicles Patent

A tax is applied over the value for duty consisting of a fixed fee plus a rate of 0.6 to 1 % on the excess of the minimum amount according to the scale provided in the Act. The law provides reductions for certain types of vehicles as taxis and remise cargo vans, buses and hearses.

Building

A tax over the value of the work sheet is applied, according to the intended scale in the Law between 0.2 and 4 %.

SOCIAL SECURITY REGIME

Salaried workers, regardless of their age and the amount of compensation they receive, are mandatorily subject to a social security scheme. The percentage of current worker- employer contribution is 25.5% monthly, corresponding to 9% and 16.5% for workers and employers respectively. The basis for calculation is the current employee remuneration which is the total remuneration received by the worker in money, species or royalties, including extraordinary, additional or piecework work, commissions, perks, severance pay, awards, fees, interests and any other accessory remunerations with a normal character in the company or workplace, except for bonuses.

B. DETERMINATION OF TAXABLE INCOME

The taxable amount for purposes of calculating the tax on annual income is determined by deducting from the taxable gross income (difference between total income from commercial, industrial or service operations and the cost thereof), the expenses necessary to obtain and maintain the production source.

DEPRECIATION

Depreciation of property constituting the fixed assets is calculated annually based on the estimated life of each type of asset. When an activity involving depletion of the production source is made, the tax law allows depreciation proportional to such exhaustion. Intangible assets such as trademarks, patents and others are amortized using an annual percentage of 25%.

STOCK / INVENTORY

The cost of inventory includes all cases arising from its acquisition and processing, as well as other costs incurred to put it on deposit or application to the production process. The valuation methods supported by the local tax rules are:

a) Acquisition Cost;

b) Conversion Cost;

c) Any other valuation method prescribed in the International Financial Reporting Standards (IFRS), prior authorization of the Tax Administration.

DIVIDENDS

The distribution of dividends is subject to Income Tax headed by the local taxpayer (entity distributing the dividends) with an additional fee of 5%, which must be applied to the amount of profits paid, remitted or credited, being either local or foreign shareholders. That tax will be non-deductible at the level of the taxpayer for the purpose of liquidating its tax expense. Partners and shareholders domiciled or established abroad, such as the head office abroad, tax the IRACIS by means of deduction, at the time that they are paid, remitted or credit profits by companies or branches opened in the country. In this case, the company or the local branch should act as a retainer agent, applying the rate of 15 % on net amounts referred rotated or credited.

INTEREST DEDUCTION

Interest paid, which will be taxed in the hands of the receiver (creditor), will be allowable as a deduction for tax purposes. Interest paid to an overseas head office, other branch or agency by a Paraguay branch, agency or permanent establishment (on the capital, loans or any other investment made by the overseas head office, other branch or agency) will be allowable as a deduction for Paraguay tax purposes as long as the interest is subject to tax in the hands of the recipient and any Paraguay withholding tax has been accounted for. There are no thin capitalization rules in Paraguay.

LOSSES

Tax losses may not be carried forward or back.

However, the tax losses generated under the Agricultural Income Tax (IRAGRO) can be offset against taxable net income following five years.

FOREIGN SOURCE INCOME

The Paraguayan corporate income tax system is based on the territoriality principle, whereby tax is only due on business income generated by companies operating in Paraguay. Foreign-sourced income is not taxable. However, interest, commissions, and capital gains are considered Paraguayan-sourced income and subject to corporate income tax when the investor is resident in Paraguay.

TAX INCENTIVES

ACT 60/90

Act No.60/90 was passed in order to promote and increase capital investments (domestic and / or foreign), by granting fiscal benefits to those who make investments in line with the economic and social policy of the Government and aim to:

a) To increase the production of goods and services;

b) Creating permanent jobs;

c) To incorporate technologies to increase production efficiency and enable greater and better use of raw materials, labour and domestic energy resources;

d) The investment in capital and reinvested earning.

Benefits and tax exemptions

Investment projects that are approved can enjoy, depending on the characteristics of each investment project, the following payment exemptions:

- Value Added Tax on the purchase of imported capital goods (as well as capital goods produced in Paraguay) used in the facility for industrial or agricultural production;
- All taxes levied on the creation, or registrations of companies and enterprises;
- Tariffs and internal taxes on imports of capital goods, raw materials and inputs for use in investment projects for the production of capital goods;
- Taxes and other levies on remittances and payments abroad in respect of interest, commissions and capital of such when the investment is financed from abroad and is at least USD 5,000,000 in a lapse of 10 years;
- All taxes which affect dividends and profits from projects approved, for a term of 10 years counted from the start of the project when the investment is at least USD 5,000,000 and the tax on such dividends or utilities were not fiscal credit of the investor in the country from which the investment provides.

Scope of Benefits

The exemptions provided in the Law apply, among others, to investments in: financing, capital goods, specialized technical assistance, mining, hotel and rental of capital goods (leasing), providing services in air cargo and passengers, river transport, land freight transport in general, public passenger transport, health, radio, television, press, rural and urban fixed telephony, mobile telephony, scientific research, silos, storage, and data transmission services .

Validity of Benefits

- 10 years when investment resources are from capital repatriation or when investments are filed in preferred areas of development or.
- 7 years when investments come from incorporation of capital goods of national origin.

FREE ZONE PROCEDURE

Paraguay has established free zones (FZs) in different areas of its territory. These areas can be used to carry on qualifying transactions. The incentives can be summarized as follows:

- taxpayers conducting qualifying activities and exporting abroad may opt to be taxed at a 0.5% rate on their total export turnover;
- taxpayers may sell finished products and services within the FZ, subject to a 0.5% tax, as long as the related sales turnover in the relevant tax period does not exceed 10% of the taxpayer's total gross income, otherwise, the latter may be subject to income tax at an effective rate of 3% on the ratio of the sales within the FZ and net income after deduction of related expenses; and
- the import of goods into the FZ is exempt from customs taxes and duties. The export of goods and services is also exempt.

MAQUILADORA REGIME

The Maquila Regime is regulated by Law 1064/97 under which a local company/subsidiary/branch ('Maquiladora') signs a contract with a foreign entity to produce goods and/or to provide services for export only, operating for account and risk of the foreign entity, who can supply all the raw materials and other inputs to the Maquiladora from any local or foreign supplier.

Any person or company, national or foreign, domiciled in Paraguay may be licensed for a Maquila export program. Such companies may be incorporated under any form: corporations, limited liability companies, foreign branches, or individual limited liability enterprises, without any ownership restrictions, having total or partial foreign, national or joint venture participation. There are no restrictions as to minimum capital or minimum/maximum production.

The Maquiladora must file an application for a Maquila Program to the Maquila Council with details of the estimated undertaking. Once the program is approved, it can be modified as necessary, and the following benefits are granted:

- Suspension of all applicable taxes and duties on raw materials and other inputs required for the performance of the Maquila Program that can enter on Paraguayan territory;
- Tax exemptions including but not limited to income tax, value added tax, customs duties, port and airport taxes and duties and any type of tax, rate or charge applied to loans financing Maquiladora undertakings.
- No taxes applicable to production, except a 1% tax on value added on Paraguayan territory.
- Either the Maquiladora or the Head Office may issue export invoices.
- Maquiladoras can perform production by themselves or can subcontract to other local companies, and tax benefits might extend to subcontractors under certain conditions.

Requirements include a guarantee (insurance policy, warrant or bank guaranty) for customs duties for a value equal to the suspended taxes.

C. FOREIGN TAX RELIEF

As foreign-source income is not subject to corporate income tax in Paraguay (see above under 'Foreign Source Income), no credit is granted for foreign taxes.

D. CORPORATE GROUPS

There are no provisions in Paraguayan law for the filing of consolidated tax returns.

E. RELATED PARTY TRANSACTIONS

Paraguayan law does not contain transfer pricing provisions. However, it contains some provisions dealing with certain payments that affect the transfer price on the cost of goods for importation and exportation activities, like soybeans and soybean products.

There are no CFC (Controlled Foreign Company) provisions in Paraguayan law.

F. WITHHOLDING TAX

Domestic-source income derived by non-residents without a permanent establishment in Paraguay is generally subject to a final withholding tax levied on the gross amount of income.

Dividend payments or profit distributions to non-resident shareholders are subject to a 15% withholding tax on the gross amount. Interest paid to non-residents is subject to a 30% withholding tax. As the withholding rate is applied on 50% of the interest, Paraguayan-sourced interest payments are taxed at

an effective rate of 15%. Interest paid to non-resident financial institutions is subject to a 6% effective withholding tax rate. Royalties paid to non-residents are subject to a 30% withholding tax. As the withholding rate is applied on 50% of the royalty payment, Paraguayan-sourced royalty payments are taxed at an effective rate of 15%.

Branch profit remittances paid to head offices are subject to a withholding tax at the rate of 15% on the amount remitted (in addition to the corporate income tax rate of 10% and the additional income tax of 5% levied at the time of distribution). The withholding tax applies only if the profits are actually distributed or remitted to the head office.

Fees and commissions paid to non-residents are subject to a tax of 30%, which is withheld at source. As the withholding rate is applied on 50% of the payment, domestic-source fees and commission payments are taxed at an effective rate of 15%. Deemed taxable income derived by non-residents from leasing immovable or movable property is 50% of the gross rental amount, which is subject to a tax of 30%. Consequently, Paraguayan-sourced rental payments are taxed at an effective rate of 15%.

Capital gains derived by non-residents are subject to a tax of 30%, which is applied on 50% of the gain. Consequently, domestic-source capital gains are taxed at an effective rate of 15%.

G. EXCHANGE CONTROL

The Paraguay Central Bank does not control the foreign-exchange market. A free-market rate of exchange prevails.

H. PERSONAL TAX

Personal Income Tax (IRP) is levied on income from Paraguayan sources generated by conducting personal income generating activities. IRP taxpayers are individuals and single companies whose income exceeds 10 minimum monthly wages or the equivalent of 120 monthly minimum wages in the course of a year. The

threshold to be subject to tax is reduced by 12 monthly minimum salaries per year, until it reaches the level of 36 minimum salaries in 2019. The individual income tax has been introduced progressively since 2012 when it entered into force. Individuals whose annual income exceeds the following amount are subject to income tax:

- 2012: 120 minimum salaries;
- 2013: 108 minimum salaries;
- 2014: 96 minimum salaries;
- 2015: 84 minimum salaries;
- 2016: 72 minimum salaries;
- 2017: 60 minimum salaries;
- 2018: 48 minimum salaries; and
- as from 2019: 36 minimum salaries (final minimum amount).

The rates are:

- 10% for income above 10 minimum monthly wages (approximately USD 3,800);
- 8% for income not exceeding 10 minimum monthly wages and 20% on 50% of the amount earned by individuals domiciled abroad by performing taxable activities in the country. In the latter case the payor should act as a withholding agent on any payment, credit or remittance.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	15	15	6/15	15
Individuals	15	--	15	12/15
Treaty countries:				
Chile	10	10	10/15[1]	15
Taiwan	5	5	10	10

NOTES:

1 In case of a loan to Chile, the interest is subject to a 15% withholding tax if it is provided by a bank or insurance company, while if the loan is provided by an associated company or head office the withholding tax rate is 10%.

PERU

MEMBER FIRM

City	Name	Contact Information
Lima	Emilio Vila	+51 144 26 116 emiliovila@pkfperu.com
Lima	Renato Vila	+51 144 26 116 rvila@pkfperu.com

Lima	Ernesto C.rdova	+51 144 26 116 ecordova@pkfperu.com
Santiago de Surco	Julio Riva	+51 163 08 787 jriva@pkfperu.com.pe
Santiago de Surco	Karla Ciudad Sandoval	+51 163 08 787 kciudad@pkfperu.com.pe

BASIC FACTS

Full name:	Republic of Peru
Capital:	Lima
Main language:	Spanish, Quechua and Aymara
Population:	32.48 Million (2018 estimate)
Monetary unit:	Sol (PEN)
Internet domain:	.pe
Int. dialling code:	+51

KEY TAX POINTS

- Corporate Income Tax (CIT) is currently payable at a regular rate of 29.5%.
- Dividends or other profit distribution forms, including remittance of profits from Peruvian branches or subsidiaries of foreign companies are subject to a 5% withholding tax.
- The tax year for a company is its accounting year, which ends on 31 December. Companies are required to make monthly prepayments to be offset against the final income tax calculated by the end of the fiscal year.
- Companies must file their annual income tax return and pay any balance due by the end of March of the following year.
- Peruvian VAT is imposed on the sale of goods, the supply of services in the country and the import of goods made at different stages of the economic cycle. Services rendered from abroad but economically used in Peru are subject to Peruvian VAT under the “reverse charge” mechanism. The general VAT rate is 18%.
- Peruvian citizens domiciled in Peru are taxed on their worldwide income, regardless of where the income is generated or where it has been paid or the currency received for it. Non-domiciled citizens are taxed only on their Peruvian-sourced income. Personal Income Tax is levied at a progressive rate of 8%, 14%, 17%, 20% and 30%, depending upon the level of income obtained within a fiscal year.

A. TAXES PAYABLE

COMPANY TAX

Resident companies are taxed on their worldwide income. Any profits, including capital gains, are included within the taxable income of a corporation and taxed at the regular corporate rate. Resident companies are those incorporated or established in Peru. Corporate Income Tax (CIT) is currently levied at a regular rate of 29.5%.

The tax year for a company is the accounting year, which ends on 31 December. Companies are required to make monthly CIT prepayments to be offset against the final income tax calculated by the end of the fiscal year. Prepayments should be calculated based upon one of the following methods:

(a) 1.5% of monthly net revenue as a minimum; or,

(b) The monthly net revenue times a ratio between the income tax and the net revenue, both from the preceding year.

Companies must file their annual income tax return and pay any balance due by the end of March or the first days of April of the following year. Mining companies are, in addition to their specific corporate tax rates, subject to a royalty calculated on the gross sales relating to the transfer of mineral resources. The royalty is calculated in terms of a specific formula and, depending upon the operating margin, ranges from 1% to 12%.

CAPITAL GAINS TAX (CGT)

Strictly speaking, CGT is not a tax in its own right but rather forms an integral part of Peruvian Income Tax legislation. As a general rule, capital gains are defined as any income obtained from capital assets disposal. Capital assets are those not intended to be traded within any business or company. Subject to any exclusions and exemptions, a taxable gain is calculated by taking the difference between the proceeds received on disposal of the asset and the base cost and then multiplying this amount by the tax rate (which varies depending upon the nature of the taxpayer).

BRANCH PROFITS TAX

Peruvian branches of foreign companies are subject to tax on Peruvian-sourced income only at the regular Corporate Income Tax (CIT) rate. Brach remittances are levied as dividends with an additional 5% tax rate.

VALUE ADDED TAX (VAT)

Peruvian VAT is imposed on the sale of goods, the supply of services in the country and the import of goods made at different stages of the economic cycle. The general VAT rate is 18%. It is a monthly tax operating under the debit-credit system, offsetting the tax paid on sales against the VAT paid on purchases. A VAT credit does not have an expiration date. Services rendered from abroad but economically used in Peru are levied with Peruvian VAT under the "reverse charge" mechanism. Corporate reorganizations are not subject to Peruvian VAT.

Exports are zero-rated and very few exemptions exist. There are two exceptional systems for recovering the Peruvian VAT credit:

(1) Early Recovery: Companies at a pre-operative stage longer than two years with large projects may apply for early recovery of VAT, which allows them to obtain a VAT credit refund prior to starting operations. An investment agreement with the Ministry of the corresponding sector and a minimum investment of USD 5 million are the main requisites to get access to this system;

(2) Definitive Recovery: This applies mainly to the mining, oil and gas industries. Thus, it benefits holders of mining claims which are not at the production stage and enter into an Exploration Investment Agreement with the Peruvian State, while those having entered into Service or Licence Agreements under the Hydrocarbons Law may request this during the exploration stage.

FRINGE BENEFITS TAX

Employees are taxed on the value of the fringe benefits they receive as determined in accordance with Peruvian Income Tax Law. The tax levied is in accordance with the tax rates applicable to individuals.

LOCAL TAXES:

REAL ESTATE TAX

It is an annual tax levied on the value of urban and rural properties. Lands, buildings and fixed and permanent facilities are deemed properties for Real Estate Tax purposes. The taxpayer status is determined as of 1 January each year and the payment will be made at the District Municipality where the property is located.

The rate is progressive and cumulative as detailed below:

Real State Tax - Progressive Cumulative Scale	Rate
From 0 UIT to 15 UIT - (up to PEN 62,250)	0.2%
From 15 UIT to 60 UIT - (up to PEN 249,000)	0.6%
Beyond 60 UIT - (for the excess of PEN 249,000)	1.0%

NOTE: UIT = Annual Tax Unit. 2018 UIT = PEN 4,150.00

VEHICLE OWNERSHIP TAX

This is an annual tax levied on property consisting of cars, four-wheel drive and station wagons manufactured locally or imported during the three fiscal years following the year in which the vehicle was first registered with the Vehicle Property Registry. The Provincial Municipality within which jurisdiction the owner resides will be the creditor administering and collecting the tax. The tax base is the original value of the acquisition, import or entry into the patrimony.

Vehicle Ownership Tax.	Rate
Rate Applicable	1%

NOTE:

1. Tax sum cannot be lower than 1.5% of the UIT effective as of 1 January of each tax year.

REAL ESTATE TRANSFER TAX (ALCABALA)

This is a tax levied on the transfer of title of Real Estate located in urban or rural areas, either free-ofcharge or onerous, as the case may be, including sales with ownership right reservation. Taxable base is the transfer value of the property and is owed by the buyer, who shall pay the tax at the District Municipality where the property is located.

Real Estate Transfer Tax (Alcabala) - Progressive Scale	Rate
From 0 UIT to 10 UIT - (up to PEN 41,500).	0%
For the excess of 10 UIT	3%

NOTE:

1 Exempted portion.

OTHER TAXES

TEMPORAL NET ASSETS TAX (ITAN)

Temporal Net Assets Tax (known by its Spanish acronym as ITAN) is at a rate of 0.4% levied on a company's net assets with a value exceeding PEN 1,000,000, as assessed at 31 December of the previous year. The amount paid for the ITAN by the taxpayer is a credit to be offset against corporate income tax. If not totally offset, the remaining ITAN may be reimbursed by the Peruvian Tax Administration (SUNAT).

Subsidiaries or branches of foreign companies can offset the ITAN obligation with the income tax amount paid in Peru, so as to use the whole income tax paid as a tax relief in its country of origin. Companies which are in pre-operative stages or have begun operations as from 1 January of the year for which the ITAN must be paid are exempted from ITAN.

TAX ON FINANCIAL TRANSACTIONS (ITF)

The Tax on Financial Transactions (known by its Spanish acronym as ITF) is levied on transactions deposits and withdrawals) made through the Peruvian financial system and is deductible as an expense for income tax purposes. Its rate is 0.005%. The ITF is a complementary measure of the so-called bankarization" or banking usage which requires companies to pay any amounts exceeding USD 1,000 or PEN 3,500 through so-called "means of payment", which include account deposits, money orders, money transfers, payment orders, debit cards or credit cards issued in the country and "non-negotiable" checks. Otherwise, any cost or expense not performed using such methods shall not be recognised for tax purposes.

EXCISE TAX (ISC)

Excise Tax is levied on specific goods such as cigarettes, beer, liquor, soft drinks, fuel, vehicles, gambling/ betting services and other luxury items. It is levied on the sale in the country of such goods at producer level and/or import of them. It is applied using three systems:

(a) Specific, which applies a fixed amount in Soles per unit of measure;

(b) To the value, which is applied based on a percentage on the sale price;

(c) To the sale price, which involves applying a percentage of the suggested retail price.

CUSTOMS DUTIES

The import of goods into Peru is subject to payment of customs duties with ad valorem rates. Additionally, Value Added Tax, Excise Tax, Antidumping rights, Compensation and others depending on the type of goods imported, are applied, as detailed below:

	2018
Customs tariffs.	0%, 4%, 6%, 11%
Value Added Tax.	18%

Notes:

1. Rates are applied on CIF value and according to the imported goods.
2. VAT is applied on CIF Value plus Customs tariffs. Depending upon the type of goods, excise tax is also applied.

Customs duties are subject to a refund system or drawback, which entitles the producers/exporters to apply for a refund of all or part of customs duties affecting imports of raw materials, inputs, intermediate goods, and part and pieces incorporated or used in the production process of exported goods, provided that the CIF value of imports of such goods does not exceed 50% of the FOB value of the exported product, and all additional requisites are met. The drawback rate applicable is equivalent to 3% of the FOB value of the exported product.

B. DETERMINATION OF TAXABLE INCOME

The taxable income of a company is determined by deducting expenditures and costs incurred in the production of income and other permitted expenses and allowances from the company's income.

ALLOWANCES: PLANT, MACHINERY AND EQUIPMENT USED IN MANUFACTURE

Depreciation is calculated using the straight-line method or any other system provided they do not exceed the maximum rate of depreciation and the cost of acquisition of fixed assets. The following are some of the rates allowed by Peruvian Income Tax Law:

Asset Type	**Conditions for Annual Allowance**	Annual Allowance
Commercial Buildings and Constructions or improvements	Construction of buildings or improvements used wholly or mainly for carrying on process of producing income in the course of trade.	Straight-line at 3% of cost
New commercial buildings (other than residential accommodation) (Note 1)	This is a special depreciation regime for construction projects and buildings erected since 1 January 2009 and wholly or mainly used for the purpose of producing income in the course of trade.	Straight-line at 20% of cost
Cattle and fishing nets	Cattle either used for the purpose of producing income in the course of trade or reproduction.	Maximum 25% of cost
Equipment for Data processing	Hardware and any other equipment for data processing wholly or mainly used for the purpose of producing income in the course of trade.	Maximum 25% of cost
Machinery and equipment used for mining, oil and gas activities and construction, except furniture and fixed equipment	Machinery and equipment used at all exploration / exploitation stages in the mining and oil industries, wholly or mainly used for the purpose of producing income in the course of trade.	Maximum 20% of cost

Machinery and equipment purchased from 1 January 1991	Machinery and equipment wholly or mainly used for the purpose of producing income in the course of trade and purchased from 1 January 1991.	Maximum 10% of cost
Land transport vehicles (except railroads) and any kind of industrial oven	Land transport vehicles and any kind of ovens wholly or mainly used for the purpose of producing income in the course of trade.	Maximum 20% of cost
Other fixed assets (Note 2)	Other assets wholly or mainly used for the purpose of producing income in the course of trade.	Maximum 10% of cost

Notes:

1. Pursuant to the provisions of Law 29342.
2. Limited-time intangibles (software, copyrights, patents, etc.) should be amortized over just one tax year, or by the straight-line system over a ten-year term.

STOCK / INVENTORY

All trading stock on hand at the end of the tax year must be added to income while all trading stock on hand at the beginning of the year qualifies as a deduction. Inventories should be carried at cost and will be determined specifically or using the "first in, first out" method (FIFO), average cost method or the basic inventory. The "last in, first out" method (LIFO) of valuing trading stock is not permitted.

RESEARCH AND DEVELOPMENT EXPENDITURE (R&D)

Generally speaking, corporate income tax is applied to taxable income, which is the accounting profit in the tax period after adjustments provided for by Peruvian Income Tax Law. Exemptions are usually insignificant. Expenses are deductible to the extent incurred in producing taxable income, subject to certain restrictions and limitations. Pursuant to the provisions of Law NÅã 30309 and regulations, a new Research and Development regime seeks to promote scientific research, technological development and innovation (known by its Spanish acronym I+D+i) by granting a tax deduction of up to 175% over the costs incurred starting as from 2016. This law is intended to involve a greater number of companies with I+D+i.

I+D+i Tax benefits involves research, technological development and innovation connected or not with the taxpayer's business: a) a 175% tax deduction provided that the project is implemented directly by the taxpayer or through centers for scientific research, technological development and innovation domiciled in Peru; and b) a 150% tax credit when the centers for scientific research, technological development and innovation are not domiciled in Peru.

I+D+i projects should meet certain requirements in order to be eligible for the additional deduction: i) they should be assessed by public or private entities according to the nature of the project, ii) the project must be done directly by the taxpayer or by specialized I+D+i centers (National Council for Science and Technology - CONCYTEC) having the proper authorization, iii) taxpayers must control accounts for each project, and iv) the result of the project must be registered at the National Institute for the Defense of Competition and Intellectual-Property Protection (INDECOPI).

INTELLECTUAL PROPERTY

As stated above, limited-time intangibles (software, copyrights, patents, etc.) should be amortised over just one tax year or by the straight-line system over a ten-year term.

INTEREST AND FINANCE CHARGES

Interest paid and financial charges incurred in the production of income are deductible expenses for income tax purposes. Interest paid to non-residents (or related entities) is generally subject to withholding tax at a rate of 30%. Interest paid by Peruvian resident financial institutions for the use of credit lines in Peru, or unaffiliated foreign lenders, is subject to a 4.99% withholding tax rate, under the following conditions:

- The proceeds of the loan are brought into Peru as foreign currency through local banks or are used to finance the import of goods;
- The proceeds of the loan are used for business purposes in Peru;
- The interest rate does not exceed the LIBOR prime rate plus three percentage points for loans obtained from the American money market (United States of America) and the LIBOR prime rate plus four percentage points for loans obtained from the European money market. Those additional points are intended to cover expenses, commissions and any other additional charges related to the loan.

If the first two aforementioned conditions are met and the interest rate exceeds the prime rate plus three points or the LIBOR plus four points, the excess interest is subject to withholding tax at the regular rate of 30%.

TAX LOSSES

Tax losses may be carried forward subject to the following two systems:

(a) Offset in full for a four-year term limit subsequent to the year in which it was generated;

(b) Offset indefinitely during the subsequent years, only up to 50% of annual net income. No carry back is allowed.

INTEREST RECEIVED

Interest received (or accrued) is included in gross income of any corporation.

C. FOREIGN TAX RELIEF

Peruvian resident individuals and corporations are subject to tax in Peru on their worldwide income. However, this general principle may be overridden by the provisions of a double tax treaty.

CREDIT FOR INCOME TAX PAID ABROAD

Pursuant to the provisions of the Peruvian income tax law, resident companies may credit foreign income taxes against their Peruvian tax liability, provided that they do not exceed the amount obtained by applying the average rate on foreign-source income or the effectively-paid tax from abroad.

Taxes paid from a foreign-source income are deductible from Peruvian income tax, provided that the unused credit within the fiscal year is neither compensated in future years nor entitled to any reimbursement. Hence, tax credits are granted, within certain limits, in respect of foreign taxes paid over foreign-sourced income.

D. CORPORATE GROUPS

Group taxation is not applicable. There are no provisions for filing consolidated returns and relieving losses within a group.

E. RELATED PARTY TRANSACTIONS

THIN CAPITALISATION

Pursuant to the Peruvian income tax law, interest paid by entities domiciled in Peru to related entities or related companies over the "3" factor resulting from applying the "debt/equity" ratio on the taxpayer's net equity at the end of the previous year, shall not be deductible in determining the income tax (debtto-equity ratio of 3:1). However, the excess interest is not requalified as a dividend.

TRANSFER PRICING

Peruvian Income Tax Law includes transfer pricing rules based on the ‘arm's length principle ’ according to the guidelines of the Organization for Economic Cooperation and Development (OECD). However, these rules do not apply solely to transactions between related parties but also to transactions with offshore entities whose domicile is located in territories with low or no taxation (tax havens) and are applicable for purposes of income tax. The law provides the following transfer pricing methods:

- Comparable Uncontrolled Price Method;
- Resale Price Method;
- Increased Cost Method;

- Utility Partition Method;
- Residual Method of Utility Partition; and,
- Transactional Net Margin Method.

Following the OECD's Base Erosion and Profit Shifting (BEPS) Action Plan, Peruvian Income Tax Law was amended in order to incorporate Action No. 13: Guidance on the Implementation of Transfer Pricing Documentation, which introduces new requirements as follows: (i) Local Report, (ii) Master File and (iii) Country-by-Country (CbC) Reporting.

Effective 1 January 2017, the new requirement could lead to a significant administrative burden not only for local companies but also for MNEs. Even though mainly MNEs will be affected by the new TP documentation requirements, it seems that the BEPS Action Plan will likely have an effect on all taxpayers as the focus of the Peruvian Tax Administration's assessments will shift further to Transfer Pricing.

F. WITHHOLDING TAXES

Royalties and other source-based income are subject to withholding taxes as follows:

- A withholding tax applies at a 30% rate to interest paid in connection with the production of income.
- Interest paid by banks or financial institutions for the use of credit lines in Peru, or loans obtained from unaffiliated foreign lenders are subject to a 4.99% withholding tax, subject to certain conditions (see Interest and Finance Charges section).
- Dividends or other profit distribution forms, including remittance of profits from Peruvian branches or subsidiaries of foreign companies are subject to a 5% withholding tax.
- Royalties are subject to a 30% withholding tax.
- Technical assistance services economically used in Peru are subject to a 15% withholding tax. For services whose full value exceeds 140 UIT (PEN 581,000), an audit report should be requested by the taxpayer (user of the technical assistance) from a well-known independent audit firm, certifying the technical assistance has been effectively provided. Living and travel allowance expenses incurred within the technical assistance are not subject to the reduced withholding tax rate. In case the taxpayer does not have this report, SUNAT will not recognize the reduced tax rate and will instead apply the regular rate of 30%.
- Digital services economically used in Peru are subject to a 30% withholding tax. In the event that they are rendered together with technical assistance, the amount for each of them shall be distinguished on an individual basis. If it is not possible, the transaction will be treated as appropriate to the essential or predominant operation.
- Property Leasing is subject to a 30% withholding tax on income received by non-resident legal entities. A 5% withholding tax applies to income received by non-resident individuals.
- Pursuant to the provisions of Law NÅã 30341 (effective 1 January 2016), capital gains from the sale of shares and other securities are exempted from income tax until 31 December 2018, provided that they were made through a centralized mechanism of negotiation overseen by the Superintendence of Securities, and complying with the following requirements:

  (i) Within a twelve-month period, the taxpayer and its related parties do not transfer the ownership of ten percent (10%) or more of total shares issued by the company or securities through one or several simultaneous or successive operations. If not, the tax base is determined by considering all exempted transfers made within the previous twelve (12) months prior to the sale.

  (ii) It should involve shares with "stock-market presence", i.e.:

  - The number of days in which the daily amount traded has exceeded the minimum limit of four (4) UIT, considering the volume of transactions carried out within centralized trading mechanisms, in 180 working-days period before the disposal.
  - The determined number of days will be divided by one hundred and eighty (180) and multiplied by one hundred (100).
  - The result may not be less than the limit, which may not exceed 35%.

In case of some activities performed partly in Peru and partly abroad by non-domiciled entities, including income generated by their subsidiaries or permanent establishments, the following schemes of withholding tax apply:

Activity	% Gross Income Qualifying as Net Income from Peruvian Source	Effective Rate (%)
Air transport	1	0.295
Lease of vessels	80	23.60
Lease of aircrafts	60	17.70
Supply of shipping containers	15	4.425
Transport containers demurrage	80	23.60
Insurance	7	2.065
International news agencies	10	2.95
Maritime transport	2	0.59
Motion picture distribution	20	5.90
Transfer of television broadcasting rights	20	5.90
Telecommunications services	5	1.475

G. EXCHANGE CONTROL

Foreign-exchange controls have been eliminated. Consequently, transactions are carried out in a free market at prices set by supply and demand.

H. PERSONAL TAX

Pursuant to the provisions of Peruvian income tax law, Peruvian citizens domiciled in Peru are taxed on their worldwide income, regardless of where the income is generated or where it has been paid or the currency of receipt. Non-domiciled citizens are taxed only on their Peruvian-sourced income. Foreign citizens are deemed to be domiciled in Peru for income tax purposes if they have been physically present in Peru for more than 183 days within a 12-month period.

For both cases, domicile status shall be determined at the beginning of each tax year. Changes regarding such condition that may occur during the fiscal year shall become effective from the beginning of the next fiscal year. For domiciled individuals, taxation on income from work either as an independent contractor or as an employee (fees, wages, salaries, etc.) shall be determined by applying a progressive cumulative rate based on the amount of income received during the tax year, as described in the following chart:

Progressive Cumulative Scale

Income	Rate
Up to 5 UIT	8%
For the excess of 5 UIT and up to 20 UIT	14%
For the excess of 20 UIT and up to 35 UIT	17%
For the excess of 35 UIT and up to 45 UIT	20%
Over 45 UIT	30%

DEEMED EMPLOYEES

Workers from labour brokers and personal service providers are considered employees for social benefit purposes. A labour broker is a legal entity which, for a fee, provides working staff for rendering personal services to the customer, or providing such personnel to the customer, paying the staff for their work. A personal service provider is a company where any service rendered on behalf of the entity to any client is made personally by any person who has a labour relationship and certain provisions are met.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Peru has signed Double Taxation Treaties with Chile, Canada, Brazil, the countries of the Andean Community (known by its Spanish Acronym CAN, comprising Bolivia, Colombia, Ecuador, and Peru), Mexico, South Korea, Switzerland and Portugal. In addition to this network, negotiations are underway for signing Treaties with France, Italy, Sweden, The Netherlands, the United Kingdom, Japan, Qatar and the United Arab Emirates.

	Royalties (%)	Dividends (%)	Interest (%)
Non-treaty countries:	30	6.8	30 / 4.99[1]
Treaty countries:			
Andean Community	-	-	-
Brazil	15	10/15[3]	15
Canada	15	10/15[4]	10/15
Chile	10/15	10/15[5]	15
Korea	10/15	10	0/15
Mexico	15	10/15[6]	0/10/15
Portugal	10/15	10/15[7]	0/10/15
Switzerland	10/15	10/15[8]	10/15

Notes:

1. Tax Rate applied to foreign banks and also under certain conditions.
2. The Andean Community Treaty (Bolivia, Colombia, Ecuador, Peru) levies income under the source principle. The domestic withholding rate applies. There is no reduction under the Treaty.
3. The reduced 10% rate applies if the beneficial owner is a company which holds directly or indirectly at least 20% of the voting rights of the dividend-paying company.
4. The reduced 10% rate applies if the beneficial owner is a company that controls directly or indirectly at least 10% of the voting power of the dividend-paying company.
5. The reduced 10% rate applies if the beneficial owner is a company that controls directly or indirectly at least 25% of the shares with voting rights in the dividend-paying company.
6. The standard rate under the treaty is 15%. However, under the application of a most favoured nation clause the rate is reduced to 10% (under the Korea-Peru treaty the general rate for dividends is 10%).
7. The 10% reduced rate applies if the beneficial owner is a company (other than a partnership) that controls directly at least 10% of the voting power in the Peruvian dividend-paying company.
8. The 10% reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital and of the voting power of the dividend-paying company.

PHILIPPINES

MEMBER FIRM

City	Name	Contact Information
Manila	Rosario S Bernaldo	+63 2 892 4487 cherry.bernaldo@rsbernaldo.com

BASIC FACTS

Full name:	Republic of the Philippines
Capital:	Manila
Main language:	Filipino, English
Population:	106.18 million (2018 estimate)
Monetary unit:	Philippine Peso (PHP)
Internet domain:	.ph
Int. dialling code:	+63

KEY TAX POINTS

- The tax year runs for the calendar year although approval of the Commissioner of Internal Revenue can be obtained for the adoption of a fiscal year.
- Company tax is payable by domestic companies on all income derived from sources within and outside the Philippines. Foreign corporations, whether resident or non-resident, are taxable only on income derived from sources within the Philippines.
- The corporate income tax rate both for domestic and resident foreign corporations is 30% based on net taxable income. Regional operating headquarters are taxed at 10% on taxable income. A 10% Improperly Accumulated Earnings Tax (IAET) is imposed on improperly accumulated taxable income earned by closely-held corporations.
- A 12% Value Added Tax (VAT) of the gross selling price or gross value in money of the goods is imposed to all importation, sale, barter, exchange or lease of goods or properties and sale of services.
- Tax credits are available for taxes and duties paid on purchases of raw materials of products for export, domestic capital equipment, and domestic breeding stock and genetic materials. A number of Special Economic Zones, some of which are operated as separate customs territories also exist.
- Compensation income of residents is subject to tax at progressive rates of up to 35%.
- Individuals deriving income from business or the practice of a profession whose annual gross receipts/ revenue is PHP 3 million and below have the option to be taxed at 8% on gross income in lieu of income tax and other percentage tax. If such income exceeds PHP 3 million the tax is levied at progressive rates of up to 35%.

A. TAXES PAYABLE

COMPANY TAX

Company tax is payable by domestic companies on all income derived from sources within and outside of the Philippines. Foreign corporations, whether resident or non-resident, are taxable only on income derived from sources within the Philippines. However, non-resident foreign corporations are, in certain circumstances, subject to a final withholding tax on passive (investment) income at rates generally higher than the applicable tax rates applying to domestic and resident foreign corporations.

Resident companies are those that are created or organised under the laws of the Philippines or foreign companies duly licensed to engage in trade or business in the Philippines. The corporate income tax rate both for domestic and resident foreign corporations is 30% based on net taxable income. Excluded from the income tax are dividends received from domestic corporations, interest on Philippine currency bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements, and other passive income previously subject to final taxes.

Interest income derived from the expanded foreign currency deposit is subject to a final tax of 15%. All other interest earned by domestic and resident foreign corporations is subject to a 20% final withholding tax except for long-term time deposits of five (5) years or more that is exempt from final withholding tax rates, those with a term of four years to less than five years are taxed at 5%, and those between three and four years are subject 12% tax. Regional operating headquarters are taxed at 10% on taxable income.

Special economic zone enterprises duly registered with the Philippines Economic Zone Authority (PEZA) are taxed at the rate of 5% on gross income in lieu of national and local taxes, except real property tax. The term ‘gross income’ refers to gross sales or gross revenue derived from the business activity within the Ecozone, net of sales discount, sales returns and allowances, less the cost of sales or direct costs but before deduction

is made for administrative expenses and incidental losses during the taxable period. Likewise, Tourism Infrastructure and Enterprise Zone Authority (TIEZA) registered entities enjoy a special income tax rate of 5%.

The tax year runs for the calendar year although approval of the Commissioner of Internal Revenue can be obtained for the adoption of a fiscal year. Tax is payable in four quarterly instalments, with every corporation filing quarterly income tax returns for the first three quarters and tax being payable 60 days following the end of each quarter. A final return covering the full year is required to be lodged 105 days after year end at which time the balance of tax, after deducting the prior three instalments and creditable withholding tax, is payable. Any excess is refundable or can be claimed as a tax credit against future tax payments.

MINIMUM CORPORATE INCOME TAX

A minimum corporate income tax of 2% based on gross income is imposed from the beginning of the fourth taxable year immediately following the commencement of the business operation of the corporation. Any excess of the minimum corporate income tax over the normal income tax may be carried forward and credited against the normal income tax for the three taxable years immediately succeeding. The computation and the payment of MCIT shall likewise apply at the time of filing of the quarterly corporate income tax.

The term 'gross income' for the purpose of applying the minimum corporate income tax shall mean the gross sales less sales returns, discounts and allowances and cost of goods sold. The Secretary of Finance, however, may suspend the imposition of the minimum corporate income tax on any corporation which suffers losses on account of prolonged labour dispute, force majeure or legitimate business reverses.

CAPITAL GAINS TAX – ON SHARE OF STOCK

The net capital gains from the sale of shares of stock of a domestic corporation not listed and traded through the Philippine Stock Exchange are taxed on a per transaction basis at the rate of 5% on the first PHP 100,000 and 10% in excess of said amount if the transferor or assignee is a corporation. If the transferor or assignee is an individual, the net gain shall be subject to 15%. The value of the shares of stock is computed based on the Adjusted Net Asset Method, whereby all assets and liabilities are adjusted to fair market values.

On the other hand, the sale of shares of stock of a domestic corporation through the Philippine Stock Exchange or through the initial public offering is subject to a percentage tax on the transaction at the rate of 6/10 of 1% of the selling price. Any gain or loss from said transaction is not considered for income tax purposes.

CAPITAL GAINS TAX – ON SALE OF REAL PROPERTY

The sale of land, building and other real properties classified as capital asset is subject to 6% final capital gains tax based on the gross selling price, current fair market value or zonal value at the time of sale, whichever is higher.

IMPROPERLY ACCUMULATED EARNINGS TAX

The 10% improperly accumulated earnings tax (IAET) is imposed on improperly accumulated taxable income earned by closely-held corporations. The term 'closely-held corporation' refers to corporations where at least 50% of the capital stock or voting power is owned directly or indirectly by or for not more than 20 individuals. The tax base of the 10% IAET is the taxable income of the current year plus income exempt from tax, income excluded from gross income, income subject to final tax, and the amount of net operating loss carry forward deducted. It is reduced by income tax paid for the current year, dividends actually or constructively paid, and amount reserved for the reasonable needs of the business. The IAET does not apply to the following corporations:

(a) Banks and other nonbank financial intermediaries;

(b) Insurance companies;

(c) Publicly-held corporations;

(d) Taxable partnerships;

(e) General professional partnerships;

(f) Non-taxable joint ventures; and,

(g) Duly registered enterprises located within the special economic zones declared by law which enjoy payment of special tax rate on their registered operations or activities in lieu of other taxes, national or local.

BRANCH PROFITS TAX

A branch is classified as a resident foreign corporation. As such, it is subject to income tax at the rate of 30% on its net income derived within the Philippines. Any branch profit to be remitted to the Head Office is additionally taxed at the rate of 15%. For purposes of branch profit remittance, income items which are not effectively connected with the conduct of its trade or business in the Philippines are not considered branch profits.

Such income items include interests, dividends, rents, royalties, including remuneration for technical services, salaries, wages, premiums, annuities, emoluments or other fixed or determinable annual, periodic or casual gains, profits, income and capital gains received during each taxable year from all sources within the Philippines. To be 'effectively connected', it is not necessary that the income be derived from the actual operation of the branch's trade or business. It is sufficient that the income arises from the business activity in which the branch is engaged. However, the 15% branch profit tax does not apply to profits remitted by a branch coming from those activities duly registered with the Philippine

Economic Zone Authority (PEZA).

VALUE ADDED TAX (VAT)

A 12% value added tax (VAT) of the gross selling price or gross value in money of the goods is imposed to all importation, sale, barter, exchange or lease of goods or properties and sale of services. 'Gross selling price' means the total amount of money or its equivalent that the purchaser pays or is obligated to pay to the seller in consideration of the sale, barter or exchange of the goods or properties, excluding the value added tax. The excise tax, if any, on such goods or properties shall form part of the gross selling price.

FRINGE BENEFITS TAX

Fringe benefits furnished or granted in cash or in kind by an employer to an individual employee (except rank and file employees) are taxed at the rate of 35% based on the grossed-up monetary value of the fringe benefits.

LOCAL TAXES

There are no local taxes other than local authority rates and local (business) taxes and permit fees. Special economic zone enterprises are not subject to local taxes.

OTHER TAXES

Other taxes include the following:

PERCENTAGE TAXES

Percentage taxes are imposed on carriers (domestic or international), franchises, banks, financial intermediaries, finance companies, life insurance companies, agents of foreign insurance companies, overseas communications, amusement, winnings, and stock transactions.

INITIAL PUBLIC OFFERING (IPO) TAX

Sale, barter, exchange or other disposition through initial public offering of shares of stock in closely held corporations is taxed at the rates provided below based on the gross selling price or gross value in money of the shares of stock sold, bartered, exchanged or otherwise disposed of in accordance to the total outstanding shares of stock after the listing in local stock exchange:

	Rate
Up to 25%	4%
Over 25% but not over 33.33%	2%
Over 33 1/3%	1%

EXCISE TAXES

Excise taxes are imposed on alcohol and tobacco products, petroleum and mineral products, automobiles, sweetened beverages, cosmetic products and certain non-essential goods.

DOCUMENTARY STAMP DUTY

Documentary stamp tax is imposed on certain documents including shares certificates, bank cheques, bonds, sales documents of real properties and mortgages. Effective 1 January 2018, rates for most of the documents subject to documentary stamp tax were increased twofold.

REAL PROPERTY TAX

Real property tax is imposed on owners of real property and is calculated on the assessed value of the property.

B. DETERMINATION OF TAXABLE INCOME

A company's taxable profit is calculated by deducting ordinary and necessary expenses paid or incurred during the tax year in carrying on business. Typical expenses include salaries, travelling expenses and rentals, all of which need to be substantiated to be deductible. Additionally, taxes that relate to the business other than income, estate, gift and energy taxes and taxes charged to local benefits of a kind likely to increase the value of property are deductible. In calculating taxable income, special rules and exemptions apply in the circumstances outlined below.

DEPRECIATION

Any recognised depreciation method may be used if it is 'reasonable'. The annual depreciation allowance is determined on the basis of depreciable property, estimated useful life and salvage value. For extraction industries, a distinction is made between petroleum and other mining activities. Distinctions are also made between different categories of expense (e.g. tangible or intangible, exploration or drilling etc.), and different methods apply (e.g. expenditure, cost depletion etc.).

STOCK / INVENTORY

For taxpayers engaged in a trade or business, the valuation of inventories must meet the following conditions:

- It must conform as nearly as possible to the best accounting practice in the trade or business; and,
- It must clearly reflect the income.

As such, although it cannot be uniform for all taxpayers, the system used must come within the scope of the best accounting practice in the particular trade or business. In order to clearly reflect income, the inventory practice of a taxpayer should be consistent from year to year as greater weight is given to consistency than to any particular method or basis of valuation. As long as the method is substantially in accord with these regulations, it is likely to be accepted.

The basis of valuation which is most commonly used by business concerns and which meets the requirements of the tax laws is the cost price or the lower of cost or market price. Regardless of the basis of valuation, inventories are subject to investigation by the Commissioner of Internal Revenue and the taxpayer must satisfy the Commissioner of the correctness of the price adopted.

CAPITAL GAINS AND LOSSES

See discussions above. Ordinary assets include:

(a) Stock in trade of the taxpayers, or other property of a kind which would properly be included in the inventory of the taxpayer if on hand at the end of the taxable year;

(b) Property held by the taxpayer primarily for sale to customers in the ordinary course of trade or business;

(c) Property used in trade or business of a character which is subject to allowance for depreciation;

(d) Real property used in trade or business.

All properties held by the taxpayer, whether or not connected with trade or business, not included in the enumeration of ordinary assets are capital assets. Capital gains arise from the disposal of 'capital assets'.

DIVIDENDS

Dividends received by a Philippine corporation or by a resident foreign corporation from a Philippine corporation are not subject to income tax. However, resident individuals receiving dividends are subject to 10% final income tax. No credit is granted for underlying corporate profits out of which the dividends are declared. However, a domestic corporation that owns a majority of the voting stock of a foreign corporation from which it receives dividends is deemed to have paid the underlying foreign taxes.

INTEREST DEDUCTIONS

Interest is deductible on a cash or accrual basis depending upon the taxpayer's method of accounting but shall be reduced by 33% to the extent that a portion of interest income has been subjected to final tax. Where interest is paid to a foreign lender, it will remain deductible so long as it is incurred in connection with the trade or business of the taxpayer.

LOSSES

Losses may be offset against all income and capital gains in the same tax year. Losses must be sustained by the taxpayer during the taxable year and must be incurred in relation to the trade and business and evidenced by completed transaction. Operating loss for any taxable year immediately preceding the current taxable year which had not been previously offset as deduction from gross income may be carried over as a deduction from gross income for the next three consecutive years immediately following the year of such loss. This is known as the Net Operating Loss Carryover or the excess of allowable deduction over gross income in a taxable year. However, there are certain limitations to be followed:

(a) Any net loss incurred in a taxable year during which the taxpayer is exempt from income tax shall not be allowed as deduction;

(b) Allowed only if no substantial change in the ownership in that:

- Not less than 75% in nominal value of the outstanding issued shares, if the business is in the name of the corporation, is held by or on behalf of the same persons; or,
- Not less than 75% of the paid in capital of the corporation, if the business is in the name of the corporation, is held by or on behalf of the same persons.

For mines other than oils and gas wells, a net operating loss without the benefit of incentives provided for under Executive Order No. 226, as amended, otherwise known as the Omnibus Investment Code of 1987, incurred in any of the first ten years of operation may be carried over as a deduction from gross income for the next five years immediately following the year of loss.

FOREIGN SOURCE INCOME

A Philippine (domestic) corporation is taxed on worldwide income. Foreign income is taxed when earned or received, depending on the accounting method used by the taxpayer. Resident foreign corporations are taxed in the Philippines only on Philippine source income.

TAX INCENTIVES

Tax incentives available to enterprises registered with the Board of Investments (BOI) or the Philippine Economic Zone Authority (PEZA) include six years' income tax holidays for pioneer firms and four years for non-pioneer firms with expanding firms granted three years. For PEZA registered enterprises, a 5% tax on the modified gross income is imposed after the end of the income tax holiday. Likewise, Tourism Infrastructure and Enterprise Zone Authority (TIEZA) registered entities enjoy a special income tax rate of 5%.

The tax holiday may be extended for an additional year in specified circumstances but in no case may the aggregate period of the tax holiday exceed eight years.

For the first five years, an enterprise registered with the BOI or PEZA is, in specified circumstances, allowed an additional deduction from the taxable income of 50% of the wage expense corresponding to the increment in the number of direct labour for skilled and unskilled workers.

Enterprises located in less developed areas are, in specified circumstances, allowed a 100% deduction of said wages and a 100% deduction for construction costs. Enterprises located in export processing zones and special economic zones are likewise entitled to income tax holidays and tax and duty-free importation of raw materials and equipment. 'Gross income earned' shall refer to gross sales or revenues derived from business activity within the respective zones, net of sales discounts, sales returns and allowances and minus cost of sales or direct costs but before any deduction is made for administrative, marketing, selling and/or operating expenses or incidental losses during a given taxable period.

TAX CREDITS

Tax credits are available for taxes and duties paid on purchases of raw materials of products for export, domestic capital equipment, and domestic breeding stock and genetic materials. A number of Special Economic Zones, some of which are operated as separate customs territories also exist. (Refer also to 'Tax Incentives' above.)

OPTIONAL STANDARD DEDUCTION (OSD)

In lieu of the itemised deduction of ordinary and necessary expenses paid or incurred to calculate the net taxable profit, domestic and foreign corporations are allowed an OSD in the amount not exceeding 40% of gross income. Companies intending to avail of the OSD are required to indicate such intention upon filing the first quarter income tax return.

The computation and the payment using the OSD shall likewise apply at the time of filing of the quarterly corporate income tax. There are taxpayers (corporations, partnerships) not entitled to avail of the OSD, listed below:

a) Those exempt under the Tax Code, as amended, and other special laws, with no other taxable income;

b) Those with income subject to special/preferential rates; and,

c) Those with income subject to regular income tax rate, and also with income subject to special/preferential tax rates.

C. FOREIGN TAX RELIEF

Relief from double taxation is provided by way of double tax treaties and/or by means of foreign tax credits. The treaties generally define when a taxpayer will be deemed for income tax purposes to be doing business in the Philippines.

D. CORPORATE GROUPS

Group taxation is not permitted. The grouping of corporations has no tax implications as the tax laws treat each corporation in isolation.

E. RELATED PARTY TRANSACTIONS

Philippine corporations can claim a deduction for royalties, management services and interest charges paid to foreign affiliates provided the amount represents an arm's length price and the appropriate withholding taxes are withheld and remitted. Some interest deductions can be affected by related party transactions involving non-residents. See Section B above.

F. WITHHOLDING TAX

Non-resident foreign corporations

Interest on foreign loans, royalties and dividends paid to non-resident foreign corporations are subject to withholding tax at source at the time of their accrual in the taxpayer's books. The only exemption to this rule is when, at the time of the accrual of the income, there is a governmental restriction which prevents the actual remittances of the income due to the non-resident.

Dividends

Dividends received by non-resident foreign corporations from domestic corporations are subject to a final tax of 30%. However, tax is withheld at the reduced rate of 15% in certain circumstances.

Interest

Interest received by non-resident foreign corporations is subject to the following final withholding tax:

(a) 20% on interest paid or accrued from foreign loans contracted on or after 1 August 1986;

(b) 30% on other interest.

Royalties

Royalties received by non-resident foreign corporations are subject to a final withholding tax of 30%.

However, said tax rate may be reduced under applicable double tax treaties.

Technical assistance and service fees

Technical assistance and service fees received by non-resident foreign corporations are subject to a final withholding tax of 30%.

Rental and leasing income

Rental and leasing income received by non-resident foreign corporations is subject to the following final withholding tax:

- 25% of the gross amount on film rentals from sources within the Philippines;
- 4.5% of the gross amount on charter fees or rentals in respect of foreign vessels;
- 7.5% of the gross amount on rentals and other fees in respect of aircraft, machinery and other equipment.

Non-resident aliens

The following income received by non-resident aliens (not engaged in trade or business in the Philippines) are subject to a final withholding tax of 25% on the gross amount of:

(a) Dividends, interest and royalties;

(b) Technical assistance and service fees (no tax is withheld in certain circumstances);

(c) Rental and leasing income;

(d) Capital gains (special rules apply to residents of double tax treaty states).

Final withholding tax

The following income received by Philippine citizens and resident aliens are subject to a final withholding tax of 20% on the gross amount of:

(a) Interest;

(b) Royalties, except royalties on books, literary works and musical compositions which are subject to 10%;

(c) Technical assistance and service fees.

G. EXCHANGE CONTROL

The Bangko Sentral ng Pilipinas (BSP) administers the exchange control laws of the Philippines including establishing minimum and maximum rates for the foreign exchange dealings of banks. However, banks may set their own rates for trading foreign exchange with the public. The value of the peso generally floats freely, although intervention by the BSP does occur when deemed necessary.

H. PERSONAL TAX

Income is divided into the following three categories which are taxed separately, as summarised below.

Compensation Employment Income

This income is taxed at progressive rates on gross income after deduction of personal and additional exemptions but without deductions for expenses. Remuneration for services performed by an employee for his employer are considered compensation subject to income tax, except for facilities and privileges, called as ***'de minimis benefits'***. Thirteenth month pay and other benefits not exceeding PHP 90,000 (previously PHP 82,000) are also exempt from income tax.

Passive Income

This income (i.e. dividends, certain interest, royalties, etc.) is subject to final withholding tax only.

Business Income and Professional Income

This income is taxed at progressive rates on net business income, or income from the practice of a profession, i.e. after deduction of certain specified expenses and any excess of personal and additional exemptions over compensation income. However, if the annual gross receipts/revenue from business or the practice of a profession does not exceed PHP 3 million, the taxpayer may opt to be taxed at 8% based on gross income.

TAXABLE INCOME

Resident Citizens

Resident citizens of the Philippines are taxed on all their net income derived from sources within and outside of the Philippines.

Alien Individuals

An alien individual, whether a resident or not of the Philippines, is taxable only on income derived from sources within the Philippines. Resident aliens are taxed in the same manner as resident citizens on income sourced within the Philippines. Tax is generally withheld in sufficient amounts from salary and wages to satisfy the final tax liability. If not, then the balance must be paid when filing the return, which is required on or before 15 April of the year following the year of income. In some cases, income tax liability may be paid in two equal instalments.

Resident Individuals

Income of residents is subject to the following rates:

a. Tax Schedule effective 1 January 2018 until 31 December 2022:

Taxable Income per Year (PHP)	Income Tax Rate (% and PHP)
Up to 250,000	0%
250,001 to 400,000	20% of the excess over 250,000
400,001 to 800,000	30,000 + 25% of the excess over 400,000
800,001 to 2,000,000	130,000 + 30% of the excess over 800,000
2,000,001 to 8,000,000	490,000 + 32% of the excess over 2,000,000
Over 8,000,000	2,410,000 + 35% of the excess over 8,000,000

b. Tax Schedule effective from 1 January 2023 onwards:

Taxable Income per Year (PHP)	Income Tax Rate (% and PHP)
Up to 250,000	0%
250,001 to 400,000	15% of the excess over 250,000
400,001 to 800,000	22,500 + 20% of the excess over 400,000
800,001 to 2,000,000	102,500 + 25% of the excess over 800,000
2,000,001 to 8,000,000	402,500 + 30% of the excess over 2,000,000
Over 8,000,000	2,202,500 + 35% of the excess over 8,000,000

The above rates also apply to individuals who derive income from business (including capital gains from the sale transfer or exchange of shares in a foreign corporation) or from the practice of a profession whose gross receipts/revenue exceeds PHP 3 million.

Optional Standard Deduction (OSD)

Except for individuals earning compensation income, resident citizens, non-resident citizens, and resident aliens shall be allowed to claim OSD in lieu of the itemised deductions of ordinary and necessary expenses paid or incurred during the year. The OSD allowed shall be a maximum of 40% of gross sales or gross receipts without deduction of the cost of sales or cost of services. The computation and the payment using the OSD shall likewise apply at the time of filing of the quarterly income tax return.

Like the corporation, there are individual taxpayers not entitled to avail of the OSD, listed below:

a) Those exempt under the Tax Code, as amended, and other special laws, with no other taxable income;
b) Those with income subject to special/preferential rates; and,
c) Those with income subject to regular income tax rate, and also with income subject to special/preferential tax rates.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

The rates are as follows:

	Dividends (%)	Interest (%)	Royalties (%)
Non-treaty countries			
Companies	15/30[18]	10/20/30[18]	30[18]
Individuals	20/25	20/25	10/20/25
Treaty countries:			
Australia	15/25[1]	10/15	15/25
Austria	10/25[2]	10/15	10/15
Bahrain	10/15[3]	10	10/15
Bangladesh	15	15	15
Belgium	10/15[3]	10	15
Brazil	15/25[4]	10/15	15/25
Canada	15/25[5]	10/15	25
China	10/15[3]	10	10/15
Czech Republic	10/15[3]	10	10/15
Denmark	10/15[6]	10	15
Finland	15	10/15	15/25
France	10/15[7]	10/15	15
Germany	5/10/15[8]	10	10
Hungary	15/20[9]	15	15
India	15/20[10]	10/15	–/15
Indonesia	15/20[9]	0/15	15/20
Israel	10/15[3]	10	15
Italy	15	10/15	15/25
Japan	10/15[2]	10	10/15
Korea	10/15[6]	10/15	10/15
Kuwait	10/15[3]	10	20
Malaysia	15/25[11]	15	15/25
Netherlands	10/15[12]	10/15	10/15
New Zealand	15	10	15
Nigeria	12.5/15[13]	15	20
Norway	15/25[5]	15	7.5/25
Pakistan	15/25[14]	10/15	15/25
Poland	10/15[6]	10	15
Qatar	10/15[3]	10	15
Romania	10/15	10/15	10/15/25
Russia	15	15	15

Singapore	15/25[15]	10/15	15/25
Spain	10/15[7]	10/15	10/15/20
Sweden	10/15[6]	10	15
Switzerland	10/15[3]	10	15
Thailand	15/30[16]	10/15	15/25
Turkey	10/15[6]	10	10/15
United Arab Emirates	10/15[3]	10	10
United Kingdom	15/25[5]	10/15	15/25
United States	20/25[17]	10/15	15/25
Vietnam	10/15[6]	15	15

Notes:

1. The 15% rate applies if double tax relief by way of a rebate or credit is given to the beneficial owner of the dividends (being a company) in accordance with article 24 of the treaty.
2. The 10% rate applies if the beneficial owner is a company which holds directly at least 10% either of the voting shares of the dividend-paying company or of the total shares issued by that company during the period of 6 months immediately preceding the date of payments of the dividends.
3. The 10% rate applies if the beneficial owner is a company (excluding partnerships) which holds directly at least 10% of the capital of the paying company.
4. The 15% rate applies if the recipient is a company including a partnership.
5. The 15% rate applies to dividends paid to a company which controls at least 10% of the voting power of the company paying the dividend.
6. The 10% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the dividend-paying company.
7. The 10% rate applies if the recipient is a company (excluding partnership) which holds directly at least 10% of the voting shares of the dividend-paying company.
8. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 70% of the capital of the dividend-paying company. The 10% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the dividend-paying company.
9. The 15% rate applies if the beneficial owner is a company which holds directly at least 25% of the capital of the dividend-paying company.
10. The 15% rate applies if the beneficial owner is a company which owns at least 10% of the shares of the dividend-paying company.
11. The 15% rate applies if the recipient is a company.
12. The 10% rate applies if the recipient is a company the capital of which is wholly or partly divided into shares and which holds directly at least 10% of the capital of the dividend-paying company.
13. The 12.5% rate applies if the beneficial owner is a company (excluding partnerships) which holds directly at least 25% of the capital of the dividend-paying company.
14. The 15% rate applies if the beneficial owner is a company (excluding partnership) which holds directly at least 25% of the capital of the paying company during the part of the paying company's taxable year which precedes
15. the date of payment of the dividends and during the whole of its prior taxable year, if any. The 15% rate applies if the recipient is a company (including partnership) and during the part of the paying company's taxable year which precedes the date of payment of the dividend and during the whole of its prior taxable year (if any), at least 15% of the outstanding shares of the voting stock of the paying company was owned by the recipient company.
16. The 15% rate applies if the recipient is a company which holds directly at least 15% of the voting shares of the

17. dividend-paying company. In other cases the 30% domestic rate applies. The 20% rate applies when the recipient is a corporation and if during the part of the paying corporation's taxable year which precedes the date of payment of the dividend and during the whole of its prior taxable year (if any), at least 10% of the outstanding shares of the voting stock of the paying corporation was owned by the recipient corporation.
18. Dividends are subject to a 30% withholding tax. However, a 15% rate applies if the non-resident company's domicile country grants a deemed-paid tax credit of at least 15% (as from 1 January 2009) or provides a tax exemption for the dividends. Interest is subject to a 30% withholding tax. Interest on foreign loans (payable in foreign currency to OBUs and FCDUs) is subject to a 10% withholding tax while any other form of interest on foreign loans is subject to a 20% withholding tax. Royalties are subject to a 30% withholding tax and may include payments for technical assistance.

POLAND

MEMBER FIRM

City	Name	Contact Information
Warsaw	Agnieszka Chamera	+48 22 560 75 50 agnieszka.chamera@pkfpolska.pl

BASIC FACTS

Full name:	Republic of Poland
Capital:	Warsaw
Main language:	Polish
Population:	38.43 million (2018 estimate)
Monetary unit:	Polish Zloty (PLN)
Internet domain:	.pl
Int. dialling code:	+48

KEY TAX POINTS

- Polish resident companies are subject to corporate income tax on all sources of their worldwide income. Non-residents are taxed only on income derived from Poland.
- Real property tax and tax on the means of transport (lorries, tractors and trailers) are charged as local taxes.
- Civil law activity tax (CLAT) applies to contracts of sale, lease or hire, loan agreements, and foundation deeds of a partnership.
- Foreign tax paid may be credited against Polish tax due, up to the amount of domestic tax.
- A 'tax capital group' may be established by joint stock companies and limited liability companies, where there is 95% ownership.
- Transfer pricing provisions apply to transactions carried out between related parties.
- Withholding tax is deducted from interest, royalties and dividends. However, under the EU Parent-Subsidiary Directive, dividend distributions by resident subsidiaries to their non-resident EU parent or EEA parent are exempt provided certain conditions are met.
- Individuals resident in Poland are taxed on their worldwide income. Non-residents are taxed only on the income derived from work performed in Poland.
- Tax on commercial property – taxpayers who are owners of retail/service buildings – a new tax enacted in Poland effective January 2018.
- Split payment mechanism – payment for a purchased goods or service will be automatically split between net sales value and VAT accounts from July 2018.

A. TAXES PAYABLE

COMPANY TAX

Polish resident companies are subject to corporate income tax (CIT) on all sources of their worldwide income, while non-residents are subject to corporate income tax only on income derived from the territory of Poland. A company is deemed resident in Poland if it is incorporated or managed in Poland. The corporate tax rate for 2018 is levied at 19% of the taxable base. As from 1 January 2017 the CIT rate for small taxpayers will be reduced from 19 % to 15 %. The lower corporate tax rate will be applied to small taxpayers whose sales revenue (including the amount of tax payable on goods and services) does not exceed PLN 1.2 million in the previous fiscal year. This regime will also affect taxpayers that are start-ups. The preferential tax rate cannot be used by tax capital groups.

In general, the tax year for corporate taxpayers is the calendar year. Taxpayers are obliged to submit their tax declaration, together with the balance sheet, to the fiscal office within three months from the end of their tax year. Taxpayers are obliged to pay tax monthly in advance, based on the current year's income. Taxpayers can also make monthly advance payments based on specific rules if they meet certain conditions.

CAPITAL GAINS TAX

Capital gains from the disposal of fixed business assets are aggregated with income from other sources and are subject to corporate income tax at the standard CIT rate (19% in 2018).

BRANCH PROFITS TAX

The tax rate of income derived by a foreign corporation from a branch located in Poland is the same as for Polish entities (19% in 2017).

VALUE ADDED TAX (VAT)

As a result of Poland's accession to the European Union, the Polish VAT Act has changed in line with the regulations of the 112th Directive and other EU Directives related to VAT. Under the Polish VAT regulations, VAT applies to the following transactions:

- Supply of goods and services made in Poland for consideration;
- Export of goods outside the EU;
- Import of goods from outside the EU;
- Intra-Community acquisition of goods effected for consideration in Poland, including the movement of goods between different Member States within the same business;
- Intra-Community supply of goods including the movement of goods between different Member States within the same business.

VAT payers who have no registered seat in Poland nor a fixed place of business nor a place of residence are obliged to appoint a fiscal representative. This obligation does not apply to EU residents. The current tax point is the date of delivery or performance of the goods and services, respectively. However, there are some exceptions to this rule. VAT is charged at the standard tax rate of 23% on the supply of most goods and services or at the reduced rates of 8%, 5% and 0%:

- 8% supplies include, amongst others, hotel services and passenger transport supply, construction and assembly services, restoration and conservation of building included in social housing programs;
- 5% rate applies to certain foods, e.g. meat, fish, dairy products, vegetables, fruit, bread, etc.;
- 0% supplies include, amongst others, exports and intra-Community supplies of goods and international transport services.

In addition, there are a number of exemptions from VAT including education and health care services. However, other than those taxpayers using the cash-basis settlement method, taxpayers may submit tax returns quarterly, having notified the head of a revenue office in writing by the 25th day of the second month of the quarter. A taxpayer who starts carrying out taxable acts during a tax year must make the notification by the 25th day of the month following the month in which it started performing these acts. Taxpayers who have chosen to make quarterly VAT settlements may resume filing monthly tax returns but not until they have submitted at least four quarterly tax returns.

SPLIT PAYMENT

From 1 July 2018, a new tax mechanism will come into force, aiming at a more effective VAT collection, i.e.

split payment. The essence of this mechanism is that the payment for the purchased goods or services will be automatically split between the net sales value and VAT. The payment for a given good or service paid by the buyer will be sent to the supplier's bank account at the net amount. However, the value of VAT will be collected separately on a special VAT account. The supplier will be free to only use the funds accumulated by the net amount and access to funds on the VAT account will be significantly limited. The option to pay using the split payment mechanism will be voluntary and completely dependent on the buyer's decision.

This mechanism applies only to entities that are VAT payers. It will therefore not be possible in case of transactions concluded between a VAT payer and an entrepreneur.

FRINGE BENEFITS TAX (FBT)

Benefits in kind are included in taxable income of employees.

LOCAL TAXES

Real property tax and transport tax are charged as local taxes in Poland. Real property tax is paid by owners of real estate. The tax base depends on the type of asset concerned:

- Buildings - the usable area;
- Structures - value of the structure;
- Land - the area.

The tax rates are established by the Commune Council. A tax on 'methods of transport' is imposed on lorries, tractors and trailers. The tax rates are also established by the Commune Council.

OTHER TAXES

CIVIL LAW ACTIVITY TAX (CLAT)

Some of the civil acts may be subject to civil law activity tax. These are, in general:

- Contracts of sale, lease, hire (if not subject to VAT);
- Loan agreements;
- Foundation deeds of a partnership or company.

CLAT rates are from 0.1% - 2%. The following are not liable to tax:

(1) Acts in civil law if, in respect of performing such an act, at least one party is:

(a) Liable to goods and services tax;

(b) Exempt from goods and services tax, except for:

- Contracts of sale and exchange whose object is immovable property or part thereof, or the right of perpetual usufruct, cooperative member's ownership right to a living accommodation, right to a single-family house in a housing cooperative or right to a parking lot in a multi-lot car park or a share in such rights;
- Contracts of sale for shares in commercial partnerships or companies;

(2) Partnership or company deeds or amendments relating to:

(a) Company mergers;

(b) Transformation of a company into a different company;

(c) Contribution to a company, in exchange for its shares, in some circumstances.

Loans granted by a shareholder to a company are also exempt from this tax.

STAMP DUTY

Transactions subject to Stamp Duty include the following:

- Bills of exchange;
- Public administration actions (application forms, certificates, permissions).

BANK TAX - taxation of assets of selected financial institutions

From 1 February 2016 a new tax on certain financial institutions has been put in place in Poland. According to the new tax bill, domestic banks, branches of foreign banks, branches of credit institutions, cooperative

credit unions, national insurance and reinsurance, branches and main branches of foreign insurance and reinsurance companies are subject to this tax, as well as lending institutions. The tax rate is 0.0366% of the tax base per month.

The taxable base is the total value of the assets of the taxpayer, resulting from the trial balance within the meaning of the Accounting Act, exceeding PLN 4 billion (for domestic banks, branches of foreign banks, branches of credit institutions, cooperative savings and credit unions) or exceeding PLN 2 billion (for national insurance, national reinsurance undertakings, branches of foreign insurance companies and foreign reinsurance main branches of foreign insurance companies and foreign reinsurance) or exceeding PLN 200 million (for consumer loan lending institutions). As for banking institutions, the taxable base may be reduced by the amounts listed in the bill, including the value of equity and Polish Treasury bonds. For associating banks and cooperative banks, the taxable base may be reduced by the amount of funds collected on all accounts of affiliated cooperative banks, led by the taxpayer. In the case of assets acquired by the taxpayer from the Polish National Bank (representing collateral for a loan refinanced by the bank) all of the assets are deductible from the tax base. For other taxpayers, the tax base is reduced by the value of assets in the form of Treasury securities within the meaning of art. 95 paragraph. 1 of the Act on public finance.

Taxpayers are required, without call from the competent tax authority to submit tax returns, calculate and pay tax on account of the competent tax office for monthly periods by the 25th day of the month following the month to which the tax relates.

TAX ON COMMERCIAL REAL ESTATE

Effective January 2018, a minimum real estate tax was introduced for commercial real estate owners whose initial value exceeds PLN 10 million. This tax may be imposed on:

- commercial and service buildings classified in the Classification of Fixed Assets as a shopping centre, department store, independent store and boutique, or other retail and service property;
- office buildings classified in the Classification of Fixed Assets as an office building.

The tax is at least 0.035% of the tax base for each month (the annual interest rate is 0.42%) and is payable by the 20th day of the month following that in which it was calculated. The taxable basis is the income corresponding to the initial value of the fixed asset determined on the first day of each month as a result of records kept, minus the amount of PLN 10 million.

Buildings will be taxed if their initial value exceeds PLN 10 million (approx. EUR 2.36 million) and only the excess over PLN 10 million will be subject to taxation.

SOCIAL SECURITY CONTRIBUTION

Resident individuals and employees within the territory of Poland are subject to mandatory old age and disability insurance. Rates of social security contributions are as follows:

	Employer	Employee
Old age pension	9.76%	9,76%
Disability insurance	6.50%	1.50%
Sickness benefits	-	2.45%
Accident insurance	0.67 % – 3.86 %	-
Health insurance	-	9.00%

Contributions to the old age and disability pensions are paid by the employer and employee. The 9.76% employee contribution is transferred to the Open Pension Fund. Contributions by employees are based on their gross income for income tax purposes. The ceiling of income on the basis of which contributions for the old age pension and disability insurance are calculated in 2018 is PLN 127,890. There is no ceiling for health and maternity insurance.

The employer withholds the employees' contributions. Employees' contributions are deductible for income tax purposes and employers' contributions are deductible for corporate income tax purposes. The contribution for accident insurance is paid by the employer. The contribution for sickness benefit is paid by the employee.

In addition:

- 9% of gross pay (less contributions for old age and disability insurance) for mandatory health insurance contribution (covering medical expenses) is payable by employees;

- 2.45% of gross pay is paid by the employer to the Labour fund;
- 0.10% of gross pay is paid by the employer to the Guaranteed Welfare Benefits Fund.

B. DETERMINATION OF TAXABLE INCOME

Corporate entities are subject to corporate income tax on the net profit shown on their respective yearly Balance Sheet, calculated in accordance with the statutory accounting and bookkeeping rules, after adjustment for deductions and additions provided under the tax law. Generally, expenses incurred for the production of income are allowed as deductions. It is not possible to deduct expenses which are paid more than 30 days after the due date (or up to 90 days after the invoice date for expenses payable at least 60 days after the invoice date).

DEPRECIATION

Current rates range from 1.5% to 30% depending on the type of asset. As a general rule, the straightline method must be applied although the reducing method is possible under some conditions.

INVENTORY

Stock in trade, or inventory, is valued at its historic cost price or market value. The cost of inventory may be calculated at a standard cost, at a weighted average cost, or on the UFO or FIFO basis, as long as the method selected is used consistently.

CAPITAL GAINS AND LOSSES

Capital gains and losses are subject to CIT tax at a rate of 19% for 2018.

DIVIDENDS

Dividends received from resident companies are taxed separately at a rate of 19% unless the participation exemption applies (see Section 'F' below). The tax is withheld by the distributing company. Dividends may be distributed only from net profits of the company. Sums allocated for distribution among shareholders cannot be deducted from the taxable base.

THIN CAPITALISATION

As a consequence of the implementation of the ATAD (Anti-Tax Avoidance Directive) into domestic legislation, effective 1 January 2018, taxpayers are entitled to deduct from their taxable base interest expenses up to 30% of their EBITDA (a definition is included in the CIT Act). As a derogation to the general rule, this limitation only applies if the excess is greater than PLN 3 million in a tax period (i.e. up to PLN 3 million in borrowing costs in excess of this 30% limit is deductible). The limit does not apply to financial institutions, which are domestic banks, credit institutions, cooperative savings and credit unions, domestic and foreign insurance and reinsurance companies and open investment funds established on the basis of the Investment Fund.

According to the new regulations disallowed deductions may be carried forward for 5 years, with some exceptions.

LOSSES

Losses from a given tax year can only be offset against the taxable income in the five subsequent tax years, but the amount deducted in any one year cannot exceed 50% of the loss incurred in the previous five tax years (including those amounts already utilised against profits).

FOREIGN SOURCED INCOME

Resident companies are subject to tax on their worldwide income, including foreign-sourced income and gains. However, double tax treaties may apply to reduce or extinguish the tax liability imposed under domestic tax law.

INCENTIVES

- **Special Economic Zones**

Polish law provides for corporate income tax incentives, such as special economic zones (SEZs). In principle, companies operating within special economic zones may enjoy tax holidays, which involve a tax exemption from corporate income tax within certain time limits. Investments in SEZs may be made subject to a permit issued by the authorities. There are now 14 such zones in Poland: Mielecka, Katowicka, Suwalska, Legnicka,

Walbrzyska, Lodzka, Kostrzynsko-Slubicka, Slupska, Tarnobrzeska, Warminsko-Mazurska, Starachowicka, Kamiennogorska, Pomorska and Krakowska (Krakow Technology Park).

Undertaking business activities within a SEZ requires a special permit issued by the Minister of Economy or the authorities of the SEZ. Regulations applicable to a particular SEZ may specify the minimum investment value required and/or the number of employees that must be hired to benefit from the tax exemption.

- **For R&D activities**

The CIT Act also puts in place an additional deduction for qualifying expenses (from 2017: from 10% to 50% of qualifying expenses) incurred for R&D activities.

- **For small and start-up taxpayers**

A one-time depreciation write-off up to EUR 50,000 may be available.

RESTRICTION ON TAX DEDUCTIBILITY OF INTANGIBLE ASSETS AND LEGAL SERVICES

From 1 January 2018, expenses incurred for certain intangible services (e.g. fees for legal, accounting and advisory services and royalties for licenses, copyrights, patents and know-how) acquired from a related party or from a person resident in a country or territory engaging in harmful tax competition are deductible up to 5% of the taxpayer's EBITDA (a definition is included in the CIT Act). The annual amount of PLN 3 million of such expenses is fully deductible.

C. FOREIGN TAX RELIEF

Foreign-sourced income received by a resident company is included in its taxable base unless otherwise provided by the double tax treaty. Taxes paid abroad may be credited against the tax due. However, the amount of tax credit may not exceed the amount of domestic tax that would have been due on the income derived abroad, had it been derived in Poland.

D. CORPORATE GROUPS

In accordance with the Corporate Income Tax Act, a "tax capital group" may be established and accordingly corporate tax is then due on the income of the group as a whole. Such a group can be established only by joint stock companies and limited liability companies. The parent company must own at least 95% of the equity of each of the dependent companies. There are also other conditions which must be met to establish the 'tax capital group', such as:

- An average capital of all companies not lower then PLN 1 million;
- Capital group agreement period - minimum three years;
- Registration of the agreement with the tax office;
- No outstanding tax liabilities to state budget;
- Profitability ratio of the group not lower than 3% tor each year; and,
- All of the companies included in the group must be registered in Poland.

E. RELATED PARTY TRANSACTIONS

New conditions of documenting transactions: On 1 January 2017 significant changes were introduced in Poland regarding the requirement to prepare transfer pricing documentation for transactions with affiliated entities.

According to the new regulations, the requirement to prepare documentation depends on the income or costs of the taxpayer in a given financial year. Taxpayers obliged to prepare such documentation are those whose income or costs, pursuant to accounting regulations, exceeds EUR 2,000,000. It is important, that according to the new regulation taxpayers exceeding this amount will not have to prepare documentation for all transactions/events, but only for transactions and events of significant influence on their income (loss). According to the new regulations, documentation has to be prepared not only for transactions in the strict sense, but also for other events recorded in accounting books, as long as they have a significant influence on the taxpayer's income or loss and were agreed on by the affiliated entities. Documentation has to include a description of business restructuring operations carried out by the taxpayer in a given tax year. One of the changes most beneficial to taxpayers with respect to the scope of documentation is the introduction of materiality thresholds for transactions.

Revenue (EUR)	Transaction thresholds triggering TP documentation requirement (EUR)
2 million – 20 million	50,000 + 5,000 for each million above EUR 2 million
20 million – 100 million	140,000 + 45,000 for each 10 million above EUR million
>100 million	500,000

The requirement to prepare documentation is applied to taxpayers who conduct an activity as a partnership (it will be possible to appoint a partner responsible for the preparation of documentation, however, this does not release other partners from liability). Pursuant to the new regulations the threshold level for equity ties is to be raised from 5% to 25%.

Extending the content of documentation: According to the new regulations the transfer pricing documentation has to include a description of "other events recorded in accounting books", as long as these events have an influence on the taxpayer's income or loss and were agreed on by the affiliated entities, e.g. agreements on cash liquidity management, company deeds, and other similar agreements. Another novelty is the requirement to provide a statement on having complete and reliable documentation of transfer prices for the previous year. The local file should also include:

- The type and object of transactions having a significant influence on the income/loss,
- Financial information, including financial flows with respect to transactions or other events,
- Documents having a significant influence on transactions or other events,
- A description of an analysis of assets, functions and risks,
- A description of the method and the way of calculating income, including a statement of reasons for selecting them,
- An algorithm for calculating settlements concerning transactions or other events, including the way of calculating the value of settlements having an influence on the income/loss of the taxpayer or their partner,
- Financial information concerning the taxpayer, supplemented with an approved financial statement.

Master file: Taxpayers whose income or loss exceeds EUR 20 million in a given year are also obliged to prepare a master file demonstrating the settlement mechanisms from the perspective of the group, including:

- The name of the affiliated entity that prepared the documentation,
- The organizational structure of the affiliated group,
- A description of the rules of setting transfer pricing (transfer pricing policy) implemented by the group,
- A description of the group's business activities,
- A description of intangible assets owned, created, developed and used by the group as part of its business activity,
- A description of the financial situation between entities in the group, including in particular a consolidated financial statement of the affiliated entities,
- A description of agreements concluded in relation to income tax with taxing authorities of other countries, and particularly advance pricing agreements (APAs).

Benchmark: If the taxpayer's income in a given year exceeds EUR 10 million, they will be obliged to prepare benchmark studies in order to verify whether the terms of their transactions with affiliated entities follow the market price rule. The benchmark study has to take into consideration Polish entities conducting similar activities, as long as such data is available. Such studies have to be conducted for individual transactions and events, and not for the whole activity of the taxpayer. In case there is no comparable data allowing to conduct a benchmark study, the taxpayer can prepare a statement of concordance of the terms applied with the market conditions.

Country-by-country reporting: The largest Polish groups of companies (with consolidated income exceeding EUR 750 million) are obliged to draw up statements of income, tax paid, and places of business. Based on the specimen form published, taxpayers have to provide a list of entities in the group, countries where they have their seats, their main business activity, tax paid and profit earned, the number of employees and fixed assets. Analogous statements are drawn up by groups of companies in other countries, while tax authorities will exchange this information pursuant to the OECD guidelines in this respect.

Additional disclosure obligations (CIT TP): According to the new regulation, preparing documentation is an element of preparing tax returns, as entities with income exceeding EUR 10 million are obliged to attach a CIT TP form to the return, indicating transactions made by the taxpayer with affiliated entities. Before filling in the form, it will be necessary not only to gather basic data on intragroup transactions, but also to analyse the taxpayer's activity based on transfer pricing regulations. The report also has to indicate whether the taxpayer carried out restructuring operations as defined in transfer pricing regulations, and whether they paid or received exit fees, and has to include information about the taxpayer's business line and role in the group. The provided answers need to be well thought out and based on a detailed analysis in order to be consistent with the transfer pricing documentation.

The Ministry of Finance is working on a Decree that would extend the deadline for submitting a statement on transfer pricing documentation to 9 months after the end of the fiscal year. This change would concern transfer pricing obligations for tax years 2018 and 2019. Taxpayers who ended their tax year on 31 December 2017 would then be required to prepare transfer pricing documentation by the end of September 2018.

F. ANTI-TAX AVOIDANCE CLAUSE

Since July 2016 an anti-tax avoidance clause has been introduced in Polish tax law. The purpose of this clause is to prevent fictitious transactions that taxpayers carry out primarily to achieve tax advantages. Practically speaking, this means transactions which are hardly justifiable from an economic or business point of view. The Tax Ordinance Act which includes this regulation also defines what a tax advantage means, namely avoidance, deferral or reduction of a tax liability, creation or overstatement of a tax loss, creation or overstatement of a tax overpayment or a reclaimed amount. The legislation sets a threshold of PLN 100,000 which, if exceeded, entitles the tax authorities to invoke the anti-tax avoidance clause. According to the Amending Act the anti-tax avoidance clause will also apply to tax consequences arising after its entry into force even if the transactions that brought about those consequences took place before the clause's effective date.

G. STANDARD AUDIT FILE

Since July 2016 the taxpayer is obliged to transmit data in a unified form, the so-called **Standard Audit File (SAF/JPK)** at the request of the tax authorities. The main purpose of the SAF is to eliminate barriers in electronic data reporting, reducing the administrative burden and costs of audits for both tax authorities and taxpayers, and speeding up tax audits. The SAF format would cover a wide data catalogue including:

- Accounting records;
- VAT registry;
- Revenue registry;
- Tax revenues and expenses ledger;
- Invoice statements; and
- Receipt statements.

The data submitted using SAF shall have to be presented in accordance with a specific scheme (logical structure) which allows the tax authorities to conduct compatibility checks. The monthly VAT reporting obligation will be implemented in three stages:

- Large businesses from 1 July 2016;
- Small and medium-size businesses from 1 January 2017; and
- Micro-businesses from 1 January 2018.

The general reporting obligations upon request are to be implemented in two stages:

- Large businesses from 1 July 2016, and
- Micro-, small, and medium-size businesses from 1 July 2018.

As mentioned above, effective January 2018 all enterprises are obliged to submit monthly data to the tax authorities using SAF. According to The Act on Freedom of Economic Activities, micro-enterprises are defined as enterprises which employ fewer than 10 people and have an annual turnover or balance sheet below EUR 2 million. From 1 July 2018, micro-enterprises will also be required to submit other files at the request of the tax office, such as information regarding accounting books (JPK_KR), bank statements (JPK_WB), inventory (JPK_MAG), VAT invoices (JPK_FA), tax revenue and expense ledgers (JPK_PKPIR), and revenue records (JPK_EWP).

H. WITHHOLDING TAXES

Withholding tax is deducted from interest, royalties and dividends. On payments to non-residents, it is deducted at 19% on dividends and 20% on royalties and interest payments, unless reduced by a double tax treaty. However, under the provisions implementing the EU Parent-Subsidiary Directive, dividend distributions by resident subsidiaries to their non-resident EU parent or EEA (European Economic Area) parent companies or resident parent company are exempt. In order to benefit from this regulation, the following conditions must be met:

- The resident parent company or EU parent or EEA parent company in receipt of the dividends must be subject to corporate income tax in Poland or the EU member country or EEA country on worldwide income and must not use an exemption to prevent it from being taxed on the dividends;
- The parent company must have owned at least 10% of the capital in the Polish company continuously for a period of at least two years.

According to new regulations, as from 1 January 2016 the provisions concerning the tax exemption on dividend payments do not apply if:

- income (revenue) from dividends and other revenue resulting from participation in the profits of legal persons is earned in connection with the conclusion of a contract or the performance of another legal act or a number of interrelated legal acts, the main objective (or one of the main objectives) of which is to obtain an exemption from income tax and where obtaining such an exemption does not result in the elimination of the double taxation of the income (revenue) in question; and • the activities referred to in point 1 above are fictitious in nature.

For the purposes of the above new tax regulation it shall be presumed that the contract or other legal action has no real character to the extent that is not carried out for legitimate economic reasons. In particular, this applies to a situation where in a transaction referred to in point 1 above, is transferred to the ownership of shares (shares) of the company paying the dividend or the company generates revenue (income), then paid in the form of dividends or other income from the share in profits of legal persons.

The EU Interest and Royalties Directive was implemented into domestic law on 1 July 2005. The rate was 5% between 1 July 2009 and 30 June 2013. From 1 July 2013 the rate is 0%. In order to benefit from this regulation, the following conditions must be met:

- The payer must be a company which is resident in Poland or is resident in another EU member state and has a taxable permanent establishment in Poland;
- The payee must be a company, which is a tax resident in an EU Member State other than Poland;
- The company which is receiving the income must be subject to tax on its worldwide income;
- The Polish company must have owned at least 25% of the capital of the EU company continuously for a period of at least two years; or the EU company must have owned at least 25% of the capital of the Polish company continuously for a period of at least two years.

I. CFC RULES

Polish taxpayers are subject to Polish tax on income earned by their CFCs even if the income is not distributed by the non-Polish company. The tax rate for such income is 19%. Subsidiaries subject to CFC rules are those where:

- the Polish parent company holds at least 50% of shares of the subsidiary, directly or indirectly; and minimum 33% of the income of the subsidiary is generated by passive income (e.g. from dividends, shares, copyrights, interest) and;
- the income tax actually paid by the subsidiary in the country of its registered office or management is lower than the difference between the corporate income tax, which would be due if the subsidiary was a Polish taxpayer and the income tax actually paid in the country of its registered office.

Subsidiaries in tax havens are also treated as CFCs. The CFC provisions will not apply if the foreign corporation conducts genuine business activities.

J. EXCHANGE CONTROL

With effect from 2003, most foreign exchange transactions are allowed by the Foreign Exchange Act, and do not require a special permit from the National Bank of Poland. Domestic persons doing business in Poland, which normally operates wholly in Zlotys, generally may hold foreign currency accounts for foreign receivables. Invoices and services purchased abroad may be paid in foreign currencies at the official exchange rate on the day that the payment is made or from their foreign currency accounts.

K. PERSONAL TAX

Polish resident taxpayers are subject to tax on their worldwide income, subject to double tax treaties. Non-residents are taxed only on the income derived from work performed within the territory of Poland. Tax is levied on all taxable income at progressive tax rates. The tax scale for 2017 is as follows:

Tax base	Rate	
Up to PLN 85,528	18%	minus personal allowance
Over PLN 85,528	PLN 15,395.04 + 32% surplus over PLN 85,528	

The personal allowance amounts to:

Income (PLN)	Personal allowance (PLN)
Up to 8,000	1,440
8,000 – 13,000	883.98 * (taxable base – 8,000) / 5,000
13,000 – 85,528	556.02
85,528 – 127,000	556.02 * (taxable base – 85,528) / 41,472
Over 127,000	0

Personal income tax is reduced if, in the financial year, the taxpayer incurred expenditure as specified in the law, within the proper limits. Payers of the income tax referred to in the PIT law are obliged to calculate and collect tax payments in advance, within the year, and transfer them to the bank account of the relevant tax office by the 20th of the month following the month when the tax advance payment was collected.

Taxpayers are obliged to file an annual tax return by 30th April of the following year. This obligation does not apply to taxpayers for whom the annual tax return is made by the tax collector. The submission of the tax return has to be accompanied by payment of the difference between the income tax due, as calculated in the tax return, and the sum of any tax paid in advance. The income tax arising from the tax return is the tax due for a given year, unless the tax office issues a decision establishing a different amount of tax due.

Individuals who receive inheritances or gifts are liable to tax for the portion they receive. Polish citizens and persons who are domiciled in Poland are also liable to this tax if the property received by them is located abroad. Gifts and inheritances of property located in Poland are exempt if neither party is a Polish citizen or domiciled in Poland. The rates are progressive depending on the category of taxpayer and value of property received and will vary from 3% to 20%.

L. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends[1] (%)	Interest (%)	Royalties (%)
Non-treaty countries	19	20	20
Treaty countries:			
Albania	5/10	10	5
Armenia	10	5	10
Australia	15	10	10
Austria	5/15	5	5
Azerbaijan	10	10	10
Bangladesh	15/10	10	10
Belarus	10/15	10	0
Belgium	5/15	5	5

Bosnia and Herzegovina	15/5	10	10
Bulgaria	10	10	5
Canada	5/5/15	10	5/10
Chile	15/5	15	5/15
China	10	10	7/10
Croatia	5/15	10	10
Cyprus	0/5	5	5
Czech Republic	5	5	10
Denmark	0/5/15	5	5
Egypt	12	12	12
Estonia	5/15	10	10
Finland	5/15	5	5
France	5/15	0	5/10
Georgia	10	8	8
Germany	5/15	5	5
Greece	19[2]	10	10
Hungary	10	10	10
Iceland	15/5	10	10
India	10	15	15
Indonesia	10/15	10	15
Iran	7	10	10
Ireland	0/15	10	10
Israel	5/10	5	5/10
Italy	10	10	10
Japan	10	10	10
Jordan	10	10	10
Kazakhstan	10/15	10	10
Korea	5/10	10	10
Kuwait	5/0	0/5	15
Kyrgyzstan	10	10	10
Latvia	5/15	10	10
Lebanon	5	5	5
Lithuania	5/15	10	10
Luxembourg	0/15	5	5
Macedonia	5/15	10	10
Malaysia	0	15	15/(–)[4]
Malta	0/10	5	5

Mexico	5/15	5/15	10
Moldova	5/15	10	10
Mongolia	10	10	5
Montenegro	5/15	10	10
Morocco	7/15	10	10
Netherlands	5/15	5	5
New Zealand	15	10	10
Norway	0/15	5	5
Pakistan	15/19[3]	20[2]	15/20
Philippines	10/15	10	15
Portugal	10/15	10	10
Qatar	5	5	5
Romania	5/15	10	10
Russia	10	10	10
Saudi Arabia	5	5	10
Serbia	15/5	10	10
Singapore	5/10	5	2/5
Slovak Rep.	0/5	5	5
Slovenia	5/15	10	10
South Africa	5/15	10	10
Spain	5/15	0	10
Sri Lanka	15	0	0/10
Sweden	5/15	0	5
Switzerland	15	5	5
Syria	10	10	18
Taiwan	10	10	3/10
Tajikistan	5/15	10	10
Thailand	19	10	5/15
Tunisia	5/10	12	12
Turkey	10/15	10	10
Ukraine	5/15	10	10
United Arab Emirates	5	5	5
United Kingdom	0/10	5	5
United States	5/15	0	10
Uzbekistan	5/15	10	10
Vietnam	10/15	10	10/15
Zimbabwe	10/15	10	10

NOTES:

1. Different treaty rates may apply depending on whether the dividend is received by a company or an individual, or the participation percentage in the Polish company held by the recipient of the dividend. It is important to consult the relevant treaty for further details.
2. The domestic rate applies.
3. The domestic rate applies, apart from where the dividend is received by a company holding at least one-third of the capital of the Polish company.
4. The domestic rate applies to royalties for the use of, or the right to use cinematograph films, or works recorded on tapes for television or broadcasting.

PORTUGAL

MEMBER FIRM

City	Name	Contact Information
Lisbon / Oporto	José Parada Ramos	+351 213 182 720 paradaramos@pkf.pt

BASIC FACTS

Full name:	Portuguese Republic
Capital:	Lisbon
Main language:	Portuguese
Population:	10.30 million (2018 estimate)
Monetary unit:	1 Euro (EUR) = 100 cents
Internet domain:	.pt
Int. dialling code:	+351

KEY TAX POINTS

- Resident corporations are subject to Portuguese corporate income tax (CIT) on their worldwide income. Non-resident companies with a permanent establishment in Portugal are liable for CIT on the income attributable to that permanent establishment.
- Foreign-sourced income, gross of tax paid abroad, is included in taxable income. A unilateral credit for foreign income tax suffered can be set off against the Portuguese corporate income tax.
- Group taxation is available where all companies in the group are resident in Portugal. The parent company must hold, directly or indirectly, at least a 75% shareholding in the remaining companies of the group.
- The standard rate of VAT is 23%. In addition, an intermediate rate of 13%, and a reduced rate of 6% are applicable to a range of goods and services.
- Transfer pricing legislation enables the tax authorities to make corrections to taxable income when the conditions (and prices) agreed between related parties are different from those that would have been agreed and accepted between independent entities (arm's length principle).
- Resident individuals are subject to income tax on their worldwide income whilst non-residents are liable to income tax only on income sourced in Portugal. There is a special tax regime for nonhabitual resident taxpayers.
- Social security is due on remunerations at a 23.75% rate for the employer and 11% for the employee. An additional 1% contribution is due by the employer for the unemployment Compensation Fund.

A. TAXES PAYABLE

COMPANY TAX: GENERAL REGIME

Resident corporations are subject to corporate income tax (CIT) on their worldwide income. Resident

companies are those which have their head office or place of effective management in Portugal.

Non-resident companies with a permanent establishment in Portugal are liable for CIT on the income attributable to that permanent establishment. A non-resident company having no permanent establishment in Portugal is taxed on the following types of income sourced in Portugal: rental income, capital gains, dividends, services, interest and royalties.

The taxable profit is taxed at a rate of 21%. Companies qualifying as small and medium enterprises are taxed at 17% on the first EUR 15,000 of taxable income. A municipal surcharge of up to 1.5% is also levied on the taxable profit amount.

An additional state surcharge is levied at the following progressive rates:

Taxable income (EUR)	Tax rate
First 1.5 million	0%
From 1.5 million to 7.5 million	3%
From 7.5 million to 35 million	5%
Over 35 million	9%

Certain expenses, such as costs related to vehicles and non-documented expenses, are subject to an autonomous taxation at rates varying from 5% (e.g. travel and kilometres allowances) to 50% (confidential expenses). These rates are increased by an additional 10% in the years where a company has incurred tax losses.

The tax year usually coincides with the calendar year (1 January to 31 December). However, different tax years may be adopted. Tax is payable by the end of the fifth month following the end of the tax year – generally 31st of May.

Payments on account of the final tax liability are due in July, September and December of the respective tax year. Such payments are computed by applying the following percentages to the previous tax year's CIT liability, net of any tax withheld at source, depending on the taxpayer's turnover, as follows:

- Three instalments of 26.67% each (total 80%) – for taxpayers with turnover up to EUR 500,000;
- Three instalments of 31.67% each (total 95%) – for taxpayers with turnover exceeding EUR 500,000.

Permanent establishments of non-resident companies are taxed at the rates applicable to resident companies. The tax rate for non-resident companies having no permanent establishment obtaining Portuguese-sourced income is 25%, except for entities which are resident in a listed offshore jurisdiction in which case the rate is 35%.

CAPITAL GAINS TAX

Worldwide capital gains obtained by resident companies are included in their taxable income.

BRANCH PROFITS TAX

All income attributable to a Portuguese branch (permanent establishment) is subject to corporate tax.

No tax is imposed on the eventual remittances of profits from the branch to the head office.

VALUE ADDED TAX (VAT)

As a member of the European Union, Portugal has adopted VAT which is a sales tax levied on the supply of goods and services as well as on the import of goods from non-EU countries into Portugal (for VAT purposes, Portugal includes Azores and Madeira islands), and acquisition of goods from other EU Member States. The standard rate is 23%. In addition, an intermediate rate of 13% and a reduced rate is 6% is applicable to a range of goods and services. The standard, intermediate and reduced VAT rates in the Azores are 18%, 9% and 4%, and in Madeira 22%, 12% and 5%, respectively.

FRINGE BENEFITS TAXATION

In general, benefits provided to employees are added to their remuneration and taxed as such. There are, however, some exceptions, such as lunch allowances, travel allowances and the use of a car (provided such use is not formally agreed in the employment contract).

OTHER TAXES

STAMP TAX

Stamp tax is due on several documents, acts and transactions, which occur or are presented for legal purposes in Portugal and are not subject to or exempt from VAT. The rates may be set in specific amounts or on a percentage basis.

Among others, stamp tax is due on the following transactions/acts:

Tax base	Tax rate (%)
Real Estate Transfer	0.8
Loans (on the principal)	
- Current account, undetermined term or term less than one year	0.04 per month or fraction
- Term for one year or more	From 0.5 to 0.6
Guarantees	
- Term less than one year	0.04 per month or fraction
- Term from one year and less than five years	0.5
- Undetermined term and term for five years or more	0.6
Transactions by Financial Institutions	
- Interest and commissions charged	4
- Commissions on banking guarantees	3
- Commissions on insurance brokerage	2
Insurance premiums	From 3 to 9
Letting or sub-letting (on one-month rent)	10
Sale of business as going concern	5
Social gambling prizes exceeding EUR 5,000	20

Some stamp tax exemptions apply on the above listed transactions/acts, depending on the fulfilment of certain conditions.

REAL ESTATE MUNICIPAL TAX

The owners of real estate located in Portugal as at 31 December of each year are subject to the annual Real Estate Municipal Tax (REMT).

The applicable tax rate for rural properties is 0.8% and for urban properties the tax rates vary between 0.3% and 0.45%, both on the tax registration value. A 7.5% rate applies when the real estate is owned by a resident entity of an offshore jurisdiction, as defined in a 'black list' published by the Finance Ministry (not for individuals).

ADDITIONAL REAL ESTATE TAX

Owners of real estate located in Portugal, intended for residential purposes and land for construction (regardless of the purpose of the construction) are subject to an Additional Real Estate Tax. The taxable basis corresponds to the sum of the tax registration value of all residential properties and land for construction held by each taxpayer, reported as per 1 January of each year. For individuals a tax exemption applies up to a taxable basis of EUR 600,000.

The tax rate for individuals varies from 0.7% to 1% and for entities it is 0.4%. A 7.5% rate applies when the real estate is owned by a resident entity of an offshore jurisdiction, as defined in a 'black list' published by the

Finance Ministry (not for individuals). An exemption applies if the property was exempt from (or not subject to) REMT in the preceding year.

MUNICIPAL REAL ESTATE TRANSFER TAX

The Municipal Real Estate Transfer is levied on the transfer of real estate and is normally due by the acquirer. This tax is levied on the higher of the purchase price or the tax registration value (tax value appraised by the tax authorities).

The tax rates vary according to the type of use of the real estate:

i. From 0% up to 6% in case of residential real estate above EUR 550,836;

ii. 6.5% in case of other urban real estate such as retail, offices or land for construction; and

iii. 5% in case of rural land.

A 10% rate applies when the purchaser of the property is a resident of a black-listed offshore jurisdiction. Transactions which are subject to this tax are exempt from VAT.

B. DETERMINATION OF TAXABLE INCOME (CIT)

General regime: Taxable income is calculated by adjusting the accounting profits from non-taxable income and non-deductible expenses. As a general principle, costs are only deductible when necessarily incurred with the purpose of producing taxable income.

DEPRECIATION AND AMORTISATION

Tangible fixed assets and intangible assets can be depreciated/amortised for tax purposes. The depreciation rates are set by specific legislation and include 2% for office buildings and 5% for industrial buildings. No depreciation is allowed on land. The normal method of calculation is the straight-line basis but the declining-balance method may be used except for items such as buildings, machinery, cars and office furniture. The acquisition cost of intangible assets with no limited period of exclusive use, acquired from 2014 onwards, may be tax depreciated over 20 years (not applicable for the depreciation of the goodwill included on the acquisition of shares).

Depreciation is not allowed regarding investment properties that are accounted for using the fair value method. Nevertheless, for tax purposes they may be tax depreciated over the maximum period of the useful lifetime of the real estate, i.e. at 1%. The taxable basis for tax depreciation corresponds to the acquisition/construction cost, disregarding any fair value variations.

STOCKS / INVENTORY

Inventory must normally be valued at the effective cost of acquisition or production (historic cost). Other methods which may be adopted include:

- The standard cost method, which must be calculated in accordance with the appropriate technical and accounting principles;
- The sale price method, based on the market value less a normal profit margin.

CAPITAL GAINS AND LOSSES

Capital gains (or losses) are calculated as the difference between the sales proceeds and the acquisition cost which may be updated using official inflation coefficients. If the proceeds of the sales are reinvested in other assets, 50% of the gain obtained (net of the related losses) will be excluded from taxation. For this purpose, reinvestments made in the preceding year, in the year of sale and in the two subsequent years will be taken into account. This is applicable to tangible, intangible and biological assets. Investment properties do not benefit from this regime, although recognized for accounting purposes as tangible fixed assets.

When only part of the consideration is reinvested, only the corresponding part of the gain qualifies for the relief.

As a general rule, gains derived from the disposal of shares are not subject to taxation, if, among others, the participation has been held for at least 1 year and corresponds to a minimum of 10% of the share capital in the participated company. Gains derived from the disposal of shares in which the value of real estate, directly or indirectly held, represents more than 50% of the assets (except for real estate attributable to an agricultural, industrial or commercial activity which does not consist in the acquisition and disposal of real estate) are subject to taxation.

As a general rule, gains obtained by non-resident entities from the disposal of shares are exempt from tax.

However, some exceptions apply, whereby capital gains are taxed at the rate of 25% for corporations:

- Gains realized by non-resident entities on the sale of shares in a company resident in Portugal whose assets are attributable for more than 50% to real estate located in Portugal. Some double tax treaties signed by Portugal override this rule and give the right to tax those gains solely to the state of residence of the seller.
- Gains resulting from the transfer of share capital or similar rights in any entity (non-resident in Portuguese territory), when, at any moment during the previous 365 days, the value of those shares or rights consist, directly or indirectly, in more than 50% of real estate located in Portugal (except if attributable to an agricultural, industrial or commercial activity which does not consist in the acquisition and disposal of real estate).

DIVIDENDS

There is a full participation exemption on dividend payments between Portuguese resident companies when the recipient of the dividends is a company that has held a participation of not less than 10% of the share capital of the distributing company for a minimum period of one year. If such conditions are not met, the dividend amount is subject to taxation. Subject to some additional conditions, this full participation exemption is also available for dividends derived from non-resident companies.

Dividends paid to non-resident shareholders are normally subject to withholding tax at 25% (or at the treaty rate if applicable). When the parent company is resident of an EU Member State or on a territory with which Portugal has signed a Double Tax Treaty, and has held a participation of at least 10% for one year in the share capital of the Portuguese company distributing the dividends, no withholding tax shall apply provided the company receiving the dividend is subject to one of the taxes listed in the Parent-Subsidiary Directive, or, in case of non-EU shareholders, at a nominal rate of no less than 60% of the Portuguese CIT rate.

INTEREST DEDUCTIONS

The deductibility of net financing costs is limited to the higher of:

- EUR 1 million; or,
- 30% of the tax EBITDA.

The net financing costs are calculated as the balance of financing costs and financing income. Nondeductible net financing costs may be deducted in the following five years, provided the total financial costs (costs of the year plus costs carried forward) do not exceed the above limits.

Financial costs that are not deductible because of the limitation may be carried forward for a period of 5 tax years. Moreover, if the financial costs are below 30% of the EBITDA, the amount of the limit that was not used may be carried forward to offset financial costs of the following 5 tax years.

This limitation applies to all types of financing (banks, intra-group, domestic and foreign financing). However, this limitation is not applicable to banks and other financial institutions.

TAX LOSSES

From 2017 onwards, losses incurred by resident companies, or by a branch of a non-resident company, may be carried forward to be offset against taxable profits for five years. However, companies are only allowed to deduct tax losses up to 70% of the taxable profits in any given period. No deduction is allowed if the ownership of 50% or more of the share capital has changed, compared to the year in which the losses were incurred, unless the change of ownership is justified by special economic relevance and the deduction is accepted by the tax authorities. In the table below we provide the expiration date of losses carried forward according to the year they were incurred:

Tax loss year	Expiration date
2012	2017
2013	2018
2014	2026
2015	2027
2016	2028

2017	2022
2018	2023

Tax losses carry-back is not allowed.

FOREIGN SOURCED INCOME

Resident companies are taxed on their worldwide income.

COLLECTIVE INVESTMENT VEHICLES (INVESTMENT FUNDS)

Investment funds are subject to CIT at the general rate (currently 21%). However, both securities and real estate funds, are exempt from tax on income derived from their “core business” (capital gains, rental income and investment income).

Income obtained by foreign investors regarding distributions and gains arising from the redemption of participations units or shares in the fund are taxed as follows (i) securities funds – exempt; (ii) real estate funds – taxed at a 10% final tax rate.

Additionally, funds are subject to stamp tax on their global net value on a quarterly basis at a rate of 0.0025% for the securities funds and 0.0125% for real estate funds.

INCENTIVES

Incentives under Portuguese tax legislation include: the free-trade zones of Azores and Madeira; investment tax credits; incentives for small companies; tax credits for research and development investments; and creation of jobs for persons under 35 years of age or long-term unemployed.

C. FOREIGN TAX RELIEF

Foreign-sourced income, gross of tax paid abroad, is included in taxable income. A unilateral credit for foreign income tax suffered can be offset against Portuguese CIT. Portugal's tax treaties also apply the ordinary credit method. The tax credit is restricted to the lower of:

- The income tax paid abroad;
- The Portuguese income tax chargeable on that foreign income, net of related expenses.

D. CORPORATE TAX GROUP

Companies meeting certain conditions can choose to be taxed on a group basis. Among other conditions:

- All companies in the Tax Group are resident in Portugal;
- The parent company must hold, directly or indirectly, at least 75% in the remaining companies of the group. The 75% control can be held either by a Portuguese company or by a parent company resident in another EU State.

Under this regime, the taxable income of the group is computed by summing up the taxable income and losses of the companies included in the group.

E. RELATED PARTY TRANSACTIONS

Transfer pricing legislation enables the tax authorities to make corrections to taxable income when the conditions (and prices) agreed between related parties are different from those that would have been agreed and accepted by independent entities. Taxpayers with a turnover equal to or above EUR 3 million must keep a documentation set to support the transfer pricing policy within the group.

F. WITHHOLDING TAX

Certain types of earnings are subject to withholding tax rates generally at a 25% rate and in case of payments made to a listed offshore jurisdiction the withholding tax rate is 35%. The withholding tax rate may be reduced if there is a double tax treaty in force with the country of the beneficiary of the income.

G. EXCHANGE CONTROL

There are no exchange control regulations.

H. PERSONAL TAX

Income tax is payable by individuals on income obtained from employment, a business activity or independent profession, investment income, immovable property, capital gains and pensions. Resident individuals are subject to income tax on their worldwide income while non-residents are liable to income tax only on income sourced in Portugal. Tax residence is determined by physical presence in Portugal for more than 183 days, consecutive or not, during any period of 12 months. Having remained for less time, residence is also determined by having a place of abode in a way that may lead to the supposition of an intention to keep and occupy it as a habitual home/ residence.

When determining the taxable income, certain tax credits are allowed in addition to some specific deductions concerning each category of income. These include a percentage of expenses incurred on health, education and family overheads.

Husbands and wives living together, and their dependent children, may choose to be taxed on their joint income. Normally, the tax year coincides with the calendar year but may be split in situations of partial fiscal residence. Nonetheless, whenever a taxpayer has two different tax residence statuses (resident and non-resident) in the same tax year, they may be obliged to submit a tax return for each residence status.

Special rules apply for the calculation of gains on immovable property, shares or other corporate rights, securities and patents. Exempt income includes various employment allowances (up to certain limits); a portion of pension income; capital gains from the sale of the habitual private residence when the proceeds are reinvested in another private residence.

Tax returns can only be submitted via the internet during a period running from 1 April until 31 May of the subsequent tax year for all taxpayers, regardless of the source of income. The following progressive tax rates apply to the aggregate net results of employment income, business income, investment income (if subject to a final withholding tax), income from land, capital gains and pension income:

Taxable income (EUR)	Marginal rate on excess over lower limit (%)	Average rate on lower limit (%)
Up to 7,091	14.5	14.5
7,091 – 10,700	23	17.367
10,700 – 20,261	28.5	22.621
20,261 – 25,000	35	24.967
25,000 – 36,856	37	28.838
36,865 – 80,640	45	37.613
Over 80,640	48	

In addition, a surtax (“solidarity tax”) of 2.5% applies on the part of the income exceeding EUR 80,000 while on the part of the income exceeding EUR 250,000, a 5% rate applies:

Taxable income (EUR)	Tax Rates (%)
From 80,000 to 250,000	2.5
In excess of 250,000	5

Domestic income may be subject to withholding tax. In most cases, tax withheld from residents represents a payment on account of the recipient's ultimate tax liability. In other cases, such as interest on bank deposits or dividends the tax withheld represents the final tax, but the individuals have an option

to include such income in the tax return, in which case the withholding tax will be treated as a payment on account.

Special Tax Regime for Non-Habitual Residents

A special tax regime for non-habitual residents is available. Individuals becoming tax residents and who have not been resident in Portugal for tax purposes for the past five years may apply for being covered by this regime. Under this regime, certain foreign-sourced income, such as investment income, capital gains, and pension income may be exempt from taxation in Portugal, if certain conditions are met, for a period of 10

years. In addition, non-habitual residents may benefit from a reduced tax rate of 20% on Portuguese-sourced employment and self-employment income, if derived from high value added activities performed in Portugal. Such activities are listed in Ordinance No. 12/2010 (January 7) and defined as those with a scientific, artistic or technical nature, including: engineers, architects, consultants, doctors, designers, tax university lecturers and artists.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

The following table is for general guidance only and reflects the lower of the treaty rate and the rate under domestic tax law. The rates are applicable to payments by Portuguese companies to nonresidents under the treaties currently in force.

	Dividends%		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Non-treaty countries				
Companies	25/35[1]	0	0/25/35[3]	0/25/35[4]
Individuals	0/28/35	--	28/35	25/35
Treaty countries:				
Algeria	15	10	0/15	10
Andorra	15	5	10	5
Austria	15	15	10	5/10
Bahrain	15	10	10	5
Barbados5	15	5	10	5
Belgium	15	15	15	10
Brazil	15	10	15	15
Bulgaria	15	10	0/10	10
Canada	15	10	0/10	10
Cape Verde	10	10	0/10	10
Chile	15	10	5/10/15	5/10
China	10	10	10	10
Colombia	10	10	10	10
Croatia	10	5	10	10
Cuba	10	5	0/10	5
Cyprus	10	10	10	10
Czech Republic	15	10	0/10	10
Denmark	10	0	0/10	10
Estonia	10	10	10	10
Ethiopia	10	5	10	5
Finland	15	10	15	10
France	15	15	10/12	5
Georgia	10	5	0/10	5
Germany	15	15	10/15	10

Greece	15	15	15	10
Guinea-Bissau	10	10	10	10
Hong Kong	10	5	10	5
Hungary	15	10	0/10	10
Iceland	15	10	0/10	10
India	15	10	0/10	10
Indonesia	10	10	10	10
Ireland	15	15	0/15	10
Israel	15	5	10	10
Italy	15	15	0/15	12
Ivory Coast	10	10	10	5
Japan	10	5	5/10	5
Korea (South)	15	10	0/15	10
Kuwait	10	5	10	10
Latvia	10	10	10	10
Lithuania	10	10	10	10
Luxembourg	15	15	10/15	10
Macau	10	10	0/10	10
Malta	15	10	10	10
Mexico	10	10	0/10	10
Moldova	10	5	10	8
Morocco	15	10	12	10
Mozambique	10	10	0/10	10
Netherlands	10	0	0/10	10
Norway	15	5	10	10
Oman	15	5/10	10	8
Pakistan	15	10	0/10	10
Panama	15	10	10	10
Peru	15	10	10/15	10/15
Poland	15	10	0/10	10
Qatar	10	5	10	10
Romania	15	10	0/10	10
Russia	15	10	0/10	10
San Marino	15	10	10	10
Sao Tome and Principe	15	10	10	10
Saudi Arabia	5/10	5	0/10	8
Senegal	10	5	0/10	10

Singapore	10	10	0/10	10
Slovak Republic	15	10	10	10
Slovenia	15	5	10	5
South Africa	15	10	10	10
Spain	15	10	15	5
Sweden	10	0	0/10	10
Switzerland	15	0/5	10	5
Tunisia	15	15	15	10
Turkey	15	5	10/15	10
Ukraine	15	10	0/10	10
United Arab Emirates	15	5	10	5
United Kingdom	15	10	10	5
United States	15	5	0/10	10
Uruguay	10	5	10	10
Venezuela	10	10	0/10	10/12
Vietnam	15	5/10	0/10	7.5/10

Notes:

1. Dividends (other than stock dividends) paid to a non-resident company without a permanent establishment in Portugal are subject to a 25% final withholding tax. A 35% withholding tax applies to (i) dividends paid to accounts held on behalf of non-identified third parties and (ii) dividends paid or made available to persons resident in a black-listed jurisdiction without a permanent establishment in Portugal.
2. Under Portuguese domestic law implementing the provisions of the EU Parent-Subsidiary Directive, outbound dividends and other profit distributions by Portuguese subsidiaries to their parent companies may be exempt from withholding tax. To qualify for the withholding tax exemption, the non-resident parent company must (i) be resident in an EU Member State or a resident country that has signed a tax treaty with Portugal (ii) be subject to, and not exempt from, corporate income tax, provided that the tax rate is not less than 60% of the applicable general CIT rate (i.e. 12.6% for 2018) (iii) maintain a direct holding of at least 10% in the share capital or voting rights of the Portuguese subsidiary and (iv) have maintained the holding continuously for at least 1 year prior to the date of distribution. Distributions within a holding period of less than 1 year qualify for the relief, provided that the parent company maintains the holding until the 1 year requirement is met. Reduced withholding tax rates on dividends (qualifying companies) are also available under the treaties with non-EU member states, subject to certain conditions and participations.
3. Interest payments to non-resident companies are generally subject to a 25% final withholding tax. A 35% withholding tax applies to (i) interest paid to accounts held on behalf of non-identified third parties and (ii) interest paid or made available to persons resident in a black-listed jurisdiction without a permanent establishment in Portugal. The EU Interest and Royalties Directive precludes any taxation on interest and royalty payments to associated EU companies. Two companies are associated companies if (a) one of them has a direct minimum holding of 25% in the capital of the other or (b) a third EU company has a direct minimum holding of 25% in the capital of the two companies. The relevant companies must have a legal form listed in the Annex of the Directive and be subject to a corporate income tax. A minimum holding period of 2 years is required.
4. Royalties (including payments in respect of know-how, leasing of equipment and technical assistance) are generally subject to a 25% final withholding tax. A 35% withholding tax applies to royalties paid or made available to persons resident in a black-listed jurisdiction without a permanent establishment in Portugal. For the EU Interest and Royalties Directive, see footnote 3.
5. Effective date: 1 January 2018.

PUERTO RICO

MEMBER FIRM

City	Name	Contact Information
Trujillo Alto	Edwin E. Torres	+1 787 400 9548 +1 904 763 8670 etorres@tcrapur.com

BASIC FACTS

Full name:	Commonwealth of Puerto Rico
Capital:	San Juan
Main language:	Spanish and English
Population:	3.66 million (2018 estimate)
Monetary unit:	United States Dollar
Internet domain:	.pr
Int. dialling code:	+1 787

KEY TAX POINTS

- A domestic corporation is taxable in Puerto Rico on its worldwide income.
- A foreign corporation engaged in trade or business in Puerto Rico is taxed at the regular corporate tax rates on income from Puerto Rico sources that is effectively connected income and on its Puerto Rico-source gross income not effectively connected with that business.
- A 10% tax is imposed on certain corporations on the deemed dividend amount attributable to a foreign owner.
- A surtax of 50% is imposed on corporations that improperly accumulate earnings to prevent the imposition of tax on shareholders or partners rather than paying the earnings out as dividends.
- Tax-advantaged treatment is provided for net long-term gains (holding period of more than one year) from the sale of capital assets.
- A Puerto Rico Branch of a Non-Puerto Rico (foreign) Corporation will be subject to regular income tax in a manner similar to a domestic (Puerto Rico) Corporation on its income effectively connected with conduct of a Puerto Rico trade or business. U.S. corporations are foreign corporations for Puerto Rico income tax purposes.
- As a general rule, a Sales and use tax shall be applied, collected, and paid on all transactions of taxable items in Puerto Rico. Taxable items consist of tangible personal property, taxable services, admissions, and what is known as bundled transactions.
- Every corporation is required to file an annual volume-of-business declaration with each of the municipalities in which it establishes or conducts business operations during the year.
- Puerto Rico does not have customs duty and import tariff provisions.
- Puerto Rico does not have transfer tax provisions.
- Puerto Rico does not have stamp tax provisions.
- Under General Corporation Law, a foreign corporation or a limited liability company must register with the State Department of Puerto Rico before conducting business locally.
- Dividends from a corporation that derives 20% or more of its profits from sources within Puerto Rico are taxable in Puerto Rico.
- Interest income is generally taxable.
- Generally, a Puerto Rico domestic corporation is taxed on its worldwide income, including foreign income earned and foreign dividends when received.
- A corporation engaged in specific eligible activities may apply for a reduced corporate income tax rate, among other incentives.

- Puerto Rico does not have group taxation rules.
- Corporations not engaged in a trade or business in Puerto Rico are subject to a 29% withholding tax at source on certain gross income items (considered fixed or determinable, annual or periodical) from Puerto Rico sources.
- Puerto Rican residents are taxed in Puerto Rico on their worldwide income, no matter where the income is sourced. Puerto Rican non-residents are only taxed in Puerto Rico on their Puerto Rico source income.
- There are no tax treaties between foreign countries and Puerto Rico.

A. TAXES PAYABLE

COMPANY TAX

A domestic corporation is taxable in Puerto Rico on its worldwide income. A foreign corporation engaged in trade or business in Puerto Rico is taxed at the regular corporate tax rates on income from Puerto Rico sources that is effectively connected income and at a 29% withholding tax (WHT) rate on its Puerto Rico-source gross income not effectively connected with that business.

The current corporate income tax (CIT) rate is comprised of a 20% normal tax and a graduated surtax (computed on the 'surtax net income'). The 'surtax net income' is the net taxable income subject to regular tax less a surtax deduction in the amount of USD 25,000. The graduated surtax rates are as follows:

- 5% for surtax net income up to USD 75,000.
- USD 3,750 plus 15% of surtax net income from USD 75,001 to USD 125,000.
- USD 11,250 plus 16% of surtax net income from USD 125,001 to USD 175,000.
- USD 19,250 plus 17% of surtax net income from USD 175,001 to USD 225,000.
- USD 27,750 plus 18% of surtax net income from USD 225,001 to USD 275,000.
- USD 36,750 plus 19% of surtax net income in excess of USD 275,000 for a maximum nominal tax rate of nearly 39%.

The determination of the applicable surtax rate is made on a consolidated basis for controlled groups and related companies, so the net taxable income of all the entities subject to tax in Puerto Rico within said groups has to be combined for the determination of the applicable surtax rate.

Alternative minimum tax (AMT)

The AMT includes various AMT adjustments in order to calculate the tentative minimum tax. Such minimum tax is subject to a 30% flat rate.

For AMT purposes, expenses paid or incurred for services performed by a related party outside Puerto Rico are considered a permanent adjustment in the determination of the alternative minimum net income (i.e. non-deductible for AMT purposes).

In determining the alternative minimum net income, the net operating loss (NOL) is limited to 70% of the alternative minimum net income. Also, the amount of the tax credit available with respect to the AMT paid in prior years that may be claimed against the current year regular tax is limited to 25% of the current net regular tax over the AMT for such taxable year. The AMT credit can be carried forward indefinitely.

Tax on deemed dividends

A 10% tax is imposed on certain corporations on the deemed dividend amount attributable to a foreign owner. A foreign owner is defined as any non-resident person (or entity not engaged in a trade or business in Puerto Rico) who directly owns 50% or more of the corporation's stocks. The deemed dividend amount is computed using the lesser of the average value of the total foreign assets or the accumulated earnings and profits of the corporation.

Tax on improper accumulation of income

A surtax of 50% is imposed on corporations that improperly accumulate earnings to prevent the imposition of tax on shareholders or partners rather than paying the earnings out as dividends. The tax is not imposed on accumulated earnings and profits but is imposed on the net income for the year computed without taking capital loss carryover or NOL carryover deductions and reduced by the following items: Puerto Rico income taxes paid or accrued, disallowed net capital losses, and charitable contributions in excess of the deductible amount. The net income does not include industrial income exempted from income taxes under Industrial Incentives Acts. However, an exempt business can be subject to the penalty tax on non-exempt income.

CAPITAL GAINS TAX

Tax-advantaged treatment is provided for net long-term gains (holding period of more than one year) from the sale of capital assets. For corporations, net long-term capital gains, reduced by any short-term capital losses, are subject to an alternative (preferential) tax of 20% in lieu of the regular CIT rates.

BRANCH PROFITS TAX

A P.R. Branch of a Non-Puerto Rico (foreign) Corporation will be subject to regular income tax in a manner similar to a domestic (Puerto Rico) Corporation on its income effectively connected with conduct of a Puerto Rico trade or business ("IEC"). U.S. corporations are foreign corporations for Puerto Rico income tax purposes. All income from sources within Puerto Rico received or accumulated by the P.R. Branch is IEC. Subject to several exceptions, income from sources outside Puerto Rico is not IEC, and therefore, it is not subject to Puerto Rico income tax. In determining taxable income, the P.R. Branch will take into consideration items of income effectively connected with the conduct of a trade or business in Puerto Rico. The P.R. Branch is allowed to deduct the expenses directly allocable to the Puerto Rico business. In addition, a reasonable apportionment of expenses not directly related to any item of income is permitted as a deduction. Thus, the P.R. Branch would be entitled to deduct on the Puerto Rico income tax return a reasonable allocation of overhead expenses incurred by the home office. This allocation is often challenged by the tax authority during an examination or audit. Moreover, payments for services rendered outside Puerto Rico by a related person are disallowed when computing the alternative minimum tax applicable to a P.R. Branch.

A P.R. Branch is generally subject to Puerto Rico corporate income tax on any gain recognized on the sale exchange or other disposition of capital assets if the gain is IEC. This gain qualifies for an alternative tax of 20% if it qualifies as a long-term capital gain.

Branch Profit Tax

A second level tax, the "branch profit tax" (BPT), is imposed to tax the P.R. branch operations as if it were a foreign subsidiary. The purpose of a branch profit tax is to treat as dividends the remittances of funds to the home office as a foreign parent. A foreign corporation is not subject to the branch profit tax if in the current and two preceding taxable years at least 80% of its gross income was IEC. In this case, however, a dividend distribution made by a foreign corporation satisfying this requirement constitutes income from sources within Puerto Rico and is subject to a 15% withholding tax if the shareholder is a non-resident individual, or 10% if the shareholder is a foreign partnership or corporation that is not engaged in a Puerto Rico trade or business.

The BPT generally represents a 10% tax upon the "dividend equivalent amount." Broadly speaking, the BPT would be imposed if the earnings and profits derived by the Branch were not reinvested in Puerto Rico as of the end of the taxable year. Comparing the net equity at the end of the taxable year and the net equity at the beginning of the taxable year makes the determination whether the amount was invested or reinvested. The BPT and the regular tax would represent a maximum effective tax burden of 37%. The BPT, as well as the income tax burden, may be reduced through the reasonable allocation and apportionment of overhead expenses. However, the allocation of expenses may be questioned by the Puerto Rico tax authorities if considered excessive or unrelated to the Puerto Rico operations.

SALES TAX / VALUE ADDED TAX (VAT)

As a general rule, the Sales and use tax (SUT) shall be applied, collected, and paid on all transactions of taxable items in Puerto Rico. Taxable items consist of tangible personal property, taxable services, admissions, and what is known as bundled transactions. Excluded from this definition are professional associations and certain membership fees; stamps issued by professional associations, the Commonwealth of Puerto Rico, or the federal government; human blood, tissue, and organs; maintenance fees paid to resident associations; air and maritime tickets; real property; and bingos, raffles, and lottery. Other transactions that are exempt from SUT include export transactions; duty-free stores located at airport or maritime ports; prescription medicines; insulin; taxable items acquired for certain manufacturing operations (e.g. raw materials); and food and ingredients for food (except for prepared food, diet supplements, sweets, and carbonated beverages).

The SUT rate is imposed at 10.5% at the state level and an additional 1% at the municipal level, for an aggregate 11.5%. Designated professional services and business-to-business (B2B) services are taxed at a 4% SUT rate.

Taxable services that are excluded from SUT include, among others, the following:

- Services rendered by merchants with annual volume of business of less than USD 50,000.
- Services rendered by a non-resident to a related party that is engaged in a Puerto Rico trade or

- business and holds a tax grant pursuant to Act No. 73-2008, Act No. 83-2010, Act No. 20-2012, or any similar act.
- Intangible rights.
- Advertising and promotion services.
- Construction subcontracted services and subcontracted telecommunication services.
- Toll manufacturing services or contract manufacturing services.
- Repair, maintenance, and conditioning of aircraft provided by a merchant that holds a tax grant pursuant to Act No. 73-2008 or any other similar act.

SUT should be remitted to the Puerto Rico government as 10.5% or 4% to the PRTD and the remaining 1% to the corresponding municipality.

Tangible personal property introduced into Puerto Rico is subject to use tax upon importation, holding the release on the ports until the use tax is satisfied, unless the taxpayer is a bonded merchant or an eligible reseller. The use tax paid upon importation of the merchandise can be claimed as a credit on the SUT return.

Every natural or juridical person who does or wishes to do business of any kind in Puerto Rico shall request registration in the Merchant's Registry of the PRTD at least 30 days before starting operations. Once the registration application is filled out and approved, the Secretary of the Treasury will grant a Merchant's Registration Certificate. This certificate constitutes the merchant's authorisation to do business in Puerto Rico and confirms the merchant's obligation as a withholding agent.

Unless specifically exempted, all persons selling taxable items are required to file a monthly SUT return. This return shall be filed electronically with the PRTD no later than the 20th day of the calendar month following the month during which the sales occurred. Also, all persons that import tangible property to Puerto Rico must file a use tax on imports return no later than the tenth day of the calendar month following the import.

LOCAL TAXES

Every corporation is required to file an annual volume-of-business declaration with each of the municipalities in which it establishes or conducts business operations during the year. The declaration must indicate the actual volume of business (i.e. net sales, gross income from any service rendered, and other gross receipts) attributable to each municipality. When a business operates in more than one municipality but does not receive income in all of them, the license tax shall be computed based on a distribution of sales apportioned to each municipality by square feet of the building used in each municipality.

For a non-financial business, the license tax payment varies from a minimum of 0.20% to a maximum of 0.50%, depending on each municipality. The payment must be made in two equal instalments on or before 15 July and 15 January on the basis of the volume of business generated by the entity during its accounting year ended within the immediately preceding calendar year before the due date of the declaration. A 5% discount is available when the tax is fully paid on the declaration due date (on or before five working days after 15 April of each year).

For the first six months after a new business is established, the new company is generally exempt from the municipal license tax, provided that the business informs the municipality that it has established a new business in the municipality within the first 30 days of operations and requests the provisional license tax as established in each municipality. A copy of the municipal licence is generally requested as a perquisite for obtaining other licences and permits in Puerto Rico.

OTHER TAXES

Customs duties and import tariffs

Puerto Rico does not have customs duty and import tariff provisions. Since Puerto Rico is a Commonwealth of the United States, it follows the United States' customs duties and import tariffs.

Excise taxes

There are certain articles subject to a special excise tax, such as cigarettes, fuels, crude oils, vehicles, alcoholic beverages, cement, sugar, and plastic products, among others.

Personal Property taxes

Every corporation engaged in a trade or business in Puerto Rico that on January 1st of each year owns personal property used in its trade or business within Puerto Rico, whether it is leased to another entity or

not, is subject to tax on such property. The tax is self-assessed by the corporation, and it is paid together with the filing of an annual return. The tax ranges between 5.80% and 9.83%, depending on the municipality.

Transfer taxes

Puerto Rico does not have transfer tax provisions.

Stamp taxes

Puerto Rico does not have stamp tax provisions. However, recordation fees are imposed at the time of officially recording a real estate transaction with the Puerto Rico Property Registry.

REGISTRATION DUTY

Under General Corporation Law, a foreign corporation or a limited liability company must register with the State Department of Puerto Rico before conducting business locally.

Business Registration Requirements in Puerto Rico:

Registration is accomplished by filing at the Department of State a Certificate of Authorization to Do Business containing the following information:

1. The name of the foreign corporation/LLC;
2. The name and jurisdiction in which the corporation/LLC was incorporated/organized;
3. The date of incorporation/organization and term of its existence;
4. Physical address of its principal office;
5. Physical and mailing addresses of its designated office in Puerto Rico;
6. The name of the resident agent and its physical and mailing addresses;
7. The names and addresses of its officers and directors/ members or managers;
8. A report of its assets and liabilities;
9. A description of the business to be carried out in Puerto Rico and a statement indicating that the corporation is authorized to carry out said business in its place of incorporation and whether its existence is perpetual, indefinite or terminates on a specific date; and
10. In the case of an LLC, the name and address of the person authorized to file the Certificate of Authorization to Do Business.

Together with the request, a certificate of existence (or other similar document) issued by the Secretary of State or other officer maintaining custody of the corporate register in the place of incorporation/organization must be included. If the certificate is in a foreign language, a translation with a sworn statement of the translator must accompany the request. A foreign corporation or LLC doing business in Puerto Rico without obtaining the certificate of authorization cannot initiate a court proceeding in Puerto Rico.

The following transactions do not constitute business transactions in the Commonwealth of Puerto Rico under the General Corporation Law;

- To claim, defend or settle any judicial proceeding
- Carry out meetings of the board of directors or of stockholders or other activities related to internal matters of the corporation
- Having bank accounts
- Maintaining agencies or offices for the transfer, exchange or registration of the corporation's securities or maintaining fiduciaries or depositors with respect to such securities
- Selling through independent contractors
- Soliciting or obtaining orders through the post office or through employees or agents or by other means if the acceptance of the orders outside of Puerto Rico takes place before the contractual obligation
- Creating or acquiring debts, mortgages, or guarantees on personal or real property
- Guaranteeing or collecting debts or execution of mortgages or guarantees on the properties being guaranteed
- Merely holding title of personal and real property
- Performing a single transaction that is completed during a 30-day term, provided that it is not one of a series of transactions of the same nature

- These provisions are not determinative of whether a corporation is engaged in the conduct of a trade or business in Puerto Rico under the Puerto Rico Internal Revenue Code
- Filing Fees

The fee for filing the authorization to do business in Puerto Rico for a corporation is USD 150. For limited liabilities companies the filing fee is USD 250.

REAL ESTATE WITHHOLDING TAX

The property tax system is administered by the Municipal Revenue Collection Center (MRCC). The tax on real property is directly assessed by the MRCC and may be paid in two instalments. The tax, (which varies from a minimum of 8.03% to a maximum of 11.83%, depending on the municipality) is applied to an amount based on the hypothetical fair market value (FMV) of the relevant property in the year 1957. In general terms, this hypothetical FMV normally ranges between 40% and 50% of the cost of the property.

B. DETERMINATION OF TAXABLE INCOME

The gross income of a corporation generally includes business income, profits from the sale of property, interest, dividends, and income derived from any source, unless specifically exempted by law.

A corporation's net income is generally calculated in accordance with the method used for financial statement purposes, except for various items of income and expenses, which are treated differently. For example, the cash method of accounting may not be used by a corporation with inventory or with an average annual gross income in excess of USD 1 million. Long-term contract methods and the instalment method can be used for regular tax calculations.

DEPRECIATION

A reasonable depreciation allowance is deductible for the exhaustion, wear and tear, and obsolescence of property used in business. The most common depreciation method used by corporations is the straight-line method. Nevertheless, any other consistent method may be used in lieu of the straight-line method as long as it is in accordance with the recognised trade practice. In addition, a corporation (other than one that is exempt under an Industrial Incentives Act) can elect an accelerated depreciation method for new or used tangible property acquired by purchase in taxable years commencing after 30 June 1995.

For property acquired after 31 December 2009, when using the straight-line depreciation method, the useful life has to be determined based on the same rules of accelerated depreciation.

For intangibles (other than goodwill) acquired or created after 1 September 2010, the deduction is calculated using the straight-line method over the lower of a useful life of 15 years or the intangible's useful life.

STOCK / INVENTORY

In general, inventory is valued at the lower of cost or market. Retail merchants can use the retail method of accounting.

CAPITAL GAINS AND LOSSES

See capital gains tax above.

DIVIDENDS

Dividends from a corporation that derives 20% or more of its profits from sources within Puerto Rico are taxable in Puerto Rico. However, a dividends-received deduction may apply.

Dividends-received deduction - All corporations engaged in trade or business in Puerto Rico are entitled to an 85% deduction on dividends received from a domestic corporation but not in excess of 85% of the net income of the corporation. A 100% dividends-received deduction applies for dividends received from taxable controlled domestic corporations (if ownership in a corporation is 80% or more).

INTEREST INCOME

Interest income is generally taxable, except interest from obligations of the federal government or any state, or territory, or political subdivisions; the District of Columbia; and the Commonwealth of Puerto Rico or any of its instrumentalities or political subdivisions.

ROYALTY INCOME

Royalties from property located in Puerto Rico or from any interest in such property are included in gross income.

PARTNERSHIP INCOME

The income (loss) of a partnership passes through to its partners so that the partnership itself is not subject to tax. Thus, each partner generally accounts for their distributive share of the partnership's taxable income (loss).

OTHER INCOME

Service fees are generally taxable as ordinary income.

INTEREST DEDUCTIONS

Interest expense is deductible without limitation. However, interest expenses related to exempt income are not deductible. If interest is paid to a non-Puerto Rico resident related party, a 29% withholding at source applies. If the 29% withholding is not withheld, no deduction is available.

LOSSES

All corporations are generally entitled to the Net operating losses (NOL) deduction in computing their tax. NOLs created from taxable years beginning prior to 31 December 2012 (and after 31 December 2004) may be carried forward for 12 taxable years (there are no carry-back provisions). For taxable years beginning after 31 December 2012, the NOL carry-forward period is ten years. The use of the NOL deduction is limited to 80% of the taxable income for the year. The NOL to be carried forward should exclude the deductible portion of the expenses or payments to foreign affiliates.

Also, losses from sales or exchanges of capital assets are allowed only to the extent of gains from such sales or exchanges. The carry-forward period in this instance, however, is seven years. The use of capital losses is limited to 80% of the capital gains for the taxable year.

FOREIGN SOURCE INCOME

Generally, a Puerto Rico domestic corporation is taxed on its worldwide income, including foreign income earned and foreign dividends when received. Double taxation is avoided by means of foreign tax credit or deduction. In the case of resident foreign corporations, these are only taxed on their Puerto Rico-source income and on their effectively connected Puerto Rico income (i.e. foreign income won't be taxable for Puerto Rico purposes).

TAX INCENTIVES

A corporation engaged in specific eligible activities may apply for a reduced CIT rate, among other incentives, through the request of a Tax Exemption Grant to the Puerto Rico Office of Industrial Tax Exemption (OITE) under Act No. 73 of 28 May 2008 (Act No. 73).

A corporation engaged in eligible activities related to the exportation of services may apply for a reduced CIT rate, among other incentives, through the request of a Tax Exemption Grant to OITE under Act No. 20 of 17 January 2012 (Act No. 20), instead of through Act No. 73.

Tax rate incentives

Under Act No. 73

Exempt entities may elect one of the following two scenarios:

- General scenario: 4% CIT rate with a WHT rate on royalty payments of 12%. Under this scenario, the amount of WHT on the royalty payments is creditable against the 4% CIT.
- Alternate scenario: 8% CIT rate with a WHT rate on royalty payments of 2%. Under this scenario, the WHT on royalty payments is creditable against the 8% CIT.

Companies may elect one of these scenarios at the time of applying for the benefits under the Act. However, there are other possibilities:

- 4% fixed income tax rate on Incentive Development Income (IDI), excluding income from certain investments provided by Section 2(j).

- Pioneer industries are eligible for a 1% CIT rate.
- Activities for the development in Puerto Rico of intangible property are eligible for a 0% CIT rate.
- Any exempt business having operations at a municipality located in a 'low or intermediate development zone' may reduce its CIT rate by an additional 5%.
- Any exempt business having operations in Vieques and Culebra may be totally exempt from income taxes during the first ten years of operations as established in the Act. The remaining years covered by its tax decree may qualify for a 2% CIT rate.

Under Act No. 20

- 4% CIT on export services income or
- 3% CIT when more than 90% of the eligible business's gross income is derived from export services and such services are considered strategic services, according to the criteria established in Act No. 20.

Special deductions

Special deductions under Act No. 73 are available for capital investment in buildings, structure, machinery and equipment, and the NOL carry-forwards. There are no special deductions allowed under Act No. 20.

Credits

The following credits are only available under Act No. 73. Please note that no credits are allowed under Act No. 20.

- ***Credit for purchases of Puerto Rico manufactured product***
  - Subject to certain limitations, the credit for purchases of products manufactured in Puerto Rico is 25% (35% in the case of recycled products).

- ***Job creation credit***
  - There is a credit for every incremental job applicable to exempt business starting operations after 1 July 2008. The amount of the credit (maximum of USD 5,000 per each employment) depends upon the location of the industrial development zone.

- ***Research and development (R&D) investment credit***
  - A 50% credit is granted for the eligible investment in R&D activities, including operational expenditures, clinical trials, infrastructure, renewable energy, or intellectual property (IP).
  - The 'Electricity, Water and Sewer Services Subsidies and Overdue Payments Reform Act' (Act No. 22) amends the 'Economic Incentives Act for the Development of Puerto Rico' (Act No. 73) in order to provide that existing businesses that hold a tax grant under Act No. 73 will not be allowed to claim R&D credits against an electric energy, water, and/or sewer services bill unless the PRTD certifies the availability of the credit.

- ***Energy investment credit***
  - A 50% credit is granted for the eligible investment in the acquisition of machinery and equipment for the creation of energy.

- ***Energy cost credit***
  - There is also a 3% credit (which could be increased up to 10% if certain employment requirements are met) for payments made to the Puerto Rico Power Authority during the corresponding taxable year. This credit is available for a ten-year period starting as of 1 July 2008. Additional credits (for the purpose of reducing the cost of energy) may be available to industrial units, subject to certain limitations. Act No. 22 of 2016 eliminates the energy credits to new applicants for tax grants under Act No. 73.

- ***Technology transfer credit***
  - A 12% credit (2% in the case of exempt businesses that opted for the alternate tax) is available for payments made to resident entities for the use or privilege of using intangible property in Puerto Rico.

- ***Strategic projects investment credit***
  - There is a 50% credit for eligible investment in strategic projects, including activities for the
  - design, development, and construction of dams.

- ***Industrial investment credit***
  - There is a 50% credit, up to a maximum of USD 8 million, for cash invested in the purchase of 50% or more of the stock or operating assets of an exempt business that is in the process of shutting down operations, amounts used to start-up a small or medium-exempt business, or amounts used for a substantial expansion of an exempt business.

Property tax incentives

Act No. 73 allows for a 90% property tax exemption on personal and real property. However, the Act No. 73 introduced a methodology for the classification and assessment of real property owned by the exempt businesses. Under the provisions of Act No. 73, a taxpayer can self-assess one's real property tax responsibility (similar to the current personal property tax system) and remit the related tax liability due along with a real property tax return (to be issued by the MRCC) by 15 May of each year. The selfappraisal method is only applicable to real property that has not been appraised by the MRCC and is mainly limited to machinery and equipment classified as real property. Note that this method is not available for assets such as land, buildings, and building equipment.

For purposes of Act No. 20, there is a 100% exemption from property taxes during the first five years of operations in the case of eligible services as call centres, management services, and shared services. After said five-year period, a 90% exemption will apply during the term remaining under the Tax Exemption Grant.

Municipal license tax and other municipal tax incentives

Under Act No. 73, the municipal license tax exemption continues at 60% for exempted businesses. Exempt businesses operating in Vieques or Culebra are 90% exempt; small or medium-exempt businesses are 75% exempt; and central or regional corporate headquarters providing managerial services to affiliated companies are 100% exempt during the first five years after becoming eligible for the exemption.

There are no municipal tax exemptions under Act No. 20.

Foreign tax credit

Generally, in any year, a taxpayer can choose whether to take as a credit (subject to limitation) or as a deduction the foreign income and excess profit taxes paid or accrued during the taxable year to any foreign country. A foreign tax credit reduces the Puerto Rico income tax liability dollar for dollar, while a deduction reduces the Puerto Rico income tax liability at the marginal rate of the taxpayer. There are no carry-forward provisions for foreign tax credit purposes.

C. FOREIGN TAX RELIEF

51% of expenses attributable to payments made to a related party that is not engaged in a trade or business in Puerto Rico or to the home office located outside of Puerto Rico (i.e. foreign affiliate) will not be deductible for purposes of computing the net taxable income, as long as these payments are not subject to income taxes in Puerto Rico.

The Secretary of the Treasury has the authority to grant a 100% deduction for the expenses paid or incurred with related parties not engaged in a trade or business in Puerto Rico via the waiver mechanism. However, the deduction is limited to 60% of the expenses that qualify for the waiver.

Expenses paid or incurred with related parties not engaged in a trade or business in Puerto Rico for which a waiver from the Secretary of the Treasury is not obtained do not generate NOL carry-forward (i.e. the expenses are added back to the NOL). In other words, the non-disallowed portion of the payments to foreign affiliates/branches will not be allowed if this particular portion causes a NOL.

D. CORPORATE GROUPS

Puerto Rico does not have group taxation rules. Corporations cannot file a consolidated return for Puerto Rico CIT purposes.

E. WITHHOLDING TAX

Corporations not engaged in a trade or business in Puerto Rico are subject to a 29% WHT at source on certain gross income items (considered fixed or determinable, annual or periodical [FDAP]) from Puerto Rico sources.

FDAP income may include interest received from a related person, rents, royalties, salaries, annuities, compensation, remuneration, and net capital gains. However, if the payment received is from dividends, a 10% WHT should apply.

The payer, as a withholding agent, is responsible for the withholding and remittance of the 29% (10% in the case of dividends) to the PRTD. Such tax is due on or before the 15th day of the month following the receipt of the income by the non-resident corporation. An annual informative return is also required to be filed no later than 15 April of the following year.

F. PERSONAL TAX

Puerto Rican residents are taxed in Puerto Rico on their worldwide income, no matter where the income is sourced. Puerto Rican non-residents are only taxed in Puerto Rico on their PR-source income. Income

for services performed is sourced to Puerto Rico based on where the services are performed. Such income is typically prorated to Puerto Rico based on workdays.

Puerto Rico has a ***de minimis*** rule to avoid sourcing to Puerto Rico very small amounts of income from personal services. Income from personal services performed within Puerto Rico will not be considered from Puerto Rican sources if it is USD 3,000 or less and the individual was present in Puerto Rico for 90 days or less during the calendar year.

The tax rates are as follows:

Net taxable income (USD)	Tax Payable (USD)
Not over 9,000	Nil
Over 9,000, but not over 25,000	7% of the excess over USD 9,000
Over 25,000, but not over 41,500	USD 1,120 plus 14% of the excess over USD 25,000
Over 41,500, but not over 61,500	USD 3,430 plus 25% of the excess over USD 41,500
Over 61,500	USD 8,430 plus 33% of the excess over USD 61,500

Gradual adjustment tax - If the individual's net taxable income exceeds USD 500,000, they will have to pay an additional tax (i.e. gradual adjustment tax). This tax is 5% of the excess of the total net taxable income over USD 500,000, limited to 33% of their personal and dependents' exemption plus USD 8,895.

Alternate basic tax (ABT) - In addition to the regular income tax, individuals are required to compute an ABT assessed in accordance to a previous established table. The ABT taxable income is computed by adding back certain income items exempt from regular income tax. All individuals with an ABT net taxable income of USD 150,000 or more will need to calculate the ABT.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

There are no tax treaties between foreign countries and Puerto Rico.

QATAR

MEMBER FIRM

City	Name	Contact Information
Doha	Walid Saadi	+974 4493 5196 walid.saadi@pkf.com.qa

BASIC FACTS

Full name:	State of Qatar
Capital:	Doha
Main language:	Arabic, English
Population:	2.68 million (2018 estimate)
Monetary unit:	Qatari Riyal (QAR)
Internet domain:	.qa
Int. dialling code:	+974

KEY TAX POINTS

- An annual tax shall be imposed on the taxpayer's taxable income derived from sources in the State during the previous taxable year. A flat 10% rate applies.
- There is no sales tax, estate tax or gift tax in Qatar.
- Subject to the provisions of tax agreements, payments made to non-residents with respect to
- activities not connected with a permanent establishment in the State shall be subject to a final withholding tax of 5% or 7%.
- There are no personal taxes, social insurance or other statutory deductions from salaries and wages paid in Qatar. However, income arising from business activities (rent from property, consulting, etc.) is taxable.

A. TAXES PAYABLE

COMPANY TAX

The income tax system and filing procedure in Qatar is covered by Law No. 21 of 2009. An annual tax shall be imposed on the taxpayer's taxable income derived from sources in the State during the previous taxable year. Notwithstanding the provisions of the previous paragraph, the tax shall be imposed on:

(1) Bank interest and returns realised outside the State provided that they are derived from amounts resulting from the activity of the taxpayer in the State; and,

(2) Commissions due under agency, brokerage or commercial representation agreements accrued outside the State in respect of activities carried on in the State.

Income derived from the State shall include

(1) Gross income derived from an activity carried on in the State;

(2) Gross income derived from contracts wholly or partly performed in the State;

(3) Gross income from real estate situated in the State including the sale of shares in companies or partnerships the assets of which consist mainly of real estate situated in the State;

(4) Gross income from shares in companies resident in the State or listed on its stock markets;

(5) Consideration for services paid to head offices, branches or related companies;

(6) Interest on loans obtained in the State;

(7) Gross income from the exploration, extraction or exploitation of natural resources situated in the State; and,

(8) Gross income subject to tax in the State under a double taxation agreement.

TAX EXEMPTIONS

Notwithstanding other tax exemptions provided for under special laws or international agreements or under the provisions of Articles 51 to 56 of the tax law No. 21 of 2009, the following items of income shall be exempt from tax:

(1) Bank interest and returns due to natural persons other than those carrying on a taxable activity in the State, whether or not resident in the State;

(2) Interest and returns on public treasury bonds, development bonds and public corporation bonds;

(3) Capital gains on the disposal of real estate and securities derived by natural persons provided that the real estate and securities disposed of are not part of the assets of a taxable activity;

(4) Dividends and other income from shares if the amounts distributed during a taxable year were taken from profits that were:
   (a) Subject to the tax under this law; or,
   (b) Distributed by a company the income of which is exempt from tax under this law or other laws;

(5) Gross income from handcraft activities that do not use machines provided that the gross income does not exceed QAR 100,000 per year, the average number of employees does not exceed three during the taxable year and the activity is carried on in one single establishment, in accordance with the limits and conditions provided for in the executive regulations of this law;

(6) Gross income from agricultural and fishing activities;

(7) Gross income of non-Qatari air and sea transport companies operating in the State, subject to reciprocity;

(8) Gross income of Qatari natural persons resident in the State, including their shares in the profits of legal persons;

(9) Gross income of legal persons resident in the State and wholly owned by Qatari nationals.

ACCOUTING PERIOD

The accounting period of a taxpayer who carries on an activity shall be the taxable year. However, the taxpayer may, after obtaining the approval of the Department, adopt an accounting period that is different from the taxable year in accordance with the provisions of the executive regulations of this law. The accounting period of a taxpayer shall be 12 months, subject to the following:

(1) Where the taxpayer starts the activity after the beginning of the taxable year, the accounting period shall start from the date of the beginning of the activity.

(2) The first accounting period may not be less than six months nor more than 18 months. In all cases, the tax shall be calculated on the taxable income of the actual accounting period.

(3) Where the activity is liquidated, the accounting period shall run from the end of the previous accounting period until the end of liquidation.

(4) Where the activity is ceased, assigned or sold, the accounting period shall run from the end of the previous accounting period until the date of cessation, assignment or sale.

(5) Where the taxpayer carries on a temporary activity the period of which does not exceed 18 months, the accounting period shall be the period of activity.

The taxpayer shall determine the taxable income on the basis of the accruals accounting method used in commercial accounting in accordance with international accounting standards, and subject to the provisions of this law and its executive regulations. The taxpayer may not use another method of accounting, except upon the approval of the Department.

OTHER TAXES

There is no sales tax, estate tax or gift tax in Qatar.

B. DETERMINATION OF TAXABLE INCOME

Taxable income shall be determined on the basis of the gross income derived from all transactions carried out by the taxpayer after subtracting allowable deductions and losses provided for in Article 10 of the tax law No. 21 of 2009. Allowable deductions mean expenses and costs incurred by the taxpayer that satisfy the following requirements:

(1) They are necessary to derive the gross income;

(2) They are actually incurred and supported by documentary evidence;

(3) They do not increase the value of fixed assets used in the activity;

(4) They are related to the taxable year.

Allowable deductions include mainly the following, in accordance the Executive Regulations of the Tax Law No. 21 of 2009:

(1) Costs of raw materials, consumables and services required for carrying on the activity;

(2) Interest on loans used in the activity;

(3) Salaries, wages, end of services benefits and similar payments including contributions to set up retirement pensions or end of service payments or contributions to investment funds for the employees;

(4) Rents;

(5) Insurance premiums;

(6) Bad debts;

(7) Provisions set up by banks for doubtful debts and by insurance companies for risks covered up to 10% of the net income before making this deduction and the other deductions provided below;

(8) Depreciation of fixed assets;

(9) Donations, gifts, aids and subscriptions to charitable, humanitarian, scientific, cultural or sporting activities paid in the State to governmental authorities, public bodies or institutions or any other authorized body in the State, provided that their value does not exceed (5%) five percent of the net income before making this deduction and the deduction provided below;

(10) Taxes and duties other than the income tax provided for in this law.

Notwithstanding the provisions of the previous paragraph, persons carrying on a liberal profession may opt to deduct 30% of their gross income in lieu of all their deductible expenses and costs. The following expenses and costs may not be deducted:

(1) Expenses and costs incurred to derive exempt income;

(2) Payments that are made in breach of the laws of the State;

(3) Fines and penalties for the breach of the laws of the State;

(4) Expenditures or losses in respect of which compensation is receivable or has been received if that compensation has not been included in the taxpayer's gross income;

(5) The share of total expenditures on entertainment, hotel accommodation, restaurant meals, vacations, club fees and gifts to customers, in accordance with the circumstances, conditions and limits provided for in the Executive Regulations of this law;

(6) Salaries, wages and similar remuneration including fringe benefits paid to the owner, his/her spouse and children, members of a general or limited partnership or the director of a limited liability company who owns, directly or indirectly, the majority of the shares of the company;

(7) The share of the branch in the headquarters' or head office's general and administrative expenses that exceeds the percentage determined in the executive regulations of this law;

(8) Any other disallowed deduction pursuant to the provisions of this law.

The taxpayer may deduct losses incurred during a taxable year from the net income of subsequent years, subject to the following:

(1) Losses may not be carried forward for more than three years as of the end of the taxable year during which they are incurred;

(2) Losses resulting from an exempt or non-taxable source of income may not be deducted.

DEPRECIATION OF ASSETS

The following rules shall be taken into consideration when computing the depreciation of assets:

(1) The cost of asset under depreciation: The cost of asset means all the expenses incurred by the tax-payer in order to acquire the asset and to prepare it to become usable;

(2) The method of depreciation: The fixed instalment method shall be followed in determining the charge, of annual depreciation for the asset according to the rates stated in the following paragraph;

(3) Depreciation rates: The depreciation is calculated as a result of use or ordinary damage arising from the use of asset or by lapse of time in accordance with the specific rates of the following table:

Buildings such as offices, houses, warehouses, hospitals and clubs	5%
Roads and bridges inside the establishment	5%
Storage tanks, pipelines and ports' ducks	5%
Furniture and office furniture	15%

Plants, machinery and any mechanical devices not mentioned below	15%
Cars and motorcycles	20%
Lorries – various sizes	20%
Ships	7.5 %
Airplanes	25%
Drilling instruments	15%
General service machinery (including building and road tools, workshop machinery and work machinery, etc.)	15%
Buildings and roads of service stations	5%
Machinery for servicing and lubrication of service machinery	15%
Trailers and carts	13%
Refinery machines and pipelines (inside the refinery) and small tanks	10%
Air conditioners	20%
Electrical equipment	20%
Computer equipment	33.33%
Intangible assets such as trademarks and the like, depreciated in case of paying for its value on a straight line basis over the estimated duration of the company.	-

HEAD OFFICE CHARGES

Charges of a general or administrative nature raised by a head office on its Qatar branch are allowed as a deduction subject to a ceiling of 3% of turnover less subcontract costs. In the case of banks, the limit is 1%. The allowable ceiling for insurance companies is set at 1%.

TAX RATE

The tax rate shall be 10% of the taxable income of the taxpayer during the taxable year. Notwithstanding the provisions of the previous paragraph, the tax rate shall be as follows:

(a) The rate of tax provided for in agreements to which the Government, the Ministries or other governmental bodies or public bodies or enterprises are a party, which are concluded before the entry into force of this law, shall apply. If such agreements do not specify a tax rate, the tax shall be levied at the rate of 35%.

(b) The tax rate and all other tax conditions provided for in agreements relating to oil operations as defined in Law No. 3 of the year 2007 concerning the exploitation of natural wealth and their resources shall apply provided that, in all cases, the tax rate shall not be less than 35%.

C. WITHHOLDING TAX

Subject to the provisions of double tax treaties, payments made to non-residents with respect to activities not connected with a permanent establishment in the State shall be subject to a final withholding tax, as follows:

- 5% of the gross amount of royalties and technical fees;
- 7% of the gross amount of interest, com missions, brokerage fees, director's fees, attendance fees and any other payments for services carried out wholly or partly in the State.

D. PERSONAL TAX

There are no personal taxes, social insurance or other statutory deductions from salaries and wages paid in Qatar. However, income arising from business activities (rent from property, consulting, etc) is taxable.

E. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends%		Interest[1] (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies[2](%)		
Non-treaty countries				
Companies	0[21]	0[21]	7	[5]
Individuals	0[21]	--	7	[5]
Treaty countries:				
Algeria	0	0	0	5
Armenia	10	5[1]	5	5
Austria	0	0	0	5
Azerbaijan	7	7	7	5
Barbados	0	0	0	5
Belarus	5	5	5	5
Brunei	0	0	0	5
Bulgaria	0	0	3	5
China (People's Rep.)	10	10	10	10
Croatia	0	0	0	10
Cuba	10	5[2]	10	5
Cyprus	0	0	0	5
France	0	0	0	0
Georgia	0	0	0	0
Greece	5	5	5	5
Guernsey	0	0	0	5
Hong Kong	0	0	0	5
Hungary	0	5	0	5
India	10	5[3]	10	10
Indonesia	10	10	10	5
Iran	7.5	5[4]	10	5
Ireland	0	0	0	5
Isle of Man	0	0	0	5
Italy	15	5[5]	5	5
Japan	10	5[6]	0/10	5
Jersey	0	0	0	5
Jordan	10	10	5	10
Korea (Rep.)	10	10	10	5
Kyrgyzstan	0	0	0	5
Latvia	0/5	0	0/5	5

Lebanon	0	0	0	0
Luxembourg	5/10	0	0	5
Macedonia (FYR)	0	0	0	5
Malaysia	10	5[7]	5	8
Malta	0	0	0	5
Mauritius	0	0	0	5
Mexico	0	0	5/10	10
Monaco	0	0	0	5
Morocco	10	5	10	10
Nepal	10	10	10	15
Netherlands	10	0[8]	0	5
Norway	15	5[9]	0	5
Pakistan	10	5[10]	10	10
Panama	6	0[11]/6	6	6
Philippines	15	10[12]	10	15
Poland	5	5	5	5
Portugal	10	5[13]	10	10
Romania	3	3	3	5
Russia	5	5	5	0
Senegal	__[20]	__[20]	__[20]	__[20]
Serbia	10	5[2]	10	10
Seychelles	0	0	0	5
Singapore	0	0	5	10
Slovenia	5	5	5	5
South Africa	10	5[10]	10	5
Spain[14]	5	0[15]	0	0
Sri Lanka	10	10	10	10
Sudan	__[20]	__[20]	__[20]	__[20]
Switzerland	15/10[16]	0/5[16]	0	0
Syria	5	5	10	18
Tunisia	0	0	–	5
Turkey	15	10[17]	10	10
United Kingdom	0/15[18]	0/15[18]	0	5
Venezuela	10	5[9]	5	5
Vietnam	12.5	5[19]	10	5/10
Yemen	0	0	0	9

Notes:

1. The 5% rate applies whenever the invested capital exceeds 100,000 USD.
2. The 5% rate applies if the beneficial owner is a company (other than a partnership) which owns directly at least 25% of the capital of the dividend-paying company.
3. The 5% rate applies if the beneficial owner is a company which owns at least 10% of the shares of the dividendpaying company.
4. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 20% of the capital of the dividend-paying company.
5. The 5% rate applies if the beneficial owner is a company (other than a partnership) which has owned directly or indirectly at least 25% of the capital of the dividend-paying company for a period of at least 12 months preceding the date the dividends were declared.
6. The 5% rate applies if the beneficial owner is a company that has owned directly or indirectly for the period of 6 months ending on the date on which entitlement to the dividends is determined, at least 10% of the voting power of the total issued shares of the dividend-paying company.
7. The 5% rate applies if the beneficial owner is an individual or a company (other than a partnership) which holds directly at least 10% of the capital of the dividend-paying company.
8. The 0% rate applies if the beneficial owner is a company the capital of which is wholly or partly divided into shares and which holds directly at least 7.5% of the capital of the dividend-paying company.
9. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the dividend-paying company.
10. The 5% rate applies if the beneficial owner is a company which holds at least 10% of the capital of the dividendpaying company.
11. The 0% rate applies if the beneficial owner is the other state itself, a political subdivision, a local authority, or the Central Bank thereof, a pension fund, an Investment Authority or any other institution or fund, which is recognized as an integral part of that State, political subdivision or local authority, as shall be agreed by mutual agreement of the competent authorities of the Contracting States.
12. The 10% rate applies if the beneficial owner is a company (excluding partnerships) which holds directly at least 10% of the capital of the dividend-paying company.
13. The 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the dividend-paying company or if the beneficial owner is the Portuguese state, a political or administrative subdivision or a local authority thereof, or the Portuguese central bank.
14. Effective from 1 January 2019 (income taxes) and 6 February 2018 (other tax matters).
15. The 0% rate applies if (i) the beneficial owner is a company which holds directly at least 10% of the capital of the dividend-paying company or if (ii) the beneficial owner is the other state, a political subdivision, a local authority or a statutory body thereof or an entity wholly owned by that state or authority, including, in the case of Qatar, Qatar Investment Authority and Qatar Holding, provided that such state, authority or entity holds directly at least 5% of the capital of the dividend-paying company or if (iii) the dividends are paid by a company the shares of which are substantially and regularly traded on a stock exchange of a state and the beneficial owner is a resident of the other state that holds directly at least 1% of the capital of the dividend-paying company.
16. The 5% rate applies if the beneficial owner is a company which holds directly at least 10% of the capital of the dividend-paying company. The 10% rate applies if the beneficial owner is an individual which holds directly at least 10% of the capital of the dividend-paying company. The 0% rate applies if the beneficial owner is the other state itself, a political subdivision, a local authority, or the Central Bank thereof, a pension fund, an Investment Authority or any other institution or fund, which is recognized as an integral part of that State, political subdivision or local authority, as shall be agreed by mutual agreement of the competent authorities of the Contracting States.
17. The 10% rate applies if the beneficial owner is a company (excluding partnerships) which holds directly at least 25% of the capital of the dividend-paying company.
18. The 15% rate applies to dividends distributed by Real Estate Investment Trusts, except where the beneficial owner is a pension scheme, in which case the 0% rate applies.
19. The 5% rate applies if the beneficial owner is a company which holds directly or indirectly at least 50% of the capital of the dividend-paying company or has invested more than 10 million USD in the capital of the dividendpaying company.

20. There is no limitation under the treaty, the domestic tax rate applies.
21. Dividends paid to non-resident companies are not taxed when paid out of profits that were subject to tax or that are exempt from tax under a Qatari law.

ROMANIA

MEMBER FIRM

City	Name	Contact Information
Bucharest	Florentina Susnea	+40 21317 3190 florentina.susnea@pkffinconta.ro
Timisoara	Carmen Mataragiu	+40 25620 1175 carmen.mataragiu@econometrica.pkf.ro

BASIC FACTS

Full name:	Romania
Capital:	Bucharest
Main language:	Romanian
Population:	19.6 million (2018 estimate)
Monetary unit:	New Romanian Leu (RON) / Euro (EUR)
Internet domain:	.ro
Int. dialling code:	+40

KEY TAX POINTS

- Corporate income taxes are chargeable on resident companies as well as non-resident companies with a permanent establishment in Romania. Capital gains are generally treated as ordinary business income and taxed accordingly.
- Residents and non-residents owning more than one building are subject to real estate tax.
- Dividends paid to non-resident companies are subject to withholding tax, subject to some exceptions. Generally dividends paid by resident companies to other resident companies are tax exempt.
- Transactions between legally related parties are subject to arm's length requirements for tax purposes. Starting from 2016 proper transfer pricing documentation is mandatory for large taxpayers.
- There is no concept of group tax relief. Profits and losses cannot be transferred between related parties.
- The standard VAT rate is 19% with effect from 1 January 2017, while also reduced rates of 9% and 5% apply to certain goods and services.
- Residents, and certain non-residents are subject to individual income tax on their worldwide income and capital gains.

A. TAXES PAYABLE

NATIONAL AND OTHER TAXES

COMPANY TAX

The following entities are subject to corporate income tax in Romania:

- Legal entities registered in accordance with Romanian law;
- Foreign legal entities doing business in Romanian through permanent establishments;
- Foreign legal entities which derive income from or in connection with real estate transactions or from transactions with participations in Romanian legal entities;

- Foreign legal entities and individuals doing business in Romania through associations with or without legal personality (partnerships);
- Resident individuals associated with Romanian legal entities for revenues derived in or outside
- Romania, through associations without legal personality, for which the individual tax is determined, withheld and paid by the Romanian legal entity;
- Companies with a registered office in Romania incorporated in accordance with EU legislation.

Romanian residency is determined based on the location of the head office or place of effective management. The standard corporate income tax rate is 16%, payable quarterly up to the 25th of the following month with a final adjustment for the year end. The final corporate income tax statement and afferent payment is due by March 25th of the following year. However, certain categories of corporate income taxpayers are required to deposit the statement and pay the final tax by 25 February of the following year.

Resident banks, credit institutions and other similar legal entities as well as Romanian branches of foreign-based banks are liable for quarterly advance payments of the annually determined corporate income tax.

Starting 1 January 2017 all income derived from hotel and restaurant businesses is taxed according to a specific tax regime based on different indicators such as the town rank where the unit is established, its surface and its seasonality coefficient, irrespective of whether a profit is registered or not. This particular system replaces the regularly applicable corporate income tax regime.

Another applicable taxation regime is for micro-companies, i.e. entities that meet the following conditions:

- they have generated income of up to 1,000,000 EUR during the past tax year;
- they are privately owned; and

Depending on whether the company has at least one full time employee, the flat income tax rate applicable to generated turnover can be at either 1% (1 or more employees) or 3% (no employees).

The tax year coincides with the calendar year. The law allows for motivated changes in respect to a company's tax year provided they are affiliates of a non-resident company applying a different tax year than the calendar one (i.e. to follow the same regime as the parent company).

Companies may choose an annual corporate income tax system whereby quarterly payments are also required. This system must be applied for at least two consecutive years once adopted and a prior notification to the tax authorities is mandatory. However, some categories are exempted from the application of these provisions, namely:

- Newly established companies;
- that have registered a tax loss in the previous year;
- that been temporarily suspended;
- that have had no activity either at the registered or at the subsidiary office; and
- that have been registered as a micro-company.

BRANCH PROFIT TAX

Foreign entities are generally subject to income tax in Romania, provided that the income was derived from Romania. This is determined based on the type of activities it has undertaken in Romania and whether they are indeed related to Romania. Income derived from Romanian established branches, permanent establishments or representative offices of foreign entities shall also be subject to Romanian corporate income tax.

Branches have to be registered with the Romanian tax authorities. The registration, filing and payment requirements are similar to those imposed on a Romanian company. A distribution of funds to the head office is not treated as a dividend distribution and no withholding tax liability should arise (no branch remittance tax). However, profits are transferred at year-end, after the head office approves the financial statements of the branch. The taxable profits of the branch are subject to general Romanian tax rules, provided that the following conditions are met:

- Taxable income shall consist only of that income which can be assigned to the branch;
- Expenses deducted shall consist only of those expenses incurred in relation to the branch's activity.

A permanent establishment is not necessarily a legal entity but is taxable in Romania. The income obtained by a permanent establishment is taxable in Romania, provided that it is recognized as the place through which the activity of a non-resident is conducted, fully or partially, directly or through a dependent agent. Once a permanent establishment is created, the profits of the foreign enterprise derived from the activity performed by the permanent establishment may be taxed in Romania.

A representative office may only conduct auxiliary or preparatory activities. A representative office cannot trade in its own name and cannot engage in any commercial activity. Any representative office registered in Romania is subject to a RON 18,000 yearly tax, payable in RON at the exchange rate announced for the payment date. The payment of rep office tax has been changed from two instalments to a single instalment, which is due by the end of February of the tax year.

VALUE ADDED TAX (VAT)

Companies with an annual turnover of at least EUR 65,000 (calculated at the 1 January 2007 exchange rate) must register for VAT purposes. Companies with a turnover below this threshold may register upon request.

The general VAT rate is 19%, while a 9% VAT rate is applicable to various goods and services such as:

- Food including non-alcoholic beverages destined for human as well as for animal consumption;
- Restaurants and catering services;
- Medicine and certain medical products such as prosthetics;
- Hotel, camping and other assimilated services.

Additionally, a 5% VAT rate is applied to:

- The sale of property carried out as a part of the country's social policy;
- Books, newspapers and magazines, school books;
- Cinema tickets and other entertainment services.

A VAT split payment mechanism has entered into force since the beginning of October 2017. VAT taxable persons have to use a distinct bank account for cashing and payments representing VAT. With effect from 1 January 2018 the VAT split payment system has been amended. The split system is mandatory only for public and private companies under insolvency or that have VAT liabilities to pay. VAT-registered persons that meet one of the following criteria are required to open and use at least one VAT account:

- As of 31 December 2017, taxpayers with outstanding VAT liabilities exceeding RON 15,000 (large taxpayers), RON 10,000 (mid-sized taxpayers), or RON 5,000 (small-sized companies and individuals), if they are not paid by 31 January 2018;
- As a result, operators having registered liabilities exceeding the abovementioned thresholds as per 31 December 2017 and not paying VAT due by 31 January 2018 will fall under the scope of the split system with effect from 1 March 2018.
- With effect from 1 January 2018 taxpayers with outstanding VAT liabilities exceeding 60 working days as of the due date of more than RON 15,000 (large taxpayers), RON 10,000 (mid-sized taxpayers), RON 5,000 (small companies and individuals).

The VAT split system can be applied optionally by other companies (not covered by the aforementioned criteria). Taxable persons who opt for the application of the VAT split payment system after 1 January 2018 will be granted a 5% reduction on the tax on profit/income of microenterprises for the entire period in which they apply the scheme.

The new VAT method does not change any existing VAT rules. Companies that apply the VAT system will have to use different bank account in respect of receipts and payments of VAT. VAT accounts will be opened, by default, with the various treasury units within the tax offices where taxpayers are registered. However, any taxpayer can opt to open an account with a commercial bank.

As from 1 January 2010, Romania has transposed various EU VAT directives into its domestic law, namely:

- 2008/8/CE Directive regarding the place of supply of services (B2B and B2C rules);
- 2008/9/CE Directive regarding VAT reimbursement for individuals established in the EU;
- 2008/117/CE Directive regarding the fight against tax fraud related to community operations.

In addition to the abovementioned changes, certain amendments have been made to allow for the harmonization of Romanian legislation with the EU VAT Directives, such as:

- A clarification of the definition 'established in Romania' in the sense of 'fixed establishment';
- Rules regarding the chargeability of VAT for consignment stock, goods supplied for testing and conformity checking, call of stock and supply of immovable property;
- Turnover for small enterprises includes the operations for which the place of taxation is deemed to be abroad (provided the tax would be deemed as deductible should the operations be performed in Romania).

The provisions of 2010/45/CE directive regarding invoicing have also been transposed.

The import of goods is subject to VAT at the standard rate while all exports are VAT exempted.

The VAT cash accounting system has undergone significant changes in the sense that it is no longer mandatory for companies to register a turnover of under RON 2,250,000 (approximately EUR 500,000), but optional for all those complying with the conditions imposed by the law. However, nonresident taxpayers are not eligible to apply for this system.

FRINGE BENEFITS

Under Romanian tax law fringe benefits are benefits received by employees under their employment contract, if any. Benefits in kind or cash must be taxed along with the salary income at the same time they have been granted by the employer. The income tax rate is 16% and subject to withholding by the income payer.

LOCAL TAXES

The Tax Code sets Romanian local taxes at a maximum percentage, applicable to both individuals and legal entities. Non-resident individuals are granted the right to own land in Romania.

BUILDING TAX

Residents or non-residents owning one or more properties in Romania are subject to real estate tax. All buildings, regardless of their purpose are taxed based on declared value (which for buildings destined for the use of all economic activities shall be determined periodically by an authorized appraiser). Tax rates for buildings differ depending on their destination (residential, mixed or business) at rates ranging from 0.08% to 2% per year as set by local council decree. Building tax exemptions are granted for limited periods to those owners performing architectural improvement work on buildings.

LAND TAX

Land tax is due at a fixed rate per hectare owned, depending on the location of the land within a certain determined area and depending on the use of the land. The tax is payable annually in equal instalments.

VEHICLE TAX

Vehicle tax is payable by owners of both land/water vehicles registered in Romania. The tax depends on the capacity of the engine and is determined as a fixed amount per 200 cubic centimetres. The tax is payable annually in equal instalments.

Other local taxes and duties include fees for certificate and permit issuing, for using advertising and publicity material.

OTHER TAXES

Local Councils and County councils may charge duties for the temporary use of public spaces as well as for entrance to museums, memorial houses or historical, architectural or archaeological monuments. Duties are also payable for the possession or use of certain special purpose constructions or assets, as well as for activities impacting the environment.

The Waste Directive 2008/98/CE has been implemented in Romanian legislation starting 2005 giving rise to environment tax for producers and distributors of goods damaging to the environment as well as packaged goods.

EXCISE DUTY

Excise duty is due at a fixed amount per unit or as a percentage of a specified taxable base. Romania has imposes excise duties on among others: beer, wine, fermented beverages other than beer and wine, intermediate products, ethylic alcohol, tobacco products, energy products and electricity.

Excise duty legislation is in line with EU Directive 2008/118/CE concerning the general arrangements for excise duty.

SOCIAL SECURITY CONTRIBUTIONS

Romania's government approved legislation that shifts nearly all employer social security contributions to employees as of 1 January 2018. The flat, personal income tax rate will be reduced to 10% to offset the increase, but the overall result will be a reduction in net pay for employees at current rates of gross pay.

- The total employer/employee social security contribution rate will decline by two percentage points (from 39.25% to 37.25%).

- The new employee social security contribution rate will be 35%, comprised of a general 25% rate and 10% health insurance contribution.
- Employer social security contributions will largely be eliminated. Employers will be subject only to a 2.25% labour insurance contribution. Employers may also be subject to additional pension contributions of 4% or 8% for employees subject to specific work conditions.
- The personal income tax rate will decrease from 16% to 10%.

The result will be an increase in the overall tax burden on employees from income and social security taxes from 32.5% (16% plus 16.5%, respectively) to 45% (35% plus 10%). Social security contributions for employers will decrease from 22.75% to 2.25% of total payroll.

B. DETERMINING THE TAXABLE INCOME

DEPRECIATION

Romanian tax legislation makes a specific distinction between accounting and tax depreciation. For fixed assets, tax depreciation is calculated based on rules set out by local tax legislation and deductibility no longer depends on the depreciation determined by accounting rules only. The straight line method is generally preferred by tax legislation, but in certain conditions the declining balance method may also be used. Under the accelerated method, the maximum depreciation in the first year of use is limited to 50% of the asset value.

STOCK / INVENTORY

Inventory must be valued according to generally accepted accounting principles at the lower of cost or market value.

CAPITAL GAINS AND LOSSES

Taxable capital gains are included in taxable income and taxed at the normal rate. Income earned by non-residents from the sale of real estate located in Romania is also taxed at the general corporate income tax rate of 16%.

DIVIDENDS

Dividends paid to resident companies are subject to a final withholding tax of 5%, except where the company receiving the dividends holds at least 10% of the shares for a period of minimum 1 year at the date the dividend is paid.

Dividends paid to non-resident companies are tax-exempt provided that the actual beneficiary of the dividends holds a minimum of 10% of the shares of the Romanian company for an entire year prior to dividend payment. If the one year term is not fulfilled at the date the dividends are paid, the beneficiary can still request the reimbursement of the paid dividend tax after the term is fulfilled.

INTEREST DEDUCTIONS

Thin capitalization rules applicable to the deductibility of interest expenses have been replaced by new rules as of 1 January 2018. The limitation applies to the deductibility of debt related costs, which are defined as having a very wide meaning so as to cover a wide range of costs related to financing. Excess debt related costs, calculated as the difference between debt related costs and income from interest and other equivalent income incurred in a tax period exceeding the equivalent in RON of 200,000 EUR, can be considered deductible for corporate income tax purposes only within the limit of 10% of the following calculation base: gross accounting profit including corporate income tax payable minus nontaxable revenue plus excess debt related costs and tax depreciation. If the tax base described above is zero or negative, the excess debt related costs are treated as non-deductible for corporate tax purposes during the current tax period, but can be carried forward indefinitely.

LOSSES

Ordinary losses incurred after 1 January 2009 can be carried forward for seven years.

FOREIGN SOURCED INCOME

Resident companies are subject to tax on their worldwide income. Foreign losses may be deducted only from foreign income on a source-by-source basis. Foreign exchange gains from the revaluation of an asset or liability at year-end are deemed to be realized and are taxable.

C. FOREIGN TAX RELIEF

In the absence of a double tax treaty, unilateral relief is provided by way of an ordinary credit for income taxes paid abroad. This credit may not exceed the tax owed in Romania on the same income.

D. CORPORATE GROUPS

There is no consolidation or group taxation in Romania. Members of a group must file separate tax returns. Losses incurred by members of a group cannot be offset against profits made by other group members.

E. RELATED PARTY TRANSACTIONS

Transactions between related parties should fall under the arm's length principle, otherwise the Romanian tax authorities have the right to adjust the income or expenses incurred by the taxpayer in order to reflect market value. Traditional transfer pricing methods as well as any other methods which are in line with OECD Guidelines may be used for setting transfer prices. Starting 1 January 2016 transfer pricing files have become mandatory for large and medium sized companies undertaking operations with related parties exceeding certain thresholds, namely:

a) Yearly for large companies registering related party transactions of:
   - EUR 200,000 for interest received/paid for financial services;
   - EUR 250,000 for services received/rendered;
   - EUR 350,000 euro for transactions concerning the acquisition/sale of tangible or intangible assets.

b) Upon request during tax audits for large and medium sized companies registering related party transactions of:
   - EUR 50,000 euro for interest received/paid for financial services;
   - EUR 50,000 euro for services received/rendered;
   - EUR 100,000 euro for transactions concerning the acquisition/sale of tangible or intangible assets.

Tax legislation also requires that all other medium sized and large companies registering related party transactions which did not total the abovementioned values within a year, should maintain proper documentation attesting to the fact that the arm's length principle was adhered to.

F. WITHHOLDING TAX

As a general rule, non-resident companies are subject to 16% withholding tax on income derived from Romania such as interest, royalties and revenue derived from liquidation of a Romanian legal entity. The applicable tax rate for interest and royalties is 16% unless a lower tax treaty rate applies.

A 5% flat tax is withheld as dividend tax, except where a lower tax is provided by a tax treaty. In order for the latter to apply, all non-resident taxpayers must provide a tax residency certificate.

G. EXCHANGE CONTROL

The Romanian National Bank manages the exchange control regulations applicable in Romania. A notification to the Romanian National Bank is required 10 days prior to concluding monetary capital operations on a short-time basis, and some limitations to such transactions apply.

H. PERSONAL TAX

The following categories of taxpayers are subject to personal income tax:

a) Resident individuals, namely any person who meets at least one of the following conditions:
   - Has an address located in Romania;
   - The center of his vital interests is located in Romania;
   - He resides in Romania for more than 183 days in any 12-month period;

b) Non-resident individuals who perform an independent activity through a permanent establishment in Romania;

c) Non-resident individuals who perform dependent activities in Romania;

d) Non-resident individuals who obtain other income from Romania.

INDIVIDUAL SOCIAL CONTRIBUTIONS

Individuals obtaining revenue from independent activities (including intellectual property rights), agricultural activities and associations without legal personality are considered to be taxpayers to the public pension insurance and public health insurance systems. The general applicable individual social contributions are:

- Social insurance contribution: 25%;
- Health insurance contribution: 10%.

However, effective from 2018, the calculation basis of the above mentioned contributions within a tax year are limited to the equivalent of 12 minimum basic salaries.

Individuals who carry out independent activities from one or more sources of income are required to pay a CAS pension if they meet one of the following criteria:

- The net income realized in 2017, excluding social security contributions, in relation to the number of months of activity during the year, is at least equal to the minimum basic salary;
- The estimated net monthly income to be achieved is at least equal to the minimum gross salary per country in force in the month in which they start their activity;
- In the case of taxpayers earning intellectual property rights, the net monthly income earned in the previous year, remaining after the deduction of deductible expenses (40% of gross income), in relation to the number of months of activity during the year, is at least equal to the minimum basic salary in the country in force in January of the year for which the contribution is established.

The monthly basis for calculating the social security contributions for persons who earn income from independent activities is the income chosen by the taxpayer, which cannot be lower than the minimum basic salary.

Individuals who carry out independent activities owe the health insurance contribution provided they achieve annual cumulative income equal to at least 12 basic minimum salaries from one or more sources of income:

- Net income from independent activities;
- Income from association with a legal person;
- Net proceeds from the disposal of the use of the goods;
- Investment income;
- Net income from agricultural activities, forestry and fish farming;
- Gross income from other sources, defined according to the Tax Code.

The basis for calculating the social health insurance contribution due by self-employed individuals is the minimum basic salary.

Tax on income derived from self-employment represents:

- 10% of net income, which is calculated as the difference between the income received and the deductible expenses incurred during the fiscal year; or
- 10% of the income rule.

TAX RESIDENCY

In the absence of a tax residency certificate, regardless of the existence of a tax treaty between two states, foreign citizens will be taxed as Romanian residents if one of the following criteria is met:

- The centre of their vital interests is located in Romania;
- They spend more than 183 aggregate days in Romania within 12 consecutive months ending in the concerned calendar year.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

The rates in the table below contain the withholding tax rates applicable to dividend, interest and royalty payments by Romanian companies to non-residents under the double tax treaties currently in force. In a specific case, where a treaty rate is higher than the domestic rate, the latter will apply.

Country	Dividends%		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Non-treaty countries				
Companies	5	0	0/16/50[21]	0/16/50[21]
Individuals	5	--	0/16/50	16/50
Treaty countries:				
Albania	15	10	10	15
Algeria	15	15	15	15
Armenia	10	5	10	10
Australia	15	5[3]	10	10
Austria	15	15	15	10
Bangladesh	15	10[3]	10	10
Belarus	10	10	10	15
Belgium	10	5	10	5
Bosnia-Herzegovina[4]	5	5	7.5	10
Bulgaria	15	10	15	15
Canada	15	15	15	15
China	10	10	10	7
Croatia	5	5	10	10
Cyprus	10	10	10	5
Czech Republic	10	10	7	10
Denmark	15	10	10	10
Ecuador	15	15	10	10
Egypt	10	10	15	15
Finland	5	5	5	2.5/5[5]
France	10	10	10	10
Georgia	8	8	10	5
Germany	15	53	0/3[6]	3
Greece	20	20	10	5/77
Hungary	15	5[8]	15	10
India	20	15	15	22.5
Ireland	3	3	3	0/3[9]
Israel	15	15	5/10[10]	10
Italy	10	10	10	10
Japan	10	10	10	10/15[11]
Jordan	15	15	12.5	15
Kazakhstan	10	10	10	10

Korea (DPRK)	10	10	10	10
Korea (Rep)	10	7	10	7/10[12]
Kuwait	1	1	1	15
Latvia	10	10	10	10
Lebanon	5	5	5	5
Lithuania	10	10	10	10
Luxembourg	15	5	10	10
Macedonia	5	5	10	10
Malaysia	10	10	15	12
Malta	5	5	5	5
Mexico	10	10	15	15
Moldova	10	10	10	10/15[13]
Morocco	15	15	10	10
Namibia	15	15	15	15
Netherlands	15	5[3]	0/3[14, 15]	0/3[14]
Nigeria	12.5	12.5	12.5	12.5
Norway	10	10	10	10
Pakistan	10	10	10	12.5
Philippines	15	10	10	10/15/20[16]
Poland	15	5	10	10
Portugal	15	10[17]	10	10
Russia	15	15	15	10
Serbia4	10	10	10	10
Singapore	5	5	5	5
Slovak Republic	10	10	10	10/15[18]
Slovenia	5	5	5	5
South Africa	15	15	15	15
Sri Lanka	12.5	12.5	10	10
Sudan	15	15	10	10
Sweden	10	10	10	10
Switzerland	10	10	10	0
Syria	0	0	7,5	10
Thailand	20	15	10/20/25[19]	15
Tunisia	12	12	10	12
Turkey	15	15	10	10
Ukraine	15	10	10	10/15[18]
United Arab Emirates	3	3	3	3

United Kingdom	15	10	10	15
United States	10	10	10	10/15[20]
Uzbekistan	10	10	10	10
Vietnam	15	15	10	15
Zambia	10	10	10	15

Notes:

1. Many treaties provide an exemption for certain types of interest, e.g. interest paid to the state local authorities, central bank, export credit institutions or in relation to sales on credit. Such exemptions are not considered in this column.
2. Unless otherwise indicated, recipient companies qualify for the reduced rates if they hold at least 25% of the capital or the voting power in the Romanian company, depending on the applicable treaty.
3. This rate applies to participations of at least 10%.
4. The treaty concluded with the former Yugoslavia.
5. The lower rate applies to royalties for computer software and industrial, commercial or scientific equipment.
6. The lower rate applies if, and as long as, Germany, under its domestic law, does not levy withholding tax on interest paid to a resident Romanian.
7. The higher rate applies to industrial royalties.
8. The rate applies to participations of at least 40%.
9. The lower rate applies to copyright royalties.
10. The 5% rate applies to interest paid in connection with the sale on credit of any industrial or scientific equipment, or of any merchandise by one enterprise to another enterprise or on a loan granted by banks.
11. The 10% rate applies to cultural royalties and the 15% to industrial royalties.
12. The lower rate applies to industrial royalties, know-how and equipment leasing.
13. The lower rate applies to industrial royalties (excluding patent royalties) and know-how.
14. The lower rate applies if, and as long as, the Netherlands does not levy a withholding tax on interest/royalties paid to a resident of Romania.
15. Interest paid to a bank or financial institution and interest paid on a loan made for a period of more than two years are exempt.
16. The 10% rate applies to royalties paid by companies registered at the Romanian Agency for Development and carrying on specific activities. The 15% rate applies to film royalties.
17. A minimum holding period of 2 years applies.
18. The lower rate applies to industrial royalties.
19. The 10% rate applies to interest paid to financial institutions; the 20% rate applies to interest on credit sales.
20. The lower rate applies to cultural royalties.
21. With effect from 1 January 2013, a 50% withholding tax applies to income paid to a country with which Romania does not have any signed convention providing for exchange of information, to the extent such payments result from artificial transactions. The following types of income are subject to this withholding tax:
    - revenue from services;
    - income from the liquidation of a Romanian company;
    - interest;
    - royalties; and
    - commissions and income from independent professions carried on in Romania.

RUSSIA

MEMBER FIRM

City	Name	Contact Information
Kazan	Sergey Nikiforov	+7 843 555 64 94 nikifomv@acg-pkf.ru
Moscow	Victoria Smirnova	+7 495 988 15 15 v.smirnova@mef-audit.ru
St. Petersburg	Tatiana Gavrilova	+7 812 600 91 03 audit@mcd.spb.ru

BASIC FACTS

Full name:	Russian Federation
Capital:	Moscow
Main language:	Russian
Population:	144 million (2018 estimate)
Monetary unit:	Russian Ruble (RUB)
Internet domain:	.ru
Int. dialling code:	+7

KEY TAX POINTS

- The taxation system in the Russian Federation is based on a combination of federal, regional, and local taxes and levies.
- Federal taxes and levies include: Value Added Tax (VAT), Excise Duties, Personal Income Tax, Corporate Income Tax, Mineral Extraction Tax, Water Tax, State Duty, and fees for the use of wildlife resources and aquatic biological resources.
- Regional taxes include: Corporate Property Tax, Gambling Tax and Transport Tax.
- Local taxes and levies include Land Tax, Individual Property Tax and Sales Tax.
- There are also special tax regimes comprising lower tax rates and some simplifications: for agricultural manufacturers, for product sharing agreements, patent tax regime (for individual entrepreneurs regarding specific activities), single tax on imputed income regarding specific activities and a simplified taxation regime.
- The tax period is a calendar year or other specified period of time in relation to specific taxes at the end of which the tax base is calculated and the tax payable is assessed. The tax period may cover more than one reporting period.
- The standard corporate income tax rate is currently 20% and this is also the rate of the income tax paid by foreign companies deriving income which is not connected with carrying out their business activities through a permanent establishment in Russia. In some cases other tax rates may apply.
- Capital gains are treated as ordinary business income and therefore subject to income tax.
- Consolidated group of taxpayers regime may apply under Corporate Income Tax.
- Value Added Tax (VAT) is levied at a standard rate of 18% and applies to the sale of goods, works and services in Russia and the import of goods into the Russian Federation. In some cases 10% and 0% rates may apply.
- CFC (Controlled Foreign Companies) rules apply.
- Thin capitalisation rules apply to restrict the deduction of interest where it is paid to a related foreign person that holds directly or indirectly more than 25% of the share capital of a Russian company.
- These rules also apply in some other situations. Some changes were made since 2017.
- Transfer pricing rules apply to transactions between related parties. Taxpayers need to prove the arm's

length nature of their transactions. For large taxpayers it is possible to enter into Advance Pricing Agreements (APA) with the tax authorities (TA), which are typically for a three year period. Foreign legal entities deriving income in connection with activities within Russia may be subject to withholding taxes on dividends, interest, royalties and some other income. In some cases a withholding tax rate of 30% may apply in respect of income from securities issued by Russian companies.

- There are special preferential rules (e.g. lower tax rates, tax reliefs, etc.) for taxpayers acting within the scope of different kinds of special zones and projects (e.g. Special Economic Zones, regional investment projects, special investment contracts and others).
- Individuals are considered to be resident if they spend more than 183 days in Russia during a continuous 12-month period. Residents are subject to income tax on their worldwide income and non-residents on their Russian-sourced income only.
- Registration (de-registration) with the tax authorities of the foreign company at its place of business in the territory of the Russian Federation:
- o through an accredited branch or representative office based on the data contained in the state register of accredited branches and representative offices of foreign legal entities;
- o through other separate subdivisions based on the application for the registration (deregistration) of such company.
- The personal income tax rate for residents and foreign highly skilled specialists is 13%. A special 35% rate is applied to some types of income, e.g. the cost of some prizes and wins, interest on certain bank deposits. A 13% rate is applied to income in the form of dividends received from shareholdings. All personal income of non-residents, excluding dividends, is taxed at the rate of 30%. General withholding tax rate for dividends received by non-residents is 15%. In some cases tax rates may differ.
- Russia has concluded over 80 Double Tax Treaties.
- Exchange of financial information: effective 2018, Russia implemented provisions regarding CRS (Common Reporting Standard). Under these provisions Russian financial institutions are obliged to provide the Russian Tax Authorities with certain information regarding different types of accounts opened with such institutions. Information regarding accounts opened in the name of foreign residents (or if the beneficiary owner or controlling person is a foreign resident) will be automatically exchanged with other jurisdictions on an annual basis. The first reporting period is 2017.
- In 2017 Russia along with other jurisdictions signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting ("Multilateral Instrument" or "MLI"). The MLI offers concrete solutions for governments to close the gaps in existing international tax rules by transposing results from the BEPS Project into bilateral tax treaties worldwide. The MLI modifies the application of thousands of bilateral tax treaties concluded to eliminate double taxation. It also implements agreed minimum standards to counter treaty abuse and to improve dispute resolution mechanisms while providing flexibility to accommodate specific tax treaty policies. When the MLI is in force, its provisions should be taken into account when applying a certain tax treaty: depending on the provisions admitted by certain jurisdictions they may significantly change the provisions of a certain tax treaty.
- In 2017 a new provision containing a general anti avoidance rule (GAAR) was implemented. The principle of this GAAR is that a transaction should not have a tax economy as its main purpose.

A. TAXES PAYABLE

CORPORATE INCOME TAX

Corporate taxpayers include:

- Russian companies;
- Foreign companies which operate in the Russian Federation through permanent establishments and/or receiving income from sources in the Russian Federation;
- Foreign companies recognized as tax residents of the Russian Federation are considered to be Russian companies.

Companies which are responsible participants of the consolidated group of taxpayers are considered taxpayers of such consolidated group of taxpayers.

The following companies are considered tax residents of the Russian Federation:

1) Russian companies;

2) Foreign companies recognized as tax residents of the Russian Federation in accordance with international tax treaties - for the purpose of applying this international treaty;

3) Foreign companies actually managed in the Russian Federation unless established otherwise under a double tax treaty.

Tax base

The tax base for Russian companies is defined as profit. There is some specificity for foreign companies.

Tax period

The tax period is one calendar year. The reporting periods for tax purposes are the first quarter, a halfyear, and nine months of a calendar year. With the exception of foreign legal entities, companies are obliged to make monthly advance payments of their quarterly liabilities. Advance payments are due not later than the 28th day of the corresponding month.

Tax rates

The standard tax rate is currently 20% of which 2% is normally paid to the federal budget and 18% to the budgets of constituent entities of the Russian Federation (i.e. regional budgets). For the period 2017- 2020 this apportionment between budgets is 3% and 17% respectively. The tax rate of the tax payable to regional budgets may be lowered by the laws of constituent entities of the Russian Federation for specific categories of taxpayers. Yet, the specified tax rate may not be lower than 13,5% (12,5% for 2017 – 2020). There are lowered tax rates for taxpayers acting within the scope of different kinds of special zones and projects. There are also other tax rates for specific types of income (e.g. 13% for dividends received by a Russian company).

Foreign companies deriving income which is not connected with carrying out their business activities through a permanent establishment pay income tax at a standard rate of 20%. A rate of 10% applies to foreign companies on income from the use, maintenance or rent (freight) of ships, aircrafts and other moving vehicles or containers (including trailers and ancillary equipment required for traffic) in connection with international traffic. A rate of 15% applies to non-residents receiving dividends. There are also special tax rates for specific interests. In such cases tax is assessed and withheld by a tax agent.

Foreign companies carrying out their business activities in Russia through permanent establishments make quarterly advance payments.

Tax returns

In general, income tax returns must be filed no later than 28 March following the tax year.

The following types of income are tax exempt:

- Income received as payments to the charter capital;
- Income received as special-purpose financing from foreign entities in the form of capital investments for industrial purposes provided that such investments are used during the year;
- Assets received by Russian companies free of charge as assets contribution (certain conditions should be met) or from entities which hold more than 50% of the share capital of the recipient. In the latter case, the assets should not be distributed to a third person within a year of the original transfer (except money) and others.

CONTROLLED FOREIGN COMPANIES (CFC) AND CONTROLLING PERSONS

A foreign company is considered a controlled foreign company (CFC) if it meets the following conditions:

1) The company is not recognized as a tax resident of the Russian Federation;

2) The company's controlling parties are companies and (or) individuals recognized as tax residents of the Russian Federation.

A controlled foreign company is also a foreign unincorporated entity which is controlled by Russian tax resident(s). CFC profit (loss) is the profit (loss) of such company before taxation as per its annual financial statements, provided that certain conditions are met.

In other cases, CFC profit (loss) is the profit (loss) of such company determined under the regulations established by the Tax Code of the Russian Federation for Russian companies.

Profit (loss) of each CFC should be proved by its financial statements for the corresponding period accompanied by its tax returns or in some cases by other documents.

The tax rate for the tax base defined by controlling companies based on profit of the CFC is 20%, and if defined by controlling individuals – 13%.

There are some specific cases when CFC profit is tax exempt.

CAPITAL GAINS TAX

Capital gains are treated as ordinary business income and are therefore subject to income tax according to the general rule.

BRANCH PROFITS TAX

There is no special branch profits tax in Russia. Branches are not separate taxpayers and their profit is included into the tax base of a company. There is no branch remittance tax in Russia.

VALUE ADDED TAX (VAT)

VAT is levied on the sale of goods and services in Russia and the import of goods into the Russian Federation. The taxable base is the sale price.

The standard rate of VAT is 18%. Some supplies are taxed at a reduced rate of 10% (e.g. basic foodstuff, children's clothing and footwear, certain medical goods). Some sales are subject to a 0% rate (e.g. export of goods, international transportation of goods, etc.). Zero rate sales are entitled to input VAT refund/offset (as well as 18% rate and 10% rate sales).

Some sales are tax exempt (e.g. certain medical goods and services, interests in companies, securities, scientific research, cultural, educational services, services rendered by attorneys and others). Such sales are not entitled to input VAT refund/offset.

Import of certain medicines, medical and technological equipment (including components and spare parts) is exempt from VAT.

The tax period for VAT is a quarter.

Since 1 January 2017 foreign companies are obliged to charge VAT on the sale of e-services in Russia (to Russian customers). If services are provided directly to a Russian individual, VAT is paid by the foreign company (foreign company needs to be registered with Russian tax Authority). If services are provided to a Russian legal entity, the buyer of services withholds tax as a tax agent. The tax agent also is an intermediary participating in payments.

Effective 1 January 2019, foreign companies will be obliged to pay VAT themselves both if they provide e-services to Russian individuals and to Russian companies. However, intermediaries still remain tax agents if participating in payments.

OTHER FEDERAL TAXES

State Duty is paid by companies and individuals for legal actions performed by state and local authorities as well as other authorities and officials who are entitled to performing such actions. Excise Duties are levied on some goods such as alcohol, beer, cigarettes, cars and petrol. A mineral extraction tax applies to companies engaged in the mineral extraction industry. Companies and individuals consuming water for specific purposes are subject to water tax. The tax rates are fixed and depend on the water volume used.

SPECIAL TAX REGIMES

Single Tax on imputed income regarding specific activities

Local authorities may determine an alternative income tax for certain small business activities such as personal services, retail sales and some other. The tax is paid instead of income tax, VAT (except on the import of goods into the Russian Federation) and property tax. In this case, taxpayers calculate 'common tax' at the rate of 7.5%-15% based on imputed earnings.

It should be noted that Single Tax will no longer apply as from the year 2021.

Simplified taxation regime

Simplified taxation regime may be applied if a taxpayer’s income does not exceed a specified income threshold per tax period (usually a year). Some taxpayers are not allowed to apply this regime (e.g. banks, companies with affiliated branches, etc.). These taxpayers do not pay profit tax, VAT (except on the importation of goods to the Russian Federation) and partially property tax. The taxpayer can choose the taxable base for this tax, either gross income at a 6% tax rate or income minus expenses at a 15% tax rate.

There are also special tax regimes for agricultural manufacturers, for product sharing agreements and there is a patent tax regime (which has nothing to do with inventions).

REGIONAL TAXES

Regional authorities can define certain tax rules but are not allowed to impose taxes not stipulated by federal tax law (Tax Code).

Corporate property tax

Russian and foreign companies that own property within the territory of the Russian Federation are liable for property tax. The tax rates are set by the regional authorities but cannot exceed 2.2%. In some cases the taxable base is the average annual depreciated value of fixed assets on the balance sheet of the resident company or permanent establishment concerned. In other cases the tax base is the cadastral value (e.g. business and trade centres, etc.). Foreign companies which do not have a permanent establishment in Russia are subject to property tax only with respect to their immovable property.

Transport Tax

The owners of transport vehicles (cars, motorcycles, buses etc.) are subject to transport tax. The tax rates depend on the technical specification of the vehicles owned.

Gambling Tax

Companies operating gambling establishments are subject to a tax on the gambling industry. The taxable objects are defined as specified physical objects (e.g. gambling machine, etc.). The tax rates are fixed and are not related to income/profit.

LOCAL TAXES

Local authorities can define certain tax rules but are not allowed to impose taxes not stipulated by federal tax law (Tax Code).

Land tax

Land tax is due at a maximum rate of 0.3% on agricultural and residential land and at a maximum rate of 1.5% on other types of land. The taxable base is the cadastral value of land (as stated in the state land register as at 1 January of the relevant tax year).

Individual property tax

Taxable objects include:

1) Residential building;
2) Residential unit (apartment, room);
3) Garage, parking space;
4) Real estate complex;
5) Construction in progress;
6) Other buildings, constructions, structures or premises.

The tax base is a cadastral value of the object or in some cases a special inventory value. It should be noted that the special inventory value will no longer be used as from the year 2020.

Maximum tax rates are 0.1% for certain residential objects, 2% for specified objects (e.g. business and trade centers, etc.) and 0.5% for other objects.

B. DETERMINATION OF TAXABLE INCOME

Taxable profits are calculated as the difference between taxable income and deductible expenses. In general, companies may deduct all necessary justified documented expenses incurred during the year in their income deriving activity. However, there are some specified restrictions which should be taken into account.

DEPRECIATION

Depreciation is calculated on a monthly basis and is deductible whether or not a company makes profits in the period. There are two methods of depreciation; straight-line method and non-straight-line method. In some cases it is allowed to apply accelerated depreciation (with coefficient up to 2 or 3).

Since 2018, regional authorities may introduce a special investment deduction instead of depreciation. If a certain region introduces this deduction it will apply directly to tax payable, i.e. tax payable may be reduced by costs of newly acquired fixed assets. Conditions for such deduction are to be installed by regional authorities.

STOCK/INVENTORY

Inventory is valued at its acquisition cost. The cost of materials transferred to production may be determined by the following valuation methods: average cost, cost of item or FIFO.

CAPITAL GAINS AND LOSSES

As mentioned above, capital gains and losses are subject to income tax at regular corporate rates.

DIVIDENDS

Dividends paid by Russian companies are subject to a final withholding tax whether they are paid to resident or non-resident recipients.

Dividends received by resident companies are subject to a 0% withholding tax rate if:

- The recipient holds at least 50% of the capital of the payer; and,
- The participation has been held continuously for the past 365 calendar days.

It should be noted that a 0% rate applies to foreign companies only if they recognised themselves as Russian residents voluntarily.

The tax rate for dividends paid to a non-resident company or individual is 15%. The tax rate for dividends paid to a resident is 13%.

INTEREST DEDUCTIONS

Thin capitalisation rules apply where interest is paid to a related foreign person that holds directly or indirectly more than 25% of the share capital of a Russian company. These rules also apply in some other situations. If the debt-to-equity ratio exceeds 3:1 (for bank companies, more than 12.5:1), the amount of deductible interest by the Russian company is restricted. The difference between the real amount of interest and that calculated under Russian tax legislation is treated as a dividend paid out by the Russian entity to its foreign shareholder and is subject to 15% withholding tax.

LOSSES

Taxpayers who suffered a loss (losses) in the previous tax period(s) have the right to reduce the tax base for the current reporting (tax) period by the total amount of loss or by the part of such amount (to carry forward the loss). From 1 January 2017, losses realized in relation to tax periods starting from 1 January 2007 may be carried forward indefinitely (before 2017, this was limited to 10 years). In tax periods from 1 January 2017 until 31 December 2020, the set-off of ordinary losses may reduce the tax base in those periods by no more than 50%. Losses cannot be carried back.

FOREIGN SOURCED INCOME

Foreign sourced income and gains are subject to income tax at the regular rates.

C. FOREIGN TAX RELIEF

Russian tax law provides a tax credit for foreign taxes paid on foreign-sourced income subject to a limit which is equal to the amount of Russian tax due on the same income. Any excess foreign tax may not be carried back or forward.

D. CONSOLIDATED GROUPS

The concept of a consolidated group of taxpayers is applied in Russia from 1 January 2012. The regime is optional and applies only to Russian companies (i.e. no cross-border consolidation is allowed). Banks, insurance companies and some other types of entities are excluded. This regime only applies to Corporate Income Tax. In order to form a group, certain conditions have to be met. The most important are:

- A participation of at least 90% (directly or indirectly) in the capital of another company;
- The total amount of VAT, excise duties, corporate income tax and mineral extraction tax is at least RUB 10 billion;

• The combined turnover of the group members is at least RUB 100 billion; and

• The combined value of the assets is at least RUB 300 billion.

E. RELATED PARTY TRANSACTIONS

Inter-company pricing between related parties must be carried out on an arm's length basis. Otherwise the results of transaction of the parties are adjusted for tax purposes. Taxpayers are obliged to provide the tax authorities with transfer pricing documentation regarding controlled transactions. Such documentation is supposed to justify that applied price comply with the arm's length principal. It should contain data about the activities of the taxpayer and other parties to the transaction, description of the transaction (its terms), functions, risks and assets analysis, , pricing methods, comparison analysis, etc. The largest taxpayers can conclude Advance Pricing Agreements (APAs) with the tax authorities regarding the determination of prices and application of pricing methods in controlled transactions. Such agreements shall be valid for no longer than three years.

On 28 November 2017, Russia published Federal Law No. 340-FZ, implementing the BEPS Action 13 documentation requirements (i.e., CbC reporting, master file, and local file). The measures entered into force on 27 November 2017 and will apply from that date.

Country-by-Country Reporting

Russian taxpayers who are members of an international group and whose total revenue for the preceding fiscal year was at least RUB 50 billion (approximately USD 856 million) are required to submit annual CbC reports to the Russian tax authorities. The CbC reporting requirements apply retroactively from 1 January 2017. Taxpayers will be allowed to voluntarily file CbC reports in Russia for the 2016 reporting period.

The following taxpayers must submit a CbC report:

- Parent company of a multinational group (member that directly or indirectly participates in the capital of other group members);
- Authorized participant (authorized by the parent company, referred to as a "surrogate parent" as defined in the BEPS Action 13 final report);
- Member of a multinational group whose parent company is not required under domestic law to submit a CbC report, or which is a tax resident of a jurisdiction that does not have an international agreement with Russia on the automatic exchange of CbC reports.

Federal Law No. 340-FZ defines a "member of an international group" as:

1) An organization whose financial statements are included in the consolidated financial statements of the international group or would be included if the securities were publicly traded; or
2) An organization whose financial statements are not included in the consolidated financial statements of the international group due to size or materiality of data.

"International group" is defined as related companies and includes at least one Russian tax resident entity and one non-Russian tax resident entity, or an entity that is tax resident in one state and is liable to tax from a permanent establishment in an EU member state. Except for CbC reports filed by foreignparented groups, CbC reports, master files, and local files must be filed in Russian.

R

Notification Requirements

MNE taxpayers will have to notify the Russian tax authorities of their participation in the group within 8 months from the end of the group's fiscal year. The notice must be filed by the ultimate or surrogate parent if they reside in Russia. Otherwise, each Russian constituent entity (or a designated entity) must submit the notice. Failure to notify or submitting false information will incur a penalty of RUB 50,000.

CbC Report Content

The CbC report must include the following information for each country in which the group operates:

- Income (revenue) from transactions between related and independent parties.
- Income (loss) before income tax;
- Corporate income tax paid by a foreign organization;
- Corporate income tax accrued in the current year by a foreign organization;
- Share capital;

- Retained profit;
- Number of employees;
- Value of tangible assets, excluding cash and cash equivalents;
- Identification information of each MNE group member.

Penalties

Failure to submit a CbC report, master file, and local file, or submitting false information, will incur a penalty of RUB 100,000. The penalties discussed above (i.e., Notification Requirements) will not apply until tax year 2020.

CbC Reporting Deadline

Reports must be submitted within 12 months from the end of the relevant financial year. CbC reports are to be submitted for financial years starting from 1 January 2017. Reports for prior years may be submitted on a voluntary basis.

Master and Local Files

Federal Law No. 340-FZ introduces master and local file requirements for Russian resident entities that are members of a MNE group. The filing threshold for the master and local files is RUB 50 billion.

The master file requirements apply retroactively from 1 January 2017. The local file requirements will apply from 1 January 2018. The master file requirements apply for all Russian constituent entities and the local file must be submitted by all constituent entities located in Russia that have had transactions with foreign related parties.

The local file must list all related-party contracts and transactions (e.g. APAs), unlike the BEPS Action 13 recommendations that require a listing of material related-party contracts and transactions. The local file requirements do not replace current Russian transfer pricing documentation requirements.

The master and local files must be filed within twelve months of any request by the Russian tax authorities and no later than 36 months after the end of the tax year at issue.

F. WITHHOLDING TAXES

Foreign legal entities obtaining profits in connection with activities within Russia may be subject to withholding taxes on dividends, interest, royalties and some other specified income. Dividends paid to non-resident companies directly are subject to a 15% final withholding tax on the gross amount, unless a treaty provides otherwise. The same applies to interest that has been reclassified as dividends under the thin capitalization rules (see higher under 'Interest deductions'). Interest not connected to a permanent establishment is subject to a 20% final withholding tax on the gross amount, unless a treaty provides otherwise, subject to certain exceptions. Royalties not connected to a permanent establishment are subject to a 20% final withholding tax on their gross amount, unless a treaty provides otherwise.

A withholding tax rate of 30% is applied in respect of income from securities issued by Russian companies (except dividends), the rights to which are recorded in the custody account of a foreign nominee holder, foreign authorised holder account and/or foreign depository programs account. This rate applies if information about the person exercising the rights under securities was not provided to the tax agent.

G. EXCHANGE CONTROL

Currency operations between currency residents and non-residents are not restricted. But there are a lot of strict requirements and limitations that Russian currency residents are obliged to comply with. Otherwise they will be liable to high fines up to 75% - 100% of the illegal currency operation amount.

Currency exchange is allowed only through authorised banks. Currency operations between Russian currency residents are forbidden except for specified operations.

H. PERSONAL INCOME TAX

Personal income tax is levied on resident and non-resident individuals, whether or not they are citizens of the Russian Federation. Individuals are considered to be resident if they spend more than 183 days in Russia during a continuous 12-month period. Residents are subject to income tax on their worldwide income and non-residents on their Russian-sourced income only.

The personal income tax rate for residents and foreign highly skilled specialists is 13%. A special 35% rate

is applied to some types of income, e.g. the cost of prizes and wins received in advertising actions, received interest on certain bank deposits (exceeding specified rates), benefit (economy) on paid interests.

A 13% rate is applied to dividends received by residents and a rate of 15% is applied if the dividend income is received by non-residents. All personal income of non-residents, excluding dividends (and some other specific income), is taxed at the rate of 30%.

The tax rate of 30% is applied in respect of income from securities issued by Russian companies, the rights to which are recorded in the custody account of a foreign nominee holder, foreign authorised holder and/or foreign depository programs if information about persons exercising rights under securities was not provided to the tax agent .

The following types of income are exempt from tax:

- Welfare payments (except for temporary disability) and compensations paid out in compliance with legislation currently in force;
- All kinds of compensatory payments, prescribed by legislation, relating to labour duties;
- Alimonies received;
- Grants for the purpose of science, education, culture and art, given by international and foreign organisations;
- Scholarships and some others.

Income derived from the sale of real estate is exempt as follows (applies only to tax residents):

- Full exemption: for real estate that has been held for over five years;
- In a limited number of cases, the personal income tax exemption can be applied after three years of ownership.

Gifts received from individuals are exempt from income tax. However, gifts of immovable property, vehicles and securities are taxable unless these items are received from close relatives. Gifts received from individual entrepreneurs and legal entities are exempt up to RUB 4,000 in a calendar year. The excess is taxable at a rate of 13% for residents and 30% for non-residents.

Inherited property is exempt from tax.

Individuals are entitled to the following statutory deductions:

- Property-related deduction;
- Social deduction;
- Professional deductions;
- Investment deduction
- Standard deduction
- and some other.

These deductions apply only to residents. Regarding non-residents they apply only to income taxed at the 13% rate.

SOCIAL CONTRIBUTIONS

Payers are:

1) Persons paying remunerations to individuals (companies, individual entrepreneurs, individuals not recognized as individual entrepreneurs);
2) Individuals who do not pay remunerations to individuals: individual entrepreneurs, lawyers and notaries engaged in private practice, and other persons engaged in private practice.

The general rates of social contributions for the 2017-2020 period for payers who pay remunerations to individuals:

1) Pension Fund of the Russian Federation:
   - 22% within the established limit of social contribution base for compulsory pension insurance;
   - 10% over the established limit of social contribution base for compulsory pension insurance;
2) Social Insurance Fund of the Russian Federation: 2.9% within the established limit of insurance contribution base for compulsory social insurance against temporary disability and in respect of maternity benefit;

3) Federal Compulsory Medical Insurance Fund: 5.1%.

In case of benefits and other remunerations payable to foreign citizens and stateless persons residing temporarily on the territory of the Russian Federation (except for highly qualified specialists), the rate of social contributions to the Social Insurance Fund of the Russian Federation is 1.8%.

Payers who do not pay benefits or do not provide other remuneration to individuals shall pay the corresponding social contributions to the Pension Fund of the Russian Federation and the Federal Compulsory Medical Insurance Fund at the specified fixed amounts depending on their revenue. Special rates are established for certain groups of employers and professions.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

The table below shows the withholding tax rates on dividends, interest and royalties under tax treaties concluded by the USSR and the Russian Federation. The Russian Federation has announced that it would honour the international agreements existing between the USSR and other countries. The table is for general guidance only. The relevant treaty should be consulted to confirm the applicable rates in each case.

Special provisions regarding the beneficial owner of the income were introduced in 2015. These provisions put in place the attributes of a beneficial owner. If a foreign person does not meet these attributes he is not allowed to invoke the benefits provided by international tax treaties concluded by the Russian federation.

The provisions of the MLI should also be taken into account once the Instrument comes into force.

	Dividends%		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Non-treaty countries				
Companies	15	15	9/15/20[1]	[2]
Individuals	15	--	0/30[3]	[3]
Treaty countries:				
Albania	10	10	10	10
Algeria	15	5	0/15	15
Argentina	15	10	15	15
Armenia	10	5	10	0
Australia	15	5	10	10
Austria	15	5	0	0
Azerbaijan	10	10	10	10
Belarus	15	15	10	10
Belgium	10	10	0/10	0
Botswana	10	5	10	10
Brazil	10/15	10	0/15	15
Bulgaria	15	15	15	15
Canada	15	10	10	0/10
Chile	10	5	15	5/10
China[4]	10	5	0	6
Croatia	10	5	10	10
Cuba	15	5	10	5
Cyprus	10	5	0	0

Czech Republic	10	10	0	10
Denmark	10	10	0	0
Egypt	10	10	15	15
Finland	12	5	0	0
France	15	5/10	0	0
Germany	15	5	0	0
Greece	10	5	7	7
Hong Kong[4]	10	5	0	3
Hungary	10	10	0	0
Iceland	15	5	0	0
India	10	10	10	10
Indonesia	15	15	15	15
Iran	10	5	7.5	5
Ireland	10	10	0	0
Israel	10	10	10	10
Italy	10	5	10	0
Japan	15	15	10	0/10
Kazakhstan	10	10	10	10
Korea (North)	10	10	0	0
Korea (South)	10	5	0	5
Kuwait	5	0/5	0	10
Kyrgyzstan	10	10	10	10
Latvia	10	5	5/10	5
Lebanon	10	10	5	5
Lithuania	10	5	10	5/10
Luxembourg	15	5	0	0
Macedonia (FYR)	10	10	10	10
Malaysia	–/15[5]	–/15[5]	15	10/15
Mali	15	10	0/15	0
Malta	10	0/5	5	5
Mexico	10	10	0/10	10
Moldova	10	10	0	[10]
Mongolia	10	10	10	–[6]
Montenegro	15	[5]	10	10
Morocco	5/10	5	0/10	10
Namibia	10	5	10	5
Netherlands	15	5	0	0

New Zealand	15	15	10	10
Norway	10	10	10	0
Philippines	15	15	0/15	15
Poland	10	10	10	10
Portugal	15	10	10	10
Qatar	5	5	5	0
Romania	15	15	15	10
Saudi Arabia	5	0/5	5	10
Serbia	15	5	[10]	10
Singapore	10	0/5/10	0	5
Slovak Republic	10	10	0	10
Slovenia	10	10	10	[10]
South Africa	15	10	10	0
Spain	15	5/10	0/5	5
Sri Lanka	15	10	10	[10]
Sweden	15	5	0	0
Switzerland	15	0/5	0	0
Syria	15	15	10	4.5/13.5/18
Tajikistan	10	5	10	0
Thailand	15	15	–/10[7]	15
Turkey	10	10	10	10
Turkmenistan	10	10	5	5
Ukraine	15	5	10	10
United Arab Emirates	–[8]	0	0	–[9]
United Kingdom	10	10	0	0
United States	10	5	0	0
Uzbekistan	10	10	10	0
Venezuela	15	10	0/5/10	10/15
Vietnam	15	10	10	15

Notes:

1. Interest not connected to a permanent establishment is subject to a 20% final withholding tax on the gross amount, unless a treaty provides otherwise. However, irrespective of the attribution to a permanent establishment, interest on state and municipal securities is taxed at the general rate of 15%. Interest on mortgage bonds and long-term (at least 3 years) municipal bonds issued prior to 1 January 2007 is taxable at a 9% withholding tax rate.
2. Royalties not connected to a permanent establishment are subject to a 20% final withholding tax on their gross amount, unless a tax treaty provides otherwise.
3. The rate of income tax on dividends paid to non-resident individuals is 15%. All other income derived by nonresident individuals is taxed at a 30% rate.
4. Effective date: 1 January 2017.

5. The 15% rate applies to profits of joint ventures. Otherwise, the domestic rate applies, there is no reduction under the treaty.
6. The domestic rate applies, there is no reduction under the treaty.
7. The 10% rate applies to interest paid to financial institutions. The domestic rate applies in other cases, there is no general reduction under the treaty.
8. The treaty is not applicable to individuals receiving dividends.
9. Royalties are not covered under the treaty.

RWANDA

MEMBER FIRM

City	Name	Contact Information
Kigali	Gurmit Singh Santokh	+250 788 300 428 gsantokh@rw.pkfea.com

BASIC FACTS

Full name:	Republic of Rwanda
Capital:	Kigali
Main language:	Kinyarwanda, French, English
Population:	12.44 million (2018 estimate)
Monetary unit:	Rwandan Franc (RWF)
Internet domain:	.rw
Int. dialling code:	+250

KEY TAX POINTS

- A resident company is subject to income tax on all income earned from both domestic and foreign sources. A non-resident company is subject to tax only on income sourced in Rwanda through a permanent establishment in Rwanda.
- A foreign tax credit is granted for income tax paid on foreign-sourced income.
- The effective corporate income tax rate is 30 % for both domestic companies and branches of foreign companies. However, certain special categories of investors benefit from preferential corporate income tax rates of 0% and 15 %.
- A 15% withholding tax is levied on dividends, interest, royalties and technical and management fees paid by resident entities including tax-exempt entities.
- A new Law on Income Tax is expected to be introduced before the end of 2018. This new law will replace the existing Law on Income Tax.

A. TAXES PAYABLE

CORPORATE INCOME TAX

Rwanda administers two corporate income tax regimes:

a) Real corporate tax regime where companies are subject to a standard tax rate of 30% of taxable profits.

b) Lump sum tax regime – This option is available to businesses with a turnover below RWF 50 million at a standard tax rate of 3% of turnover. It is effectively a turnover tax.

Registered investors in priority sectors such as energy, transport, export investments, affordable housing projects, and registered venture capitalists are entitled to preferential income tax rates of either 0% or 15 % subject to meeting certain investment criteria.

Taxpayers are required to declare and pay their taxes not later than 31 March of the following tax period. If the taxpayer uses a tax period that does not coincide with the calendar year, tax is paid not later than the last day of the third month of the following tax period.

CAPITAL GAINS TAX

Capital gains are taxed at a rate of 30 %. However, the following are exempt from capital gains tax:

a) Capital gain on secondary market transaction on listed securities.

b) Capital gain arising from corporate re-organisation.

BRANCH PROFITS TAX

Branches of a non-resident entity pay tax at the standard corporate income tax rate of 30 %.

VALUE ADDED TAX (VAT)

Supplies of goods and services for Value Added Tax (VAT) purposes are either exempt, zero rated or standard rated. The standard rate of VAT is 18%.

EMPLOYMENT BENEFITS TAX

Generally, benefits in kind received by an employee are included in taxable income in consideration of market value for tax purposes. The following specific benefits are valued as follows:

1) Motor vehicles benefit is valued at 10 % of the employment income excluding benefits in kind.

2) Housing benefit is valued at 20 % of the employment income excluding benefits in kind.

3) Fringe benefit tax – applies to loans or salary advances exceeding three month's salary granted to employees on interest free or low interest terms. The benefit is valued as the difference between the interest rate offered to commercial banks by the National Bank of Rwanda and the actual rate paid by employees.

4) Benefits provided by an employer to a person related to an employee when there is no service rendered, are treated as if provided to the employee. Benefits provided by a company to one of its members are considered in the same manner as benefits an employer gives to an employee.

EMPLOYMENT TAXES

Employment income is taxed on a withholding tax basis known as Pay-As-You-Earn (PAYE) at a graduating scale of 0% to 30 %.

CONTRIBUTION TO SOCIAL SECURITY FUND (RSSB)

Contributions are set at 3 % for employees and 5 % for employers in respect of the employees' monthly income. Total remittance is 8 %. Included in the 5 % contribution by employers is a 2 % contribution for occupational hazard.

CONTRIBUTION TO MATERNITY LEAVE BENEFIT FUND (RSSB)

Contributions are set at 0.3 % for employees which is matched by employers in respect of the employees' monthly income. Total remittance is 0.6 %.

B. DETERMINATION OF TAXABLE INCOME

Taxable income is accounting income adjusted for non-taxable income and for non-deductible expenses. Expenses are deductible if they are incurred wholly and exclusively for the purpose of the business.

CAPITAL ALLOWANCES

The rates for wear and tear allowances for business assets deductible from taxable profits are as follows:

Type of Asset	Rate %
Land, fine arts, antiquities, jewelry and any other assets that are not subject to wear and tear or obsolescence	0
Cost of acquisition, construction , refining, rehabilitation, or reconstruction of buildings, equipment and heavy machinery fixed in walls (straight line)	5

Cost of acquisition, development, improvement, rehabilitation or reconstruction of intangible assets, including goodwill that is purchased from a third party (straight line)	10
Computers and accessories, information and communication systems, software products and data equipment (reducing balance)	50
All other assets (reducing balance)	25

INVESTMENT DEDUCTION

Accelerated depreciation of 50 % is granted in the first year of asset use for qualifying new/used assets.

LIQUIDATION

Proceeds on the sale of any business asset and liquidation proceeds received during the tax period are included in business profit.

DIVIDENDS

Dividends paid to resident companies and partnerships are exempt from withholding tax. Foreignsource dividends are included in the taxable income of residents based on the worldwide principle of taxation. Dividends paid to non-resident companies are subject to a 15% final withholding tax, subject to provisions of double taxation relief, where applicable.

INTEREST DEDUCTIONS

Interest incurred wholly and exclusively in the production of income is allowable. However, interest paid on loans and advances from related entities is not tax deductible to the extent that the loan/advanced amount is more than four times the amount of equity during the tax period. In this case, equity does not include provisions and reserves (Thin capitalisation ratio of 4:1). This provision does not apply to commercial banks and insurance companies.

LOSSES

Tax losses may be carried forward over the next 5 tax periods in the determination of taxable profits, earlier losses being deducted before later losses excluding foreign sourced losses. If during a tax period, the direct and indirect ownership of the share capital or the voting rights of an unlisted company, changes by more than 25 % by value or number, the tax losses incurred in that tax period and previous tax periods are forfeited. A loss carry-back is allowed for long-term contracts.

FOREIGN SOURCED INCOME

Resident companies are subject to tax on their worldwide income. Therefore, foreign-sourced income is subject to tax in Rwanda. A foreign tax credit is granted for income tax paid on foreign-sourced income to the extent that the foreign tax paid does not exceed the tax that would have been paid had the same income been taxed in Rwanda.

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INVESTMENT INCENTIVES

In addition to preferential corporate income tax rates described above the following are other incentives that are available to registered investors in Rwanda:

- Custom duty exemption/concessions for products used in the Export Processing Zones.
- Capital gains tax exemption excluding income derived from the sale of commercial immovable property which shall be included in the investor's taxable income.
- Seven-year tax holiday on income derived by a registered investor investing at least USD 50 million and contributing at least 30% of such investment in the form of equity.
- Five-year tax holiday on income derived by Microfinance institutions.
- Prompt settlement of VAT refunds within 15 days after request.
- Immigration incentives – three guaranteed work visas for expatriate staff.

C. FOREIGN TAX RELIEF

Relief for foreign taxes paid is granted in accordance with double tax treaties with other countries. If foreign tax is paid in a country that does not have a double tax treaty with Rwanda, the tax paid may be subtracted

from tax payable in Rwanda, subject to certain restrictions.

D. CORPORATE GROUPS

The income tax law does not allow the filing of consolidated returns, the combining of profits and losses of affiliated companies or the transfer of losses from loss companies to profitable members of the same group of companies. Generally for tax purposes, a corporation tax rate of 30 % applies to all separately incorporated companies irrespective of groups both in Rwanda and outside for profits derived in Rwanda.

E. RELATED PARTY TRANSACTIONS

Related party transactions are allowable expenses if incurred wholly and exclusively in the generation of income and taxed as income if earned or accrued as business activities. Transfer pricing adjustment rules apply.

The Rwandan law on direct taxes on income stipulates that where conditions are made or imposed between related persons carrying out their commercial relationship which differ from those which would be applied between independent persons, the Commissioner General, may direct that the income of one or more of those related persons be adjusted to include profits that would have been made if they operated as independent persons.

F. WITHHOLDING TAX

A 15% withholding tax is levied on the following payments made by resident entities including taxexempt entities:

- Dividends; except inter-company dividends between two resident companies;
- Interest;
- Royalties;
- Service fees including management and technical service fees;
- Performance payments made to an artist, a musician or a sportsperson irrespective of whether paid directly or through an entity that is not resident in Rwanda;
- Lottery and other gambling proceeds;
- Goods supplied by companies or physical persons not registered with the tax administration.

This 15% rate is also applicable to non-resident companies with respect to payments which can be allocated to a permanent establishment in Rwanda.

Withholding tax applicable to dividends and interest is a final tax. However, withholding tax on dividends and interest income on securities listed on capital markets and interest arising from investments in listed bonds with a maturity of 3 years and above shall be reduced from 15% to 5% when the person who withholds is a resident taxpayer of Rwanda or of the East African Community.

A withholding tax of 5% of the value of goods imported for commercial use shall be paid at Customs on the CIF value before the goods are released by Customs.

Withholding tax of 3% on the sum of invoice, excluding the value added tax, is retained on payments by public institutions to the winner of public tenders.

G. EXCHANGE CONTROL

The currency in Rwanda is the Rwandan franc (RWF). Rwanda does not impose foreign exchange controls.

H. PERSONAL TAX

Taxable income consists of income from domestic and foreign sources such as employment income, business profits and investment income. The tax rates are as follows:

Annual taxable Income (RWF)	Rate
0 - 360,000	0%
360,001 – 1,200,000	20%
1,200,000 and above	30%

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends %		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Non-treaty countries				
• Companies	5[4]/15	15	5[5]/15	[15]
• Individuals	15	--	15	[15]
Treaty countries:				
Belgium	15	0[2]	10	10
Jersey[1]	10	10	10	10
Mauritius	10	10	10	10
Singapore[1]	7.5	7.5	10	10
South Africa	20	10[3]	10	10

Notes:

1. Effective from 1 January 2017.
2. The 0 % rate applies if the beneficial owner of the dividends is a company which is a resident of the other Contracting State and which at the point of payment of the dividends holds, for an uninterrupted period of at least 12 months, shares representing directly at least 25 % of the capital of the company paying the dividends, and the paying company does not enjoy the benefit of special measures to promote economic development.
3. The reduced rate applies if the beneficial owner is a company which holds at least 25 % of the capital of the paying company.
4. The 5% rate applies to dividends distributed on securities listed on capital markets when the payer is a resident of the East African Community.
5. The 5% rate applies to interest paid on securities listed on capital markets and interest arising from bonds with a minimum maturity period of 3 years where the payer is a resident of the East African Community.

SAINT KITTS AND NEVIS

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MEMBER FIRM

City	Name	Contact Information
PKFI	Stefaan De Ceulaer	+44 203 691 2511 stefaan.deceulaer@pkf.com

BASIC FACTS

Full name:	Federation of Saint Kitts and Nevis
Capital:	Basseterre
Main language:	English
Population:	55,739 (2018 estimate)
Monetary unit:	East Caribbean Dollar (XCD)

Internet domain:	.kn
Int. dialling code:	+1

KEY TAX POINTS

- Corporate income tax is levied at 33% on resident companies and branches held by non-resident companies. A branch remittance tax of 10% also applies.
- Capital gains are not taxable except if a capital asset is sold within 1 year from the date of acquisition, in which case a 16.5% capital gains tax is applicable (half of the corporate tax rate of 33%).
- VAT is levied at a standard rate of 17%.
- There is no withholding tax on dividends, interest, royalties and technical services and management fees paid to residents while such payment to non-residents are subject to a 15% withholding tax, which needs to be remitted to the Inland Revenue within 15 days.

A. TAXES PAYABLE

COMPANY TAX

A resident company is taxed on its worldwide income. A non-resident company is taxed on Saint Kitts and Nevis-sourced income only. A company is deemed to be resident if:

- it is incorporated in St. Kitts;
- it is registered as an external company doing business in Saint Kitts and Nevis;
- it is centrally managed and controlled in Saint Kitts and Nevis.

Corporate income tax is currently imposed at a rate of 33%. The tax return must be filed by the 15th day of the fourth month after the end of the tax year, along with the financial statements.

CAPITAL GAINS TAX

Capital gains are not taxable except if a capital asset is sold within 1 year from the date of acquisition, in which case a 16.5% capital gains tax is applicable (half of the corporate tax rate of 33%).

BRANCH PROFITS TAX

Like resident companies, branches are subject to corporate tax at a rate of 33%. A branch remittance tax of 15% also applies.

SALES TAX / VALUE ADDED TAX (VAT)

VAT was introduced in November 2010 and applies to the sale of goods or the supply of services within Saint Kitts and Nevis and on the import of goods. Persons who have made or are likely to make taxable supplies in excess of XCD 96,000 for certain professional services and XCD 150,000 for other business activities in a continuous period of 12 calendar months must register. The standard VAT rate is 17% while reduced rates of 10% (hotel or holiday accommodation, tour operators and restaurants) and 0% (exports, sale of commercial real property on which stamp duty was paid and fuel) also apply. Returns and payments must be submitted by the 15th day of each calendar month.

OTHER TAXES

Apart from real property tax, social security and stamp duty, there are no other taxes on companies.

REAL ESTATE WITHHOLDING TAX

Property is assessed by the Property Valuation Department on the market value of real property and ranges from 0.01% to 0.3%, depending on the use (commercial, accommodation, certified farming or institutional) and location of the property.

SOCIAL SECURITY

The employer contributes 5% of employee earnings for social security and 1% of employee earnings for employment injury benefits, the contribution ceiling of which is XCD 6,500 per month. The employer contribution to the Social Services Levy and to the Severance Payment Fund are respectively 3% and 1% of chargeable employee income.

STAMP DUTY

Stamp duty on the transfer of shares is 2%, payable by the vendor and it ranges from 6% to 10% on the transfer of real property, depending on the consideration and/or the location of the property, payable by the vendor.

CUSTOMS AND EXCISE DUTIES

Customs duties are imposed under the CARICOM Common External Tariff. There is a general exemption from duties with respect to goods imported from other CARICOM member states. Customs import duties and consumption tax is applied at varying rates on imported goods. Saint Kitts and Nevis also imposes a customs service tax of 6% on all imports. Excise duty applies to a small range of goods, such as alcoholic beverages, tobacco products, petroleum products, motor cycles, aerated beverages and firearms and the rate ranges between 5% and 25%.

B. DETERMINATION OF TAXABLE INCOME

Taxable income is calculated as net profit before tax, adjusted for non-deductible expenses and allowable deductions.

DEPRECIATION

A deduction for wear and tear in respect of buildings or plant and machinery employed in or for the production of income for that income year is mandatory in accordance with the rates applicable according to a published schedule. The allowance is calculated using a reducing balance method. An initial allowance of 20% is granted on industrial buildings or structures and in respect of capital expenditure incurred on plant and machinery by a person carrying on a trade or undertaking. In addition, an annual allowance of between 2% and 5% is allowed on all buildings constructed after 1 March 1994. Concrete buildings are depreciated at a rate of 2%, while the rate varies for other buildings depending on the type of material used in construction. There are no provisions regarding depreciation or amortization of expenditure on intangible property such as patents or goodwill, or pre-incorporation and similar expenses.

STOCK / INVENTORY

Inventory is generally stated at the lower of cost or net realisable value. The first in first out (FIFO) and average cost methods of valuation are generally used. However, the tax authorities will generally accept a method of valuation that conforms to standard accounting practice in the trade concerned. The last in first out (LIFO) method is not allowed.

CAPITAL GAINS AND LOSSES

Capital gains are generally (however, see higher) not taxable and capital losses are therefore not allowed.

DIVIDENDS

Dividends received by a company resident in Saint Kitts and Nevis from another company resident in Saint Kitts and Nevis are taxed at source at the corporate income tax rate of 33%. Credit is given to the recipient for the tax on the dividend when computing the tax liability.

INTEREST DEDUCTIONS

Interest is only deductible to the extent that it was incurred in producing chargeable income. There are no thin capitalization rules.

LOSSES

Losses can be carried forward for up to 5 years while losses cannot be carried back. Losses may only offset 50% of chargeable income in an income year.

FOREIGN SOURCE INCOME

Resident companies are taxable on their worldwide income. Foreign business income is net income from business, trade, profession or vocation activities, dividends, interest, rents and royalties.

TAX INCENTIVES

Various incentives are available for offshore companies, the hotel industry, pioneer manufacturers, approved enterprises to manufacture certain approved products, small businesses and the development and use of alternative energy technologies.

C. FOREIGN TAX RELIEF

Foreign tax credits are normally not granted, with the exception of taxes paid in a British Commonwealth country that grants similar relief for taxes paid in Saint Kitts and Nevis or where a double tax treaty permits. The credit for an eligible Commonwealth income tax is maximum half the Saint Kitts and Nevis rate (16.5%). Unilateral relief is granted on a per-country basis while treaty relief is optional. Foreign taxes for which no tax credit is available are generally not deductible in computing taxable income.

D. CORPORATE GROUPS

Group taxation is not permitted in Saint Kitts and Nevis.

E. RELATED PARTY TRANSACTIONS

There are no transfer pricing regulations as such, nor are there rules on Controlled Foreign Companies (CFC).

F. WITHHOLDING TAX

There is no withholding tax on dividends, interest, royalties and technical services and management fees paid to residents while such payment to non-residents are subject to a 15% withholding tax, which needs to be remitted to the Inland Revenue within 15 days.

G. EXCHANGE CONTROL

There are no limits on foreign exchange transactions.

H. PERSONAL TAX

There is no personal income tax in Saint Kitts and Nevis.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	15	15	15	15
Individuals	15	--	15	15
Treaty countries				
Caricom[1]	0/15[2]	0/15[2]	15	15
Monaco	0/5[3]	5	0	0
San Marino	10	5/7.5[4]	0	0
Switzerland	--[5]	--[5]	--[5]	0
United Kingdom	0	0	--[6]	0

Notes:

1. Multilateral treaty ratified by Antigua, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines and Trinidad and Tobago.
2. The higher rate applies to dividends distributed from preference shares.

3. Higher rate applies to dividends paid to companies, lower rate to dividends paid to individuals or a partnership held by individuals and beneficial owners who are resident of either contracting state.
4. The 5% rate applies if the beneficial owner is a company which has held directly at least 25% of the capital of the dividend-paying company for an uninterrupted period of at least 12 months prior to the decision to distribute the dividends. The 7.5% rate applies if the beneficial owner is a company which has held directly at least 10% but less than 25% of the capital of the dividend-paying company for an uninterrupted period of at least 12 months prior to the decision to distribute the dividends.
5. Dividends and interest are not covered under the treaty, thus the domestic rates apply.
6. Interest is not covered under the treaty, thus the domestic rate applies.

SAINT LUCIA

MEMBER FIRM

City	Name	Contact Information
Castries	J. Wendell Skeete	+1758 450 7777 wendell@pkf.lc

BASIC FACTS

Full name:	Saint Lucia
Capital:	Saint Lucia
Main language:	English
Population:	179,667 (2018 estimate)
Monetary unit:	East Caribbean Dollar (XCD)
Internet domain:	.lc
Int. dialling code:	+1758

KEY TAX POINTS

- A resident company is taxed on worldwide income. A non-resident company is taxed on income derived or sourced from St. Lucia. The current standard corporation tax rate is 30%.
- The standard rate of Value Added Tax is 12.5% and a reduced rate of 10% applies for goods and services supplied by hotels and restaurants.
- Taxes are required to be withheld from payments to non-residents of an income nature and also from payments to residents for labour contracts and certain services.
- Resident individuals are taxed on world income; however only to the extent received in St. Lucia if they are not ordinarily resident in St. Lucia. For non-residents, taxable income means income generated from St. Lucia and income from activities performed in St. Lucia.

A. TAXES PAYABLE

COMPANY TAX

A company is deemed to be resident if it is either incorporated in St. Lucia or it is centrally managed and controlled in St. Lucia. A resident company is taxed on worldwide income. A non-resident company is taxed on income derived or sourced from St. Lucia. The tax year is based on the company's fiscal year end. The current corporation tax rate is 30%; however, a rate of 33.33% is imposed on companies who are non-compliant.

Corporate tax returns must be filed within three months of the financial year end date of the company along with financial statements and payment of any tax due. A tax return filing extension should be requested at least one month before the company's fiscal year end and will only be granted for 2 consecutive periods. Tax is due to be paid by instalments due by 25 March, 25 June and 25 September. Each instalment is based on 1/3 of the tax liability per the last tax return filed. Late filing penalties are levied at 5% of the tax liability and late payment penalties at 10% of the tax unpaid, plus interest of 1.04 % per month is applicable.

CAPITAL GAINS TAX

Gains from the sale of capital assets are not subject to tax in St Lucia.

BRANCH PROFITS TAX

The tax on profits and earnings of a foreign corporation's branch is the same as regular corporate tax.

SALES TAX / VALUE ADDED TAX (VAT)

VAT is imposed on the sale of goods (including commercial real estate) and supply of services (financial services are exempt) within St. Lucia and the import of goods into St. Lucia. The standard rate is 12.5% and a reduced rate of 10% applies for goods and services supplied by hotels and restaurants. Certain goods and services may also be zero-rated or exempt. The registration threshold is a total value of supplies exceeding XCD 400,000 per year. Voluntary registration is also available. Monthly returns and payments must be submitted by the 21st day of the following month.

OTHER TAXES ON CORPORATIONS:

PROPERTY TAX

A rate of 0.4% of market value is imposed on commercial property.

SOCIAL SECURITY CONTRIBUTIONS

Employers contribute at a rate of 5% of employee earnings. The contributions ceiling is XCD 250 per month.

STAMP DUTY

Stamp duty is charged on any document that evidences a legal or contractual relationship between two or more parties.

TRANSFER TAX

Transfer tax on the sale of real property is 2.5% to 5% for a resident company vendor (10% for a nonresident vendor) and 2% for the purchaser. Non-resident purchasers must obtain an alien landholding licence at 7.5% of the value of the property. The transfer of shares is subject to 0.5% transfer tax. However, if 75% or more of a company's assets consist of property, the transfer is deemed to be of real property.

CUSTOMS DUTIES

Imported goods are subject to Customs duties according to the CARICOM Common External Tariff.

B. DETERMINATION OF TAXABLE INCOME

Corporate taxable income is determined by ascertaining assessable gross income and reducing it by allowable deductions.

DEPRECIATION

Deductions are allowed for the cost of commercial buildings, plant and machinery and vehicles as follows:

Initial allowance: 20%;

Annual allowance: 2.5% - 25% on the reducing balance.

CAPITAL GAINS AND LOSSES

Gains from the sale of capital assets are not subject to tax in St Lucia.

DIVIDENDS

Dividends paid to residents and non-residents are not subject to income tax or withholding tax.

INTEREST DEDUCTIONS

An interest expense is tax deductible.

FOREIGN SOURCE INCOME

A resident company is taxed on worldwide income.

INCENTIVES

International Business Companies Act

Regional headquarters located in St. Lucia and registered as an IBC are granted concessions on income tax for their employees' salaries and on customs duties for materials articles and equipment used. St. Lucia's IBCs have the option to elect to be liable to income tax on their profits and gains at a rate of 1% or to be exempted from income tax.

Other

Under the Fiscal Incentives Act, approved enterprises engaged in the manufacture of an approved product are granted tax holidays and exemption from import duties. Under the Tourism Incentive Act, an approved Tourism product is granted certain tax and import duty exemptions.

LOSSES

Losses can be carried forward up to 6 years. Losses utilised may only reduce the taxable income by 50%. The carry-back of losses is not permitted. There are no anti-avoidance rules in respect of thin capitalisation, transfer pricing and controlled foreign companies.

C. FOREIGN TAX RELIEF

Tax credits are granted at the lesser of the tax charged in St. Lucia on the foreign source income and the tax payable in the other country.

D. CORPORATE GROUPS

Corporate tax returns are based only on separate and not on consolidated financial statements.

E. RELATED PARTY TRANSACTIONS

Related party transactions negotiated at arm's length are treated the same as non-related party transactions. The Inland Revenue Department may make any adjustments necessary where a transaction is deemed to be for the purpose of tax avoidance.

F. WITHHOLDING TAX

Taxes are required to be withheld from payments to non-residents of an income nature and also from payments to residents for certain services. See section I below for applicable rates. Payments to residents for labour contracts are taxed at 1%.

G. EXCHANGE CONTROLS

There are no foreign exchange controls in St Lucia.

H. PERSONAL TAX

Resident individuals are taxed on world income. However, only to the extent received in St. Lucia if they are not ordinarily resident in St. Lucia. For non-residents, taxable income means income generated from St. Lucia and income from activities performed in St. Lucia. An individual is considered resident if physically present in St. Lucia for at least 183 days. The tax year is the calendar year.

Taxable income includes employment and business income less allowable deductions and allowances such as the personal allowance (XCD 18,000) and unlimited medical expenses, with supporting documentary evidence. Capital gains are not subject to tax. Net taxable income is taxed at progressive rates of tax as follows:

Taxable income (XCD)	Rate (%)
Up to 10,000	10
10,001 – 20,000	15
20,001 – 30,000	20
Over 30,000	30

Each individual must file a tax return by 31 March together with a payment of any tax due. A Pay-As- You-

Earn (PAYE) system is used to deduct tax from the salaries of employees. Penalties exist of 5% of the tax liability (for filing a tax return late) and 10% of the unpaid tax balance plus interest at the rate of 1.04% per month (for late payment of tax due).

OTHER TAXES ON INDIVIDUALS:

STAMP DUTY

Same as for corporations.

PROPERTY TAX

A rate of 0.25% of market value is imposed on residential property.

SOCIAL SECURITY CONTRIBUTIONS

Employees contribute at a rate of 5% of earnings. The contributions ceiling is XCD 250 per month

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Treaties are in force with CARICOM and Switzerland.

	Local	Caricom	Non-Caricom
Dividends	NIL	NIL	NIL
Interests	NIL	15%	15%
Royalties	10%	15%	25%
Management Fees	10%	15%	25%
Branch Remittance Tax	N/A	NIL	NIL

SAUDI ARABIA

MEMBER FIRM

City	Name	Contact Information
Riyadh / Jeddah / Alkhobar	Ibrahim Albassam	+966 50 682 5333 ibrahim.albassam@pkf.com

BASIC FACTS

Full name:	Kingdom of Saudi Arabia
Capital: e	Riyadh
Main language:	Arabic
Population:	32.28 million (2018 estimate)
Monetary unit:	Saudi Riyal (SAR)
Internet domain:	.sa
Int. dialling code:	+966

KEY TAX POINTS

- Saudi-Arabian resident companies, permanent establishments of non-resident companies in Saudi Arabia and non-resident companies with income subject to tax from sources within the Kingdom are chargeable to tax. The applicable income tax rate is 20%, with the exception of tax rates for the Oil & Gas industries.
- Non-resident companies are taxed in Saudi Arabia in so far as they carry on an activity through a permanent establishment (PE) or derive an income in Saudi Arabia. Taxable income of a permanent establishment (branch) is subject to tax at a rate of 20%.

- Capital gains on transferable securities are exempt from tax if the securities are acquired on or after 30 July 2004 and the transfer is effected in accordance with the provisions of the Saudi stock market regulations. Capital gains or losses on non-depreciable assets are taxable or deductible under the standard rules as the case may be.
- There is no tax on employment income in Saudi Arabia.
- The standard rate of Value Added Tax (VAT) is 5% and applies to all supplies of goods and services, except for specific items taxed at a 0% rate or those that are exempt.
- Excise Tax: tax levied on goods having an adverse impact on public health or the environment or on luxury goods in varying proportions, which include soft drinks, energy drinks and tobacco and its derivatives.
- There is no real estate tax in Saudi Arabia but Zakat (religious tax) may be payable on real estate if held for speculative purposes.
- Zakat is payable by individual Saudis and other GCC nationals. Zakat is calculated at the rate of 2.5% and is chargeable on the total of the taxpayer's capital resources and income that are not invested in fixed assets. Only resources (including income) which have been held for at least 12 months are subject to zakat.

A. TAXES PAYABLE

COMPANY TAX

The following are chargeable to income tax:

- Saudi-Arabian resident companies;
- Non-resident companies who do business in the Kingdom through a permanent establishment; and,
- Non-resident companies with income subject to tax from sources within the Kingdom.

A company is considered to be a resident company if it meets either of the following two conditions:

- It is formed under the Kingdom of Saudi Arabian Companies Regulations; and,
- Its place of central control and management is situated within the Kingdom of Saudi Arabia.

A permanent establishment of a non-resident in the Kingdom, unless otherwise provided by the Income Tax Regulation, arises where a non-resident has a permanent place through which it carries out business, in full or in part, including business carried out through an agent. The applicable income tax rate is 20%, with the exception of tax rates for the Oil & Gas industries. The income tax rate applicable to companies engaged in natural gas investment activities is 30% (such companies are subject to a higher tax rate from 30% to 85% based upon the cumulative rate of return). The income tax rate applicable to companies engaged in the production of oil and other hydrocarbons is 85%.

Income tax can be paid in instalments throughout the tax fiscal year and is payable within 120 days of the fiscal year end. Previous years' approved tax losses may be carried forward until fully recovered (using up to 25% of a year's taxable profit to offset approved losses). Heavy penalties, levies and the seizure of taxpayer's property may be imposed for the non-payment of tax and/or for tax evasion.

CAPITAL GAINS TAX

Capital gains on transferable securities are exempt from tax if the securities are acquired on or after 30 July 2004 and the transfer is effected in accordance with the provisions of the Saudi stock market regulations. Capital gains or losses on non-depreciable assets are taxable or deductible under the standard rules as the case may be. Capital gains and losses on depreciable assets are not taken into consideration in determining the tax base. The effect of such gains or losses on the tax base is (partly) reflected by the depreciation method provided for in the Decree and regulations.

BRANCH PROFITS TAX

Non-resident companies are taxed in Saudi Arabia in so far as they carry on an activity through a permanent establishment (PE) or derive an income in Saudi Arabia. Taxable income of a permanent establishment (branch) is subject to tax at a rate of 20%. The following are considered to constitute a permanent establishment:

- Construction sites and assembly facilities;
- Installations and sites used for surveying for natural resources, drilling equipment, and ships used for surveying for natural resource;
- A fixed base where a non-resident natural person carries out business; and,

- A branch of a non-resident entity which is licensed to carry on business in the Kingdom.

A place is not considered a permanent establishment of a non-resident in the Kingdom if it is used in the Kingdom only to do the following:

1. Store, display, or deliver goods or products belonging to the non-resident;
2. Hold a stock of goods or products belonging to the non-resident only for the purposes of processing by another person;
3. Purchasing goods or products only for the collection of information for the non-resident;
4. Performance of any other activities that is preparatory or auxiliary in nature to the interests of the non-resident;
5. Drawing up contracts for signature with regard to credits (loans), delivery of goods, or provision of technical services; or,
6. Execution of any combination of the activities indicated in subparagraphs 1 to 5 above.

As far as capital gains are concerned, non-residents are taxed in the same way as residents.

VALUE ADDED TAX (VAT)

At the end of 2016, the Ministry of Finance announced the introduction of VAT as from January 2018. On 28 July 2017, the General Authority of Zakat and Tax published the VAT law and on 26 August 2017 the VAT implementing regulations were published:

- A taxable person in the Kingdom: a person who conducts an economic activity independently in order to generate income with an annual turnover of at least SAR 375,000 must register for VAT purposes (taxable supplies do not include exempt supplies, supplies falling outside the scope of VAT and revenues derived from the sale of capital assets). However, during a transitional period until 1 January 2019, registration is only required for persons whose annual turnover exceeds SAR 1 million.
- Non-resident persons are required to pay VAT in respect of supplies made or received by them in the KSA and to register for VAT irrespective of the value of the supplies for which they are obliged to collect and pay VAT.

The standard rate of Value Added Tax (VAT) is 5%.

There are three categories of supplies:

1) Standard rate: All supplies of goods or services and imports in the KSA unless they are exempt or zero-rated.

2) Zero rated supplies: is applicable to the following goods and services:

- Exports of goods from the KSA;
- Services provided to non-GCC;
- Transportation services for goods or passengers outside the KSA;
- Medicines and medical equipment (shall be considered as qualifying medicines and medical goods in accordance with such classifications as issued by the Ministry of Health or any other competent authority in the KSA);
- The first supply of qualifying metal by its producer or refiner. Qualifying metal includes gold, silver and platinum at a purity level of no less than 99%.

3) Exempt supplies: is applicable to:

- Life insurances;
- Lease or license of residential real estate;
- Financial services (financial products based on profit margin; operation of current accounts; deposits and savings; interest or lending charges charged with an implicit profit margin for any form of lending including credit cards; interest or lending charges charged with an implicit profit margin for financing including lease financing and issuing or transferring bonds and securities).

INPUT TAX DEDUCTION:

A person who is VAT registered may deduct input VAT charged on goods it purchases or receives and in the course of carrying out an economic activity. Input VAT may be deducted on:

- VAT charged by a VAT-registered supplier in the KSA;

- Self-accounted VAT by the VAT-registered person under the reverse charge mechanism; or
- Import VAT paid to the customs department on the importation of goods.

As a general rule, input VAT which is related to the taxpayer's VAT exempt activities is not deductible. In addition, input VAT may not be deducted on any costs incurred that do not relate to the economic activity of the taxable person (including some blocked expenditure types such as entertainment and motor vehicles), or on any costs which relate to making exempt supplies. This input VAT is a credit entered on the VAT return which is offset against the VAT charged on supplies (output VAT) made during that period.

Companies with annual income in excess of SAR 40 million must file returns on a monthly basis, while companies under this threshold must file returns on a quarterly basis, with payments required to be made within a month of the end of the relevant period.

The Excise Tax has been imposed in mid-2017, with tobacco products subject to a 100% excise tax, soft drinks at 50% and energy drinks at 100%.

FRINGE BENEFITS TAX

There is no tax on employment income in Saudi Arabia.

LOCAL TAXES

There are no local duties payable in Saudi Arabia.

REAL ESTATE TAX

There is no real estate tax in Saudi Arabia but Zakat (religious tax) may be payable on real estate if held for speculative purposes.

OTHER TAXES

Zakat is payable by individual Saudis and other GCC nationals. Zakat is calculated at the rate of 2.5% and is chargeable on the total of the taxpayer's capital resources and income that are not invested in fixed assets. These include the company's capital, net profits, retained earnings and reserves not created for specific liabilities. Only resources (including income) which have been held for at least 12 months are subject to zakat.

B. DETERMINATION OF TAXABLE INCOME

Income is from a source in the Kingdom of Saudi Arabia if it is:

- Derived from an activity that occurs in Saudi Arabia;
- Derived from immovable property located in Saudi Arabia, including gains from the disposal of an interest in such immovable property and from the disposal of shares or partnership interests in a company, the property of which consists, directly or indirectly, principally of interests in such property;
- Derived from the disposal of shares or a partnership interest in a resident company;
- Derived from the rental of movable property used in Saudi Arabia;
- Derived from the sale or license of industrial or intellectual property in Saudi Arabia;
- Shares' profits, management fee, or director's fee paid by a resident entity;
- Payments for services made by a resident entity to its head office or to an affiliated company;
- Payments made by a resident for services performed in whole or in part in Saudi Arabia;
- Amounts for exploitation of a natural resource in Saudi Arabia;
- Attributable to a permanent establishment of a non-resident located in Saudi Arabia.

Tax rates apply to net profits, which are defined as the difference between:

- The gross income, i.e. the sum of all profits, earnings or compensations (regardless of their nature or mode of payment) received in relation to the business activity, including capital gains on fixed assets and occasional profits but excluding exempt income; and,
- Deductible expenses.

The regulations specify that proceeds from the following are part of gross income: buying and selling, financial and commercial transactions, activities pertaining to the dealing in or development of oil or other mineral resources, and transactions concerning movable or immovable property. In addition, commissions, profits on shares and securities and, in general, proceeds from any business transaction the object of which is profit or

from any source of wealth are included in gross income. Exempt income includes capital gains related to the alienation of negotiable securities on the stock market (subject to conditions) and capital gains on the sale of properties which are not part of business assets.

DEDUCTIBLE EXPENSES

All costs and expenses paid or incurred during the tax year to earn taxable income such as salaries and wages, travel expenses which are connected with the business or enterprise, and rent on properties used in the business, are deductible from the tax base. As a general rule, however, expenses are only deductible if they satisfy the following conditions:

- They are actual/real;
- They are related to taxable income (which means that costs related to exempt income will not be deductible);
- They are related to the tax year during which they were incurred;
- They do not increase the value of fixed assets.

The regulations provide for a certain number of other expenses which may be deducted from the tax base. Specifically, the regulations provide for the deduction of:

- Employers' contributions paid for the employees to retirement funds (as defined by the applicable regulations) and to (appropriate) savings funds. The deduction is limited to a maximum of 25% of the employee's income;
- Research and development (R&D) expenses incurred in Saudi Arabia during the tax year. The deduction does not apply to the cost of land and other fixed assets acquired for the purposes of R&D activities. These assets remain depreciable under the standard rules;
- Costs of repair, maintenance and improvement of (depreciable) fixed assets. These costs are deductible from the tax base in the year in which they are incurred. The deduction is limited to 4% of the residual value of the group of assets concerned at the end of the tax year. Any excess over this amount is added to the residual value and depreciated accordingly.

NON-DEDUCTIBLE EXPENSES

The following expenses are not deductible:

- Salaries, wages and the like paid to an entrepreneur, partner or shareholder or to their dependents or relatives, except in the case of stock companies;
- Any amount paid in excess of the actual value of a transaction made with one of the abovementioned persons;
- Leisure expenses such as costs of parties, sports events, travelling expenses, etc.;
- Income tax and related penalties whether due in Saudi Arabia or elsewhere;
- Penalties and fines due to the infringement of applicable regulations;
- Bribes;
- Commissions paid to insurance agents in excess of 3% of the premiums collected by the insurance company in Saudi Arabia;
- Payments made by Saudi branches to headquarters that are wholly owned by foreign companies for:
  - Royalties;
  - Interest or other financial costs;
  - General administrative costs determined by apportionment on a lump-sum basis (see indirect expenses below);
- Amounts paid in excess of normal market prices for transactions made between associated enterprises.

DEPRECIATION

All fixed assets, whether tangible or intangible (except land) are depreciable using the straight-line method of depreciation only. Depreciation is normally calculated on a full-year (12 months) basis. However, where a depreciable asset is brought into the taxpayer's business part way through a fiscal year, the amount of depreciation must reflect the date on which the asset was first put into use. Normally, a monthly pro-rata

basis is acceptable. Depreciation allowances are calculated for groups of assets (and not individually for each asset) at the following rates:

- Buildings: 5%;
- Movable industrial and agricultural facilities: 10%;
- Machinery, factories and equipment, including computer programmes and means of transport: 25%;
- Costs of geological studies, exploring and drilling expenses and costs of preparatory operations for the exploitation and development of natural resources: 20%;
- All other fixed assets, whether tangible or intangible, not covered by the above (including ships, aircraft, trains, furniture, etc.): 10%.

Goodwill may not normally be depreciated whilst the business is run as a going concern. Where goodwill has been purchased for value, it may be treated as a depreciable asset if an individual ruling to that effect is obtained from the Department of Zakat and Income Tax (GAZT).

STOCK/INVENTORY

The cost of inventory is calculated using the absorption cost method. Taxpayers using cash-based accounting may use the direct (or prime) cost method. Closing stock is valued at the book value or the market value whichever is lower. Book value is determined by using the weighted average method. However, the taxpayer may use another method, after obtaining written permission from the GAZT. He may not change this method without the prior approval of the GAZT.

DIVIDENDS

Saudi Arabia resident companies are taxable on dividends receivable whether or not those dividends are received from other Saudi Arabian companies or from overseas.

INTEREST DEDUCTIONS

Interest expenses are deductible up to the following limit (except for banks): (Income from loans + 50% x other income) – Deductible expenses (other than interest).

LOSSES

Operational losses of a business may be carried forward indefinitely. However, the annual deduction is limited to 25% of the profits as shown in the annual return. Losses related to exempt activities may not be deducted or carried forward.

FOREIGN SOURCED INCOME

Resident companies are taxed on their worldwide income, i.e. including income from transactions carried on, or branches situated, abroad. This means that all forms of overseas income are subject to tax under standard rules.

INCENTIVES

Incentives are contained in the Investment Law and its implementing regulations which are:
• 50% of the annual training costs for the Saudi labour; and,

• 50% of their annual wages paid to the Saudis.

C. FOREIGN TAX RELIEF

No relief for foreign taxes is granted under Saudi tax regulations.

D. CORPORATE GROUPS

There is no group tax regime in Saudi Arabia.

E. RELATED PARTY TRANSACTIONS

The GAZT may reallocate revenues and expenses relating to transactions made between related parties or parties under the same control in order to reflect the returns that would have resulted if the parties were independent and unrelated. Companies are deemed to be under common control if the same person or related persons control, directly or indirectly, 50% or more of the voting rights or value of the company.

F. WITHHOLDING TAX

Distributed income (including dividends) paid to non-residents is subject to a 5% withholding tax. However, the withholding tax does not apply to distributions made by companies operating in the Oil & Gas sectors. The regulations define distributed income as any distribution made by a resident company to a non-resident shareholder. Distributed income is also deemed to include profits transferred by a PE to a related entity.

Income from loans paid to a non-resident is subject to a 5% withholding tax. Royalties paid to nonresidents are subject to a final 15% withholding tax. Other withholding taxes are as follows:

- Management fees: 20%;
- Payments made to head office or an associated entity against services: 15%;
- Rent, technical and consultancy services, payments made for air tickets, air freight or marine freight, international telecommunication, dividend, loans fees (interest) and insurance or reinsurance premiums: 5%;
- Any other payments: 15%.

G. EXCHANGE CONTROL

There is no exchange control in operation in Saudi Arabia.

H. PERSONAL INCOME TAX

The following persons are subject to taxation:

- A resident Saudi individual who does business in the Kingdom;
- A non-resident who does business in the Kingdom through a permanent establishment;
- A non-resident with income subject to tax from sources within the Kingdom.

A natural person is resident in the Kingdom for a tax year if he meets either of the following two conditions:

1) He or she has a permanent place of abode in the Kingdom and physically resides in the Kingdom for a period in aggregate of not less than 30 days during the taxable year; or
2) He or she physically resides in the Kingdom for a period of not less than 183 days in the taxable year.

For the purpose of this paragraph, presence in the Kingdom for part of a day is considered presence for the whole day. Presence in case of transit between two points outside the Kingdom is not included. Only business income earned by individuals is taxable. There is no tax on employment income. Business and professional income is taxed in the same way and under the same rules as corporate profits. Individuals not carrying on a business or professional activity are not taxed on interest and dividend income. Individuals carrying on a business or professional activity are taxed at the same rate (i.e. 20%) and under the same rules as corporate entities. Income tax can be paid by instalments throughout the tax fiscal year. Income tax is payable within 120 days of fiscal year end.

SOCIAL SECURITY CONTRIBUTIONS

With effect from 26 March 2001, employees pay a contribution of 9% for insurance relating to old age, disability and death. Certain employees such as civil servants, artisans, farmers, seamen, domestic servants, etc. are excluded from the insurance scheme. Note, however, that the three latter categories of persons may be covered by the scheme on the basis of a ministerial decision. Furthermore, persons carrying on independent business activities such as professionals, tradesmen, artisans, etc. and employer's family members employed in a family-run enterprise where no other workers are employed may request to be covered by the scheme.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Recipient	Dividends (%)	Interest (%)	Royalties (%)
Non-treaty	5	5	15
Treaty:			
1. Algeria	0	0	7
2. Austria	5	5	10

3. Azerbaijan	5/5/7[17]	7	10
4. Bangladesh	10	7.5	10
5. Belarus	5	5	10
6. China	5	10	10
7. Czech Republic	5	0	10
8. Egypt	5/10[21]	10	10
9. Ethiopia	5	5	7.5
10. France	0	0	0
11. Greece	5	5	10
12. Hungary	5	0	5/8[18]
13. India	5	10	10
14. Ireland	0/5[13]	0	5/8[11]
15. Italy	5/10[1]	5	10
16. Japan	5/10[9]	10	5/10[10]
17. Kyrgyzstan	0	0	7.5
18. Luxembourg	5	0	5/7[14]
19. Macedonia	5	5	10
20. Malaysia	5	5	8
21. Malta	5	0	5/7[14]
22. Netherlands	5/10[2]	5	7
23. Pakistan	5/10[3]	10	10
24. Portugal	5/10[20]	10	8
25. Poland	5	5	10
26. Romania	5	5	10
27. Russia	5	5	10
28. Singapore	5	5	8
29. South Africa	5/10[2]	5	10
30. South Korea	5/10[4]	5	5/10[10]
31. Spain	0/5[5]	5	8
32. Syria	0	7.5	15
33. Sweden	5/10[20]	0	5/7[14]
34. Tajikistan	5/10[19]	8	8
35. Tunisia	5	2.5/5[16]	5
36. Turkey	5/10[6]	10	10
37. Turkmenistan	10	10	10
38. Ukraine	5/15[15]	10	10

39. United Kingdom	5/15[7]	0	5/8[11]
40. Uzbekistan	7	7	10
41. Venezuela	5	5	8
42. Vietnam	5/12.5[8]	10	7.5/10[12]

Notes:

1. Should not exceed:
   - 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that has owned, directly or indirectly, at least 25% of the capital of the company paying the dividends for a period of at least 12 months preceding the date the dividends were declared.
   - 10% of the gross amount of the dividends in all other cases.
2. Should not exceed:
   - 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that directly holds at least 10% of the capital of the company paying the dividends.
   - 10% of the gross amount of the dividends in all other cases.
3. Should not exceed:
   - 5% of the gross amount of dividends if the beneficial owner is (i) a company or (ii) an entity wholly owned by the government.
   - 10% of the gross amount of the dividends in all other cases.
4. Should not exceed:
   - 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that directly holds at least 25% of the capital of the company paying the dividends.
   - 10% of the gross amount of the dividends in all other cases.
5. Should not exceed:
   - 5% of the gross amount of the dividends.
   - The contracting state of which the company paying the dividends is a resident Should exempt from tax the dividends paid by that company to a company (other than a partnership) that is a resident of the other contracting state, as long as it directly holds at least 25% of the capital of the company paying the dividends.
6. Should not exceed:
   - 5% of the gross amount of the dividends:
     a) If the beneficial owner is a company (other than a partnership) that directly holds at least 20% of the capital of the company paying the dividends; or,
     b) If the beneficial owner is central bank or an entity that is wholly owned by the government. • 10% of the gross amount of the dividends in all other cases.
7. Should not exceed:
   - 15% of the gross amount of the dividends where qualifying dividends are paid by a property investment vehicle.
   - 5% of the gross amount of the dividends in all other cases.
8. Should not exceed:
   - 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) that directly holds at least 50% of the capital of the company paying the dividends, or has invested USD 20 million or more, or any equivalent currency, in the capital of the company paying the dividends.
   - 12.5% of the gross amount of the dividends in all other cases.
9. Should not exceed:
   - 5% of the gross amount of the dividends if the beneficial owner is a company that holds, directly or indirectly, during the period of 183 days ending on the date on which entitlement to the dividends is

determined, at least 10% of the voting shares or of the total issued shares of the company paying the dividends.

- 10% of the gross amount of the dividends in all other cases.

10. Should not exceed:
    - 5% of the gross amount of the royalties that are paid for the use of, or the right to use, industrial, commercial, or scientific equipment.
    - 10% of the gross amount of the royalties in all other cases.
11. Should not exceed:
    - 5% of the gross amount of the royalties that are paid for the use of, or the right to use, industrial, commercial, or scientific equipment.
    - 8% of the gross amount of the royalties in all other cases.
12. Should not exceed:
    - 7.5% of the gross amount of such royalties that are paid for rendering of any services or assistance of a technical or managerial nature.
    - 10% of the gross amount of such royalties in all other cases.
13. Should not exceed:
    - 5% of the gross amount of the dividends.
    - The contracting state of which the company paying the dividends is a resident Should exempt from tax the dividends paid by that company to a company (other than a partnership) that is a resident of the other contracting state, as long as it directly holds at least 25% of the capital of the company paying the dividends or when paid to the government, the central bank, or any institution, agency, or fund wholly owned by the government of Ireland.
14. Should not exceed:
    - 5% of the gross amount of the royalties that are paid for the use of, or the right to use, industrial, commercial, or scientific equipment.
    - 7% of the gross amount of the royalties in all other cases.
15. Should not exceed:
    - 5% of the gross amount of the dividends if the beneficial owner directly holds at least 20% of the capital of the company paying the dividends.
    - 15% of the gross amount of the dividends in all other cases.
16. Should not exceed:
    - 2.5% of the gross amount of income from debt-claims for banking institutions.
    - 5% of the gross amount of income from debt-claims in all other cases.
17. Should not exceed:
    - 5% of the gross amount of dividends where qualifying dividends are paid to government or another entity owned by government.
    - 5% of the gross amount of dividends where the investment is USD 300,000 or more (or equivalent by other currency).
    - 5% of the gross amount of dividends in all other cases.
18. Should not exceed:
    - 5% of the gross amount of the royalties that are paid for the use of, or the right to use, industrial, commercial, or scientific equipment.
    - 8% of the gross amount of the royalties in all other cases.
19. Should not exceed:
    - 5% of the gross amount of dividends where qualifying dividends are paid to a partner company (not joint venture) that owns at least 25% of the capital of the distributer company.
    - 10% of the gross amount of dividends in all other cases.

20. Should not exceed:
    - 5% of the gross amount of dividends where qualifying dividends are paid to a partner company (not joint venture) that owns at least 10% of the capital of the distributer company.
    - 10% of the gross amount of dividends in all other cases.
21. Should not exceed:
    - 5% of the gross amount of dividends where qualifying dividends are paid to a partner company (not joint venture) that owns at least 20% of the capital of the distributer company.
    - 10% of the gross amount of dividends in all other cases.

SERBIA

MEMBER FIRM

City	Name	Contact Information
Belgrade	Petar Grubor	+381 11 3018 445 petar.grubor@pkf.rs

BASIC FACTS

Full name:	Republic of Serbia
Capital:	Belgrade
Main language:	Serbian
Population:	8.77 million (2018 estimate)
Monetary unit:	Serbian Dinar (RSD)
Internet domain:	.rs
Int. dialling code:	+381

KEY TAX POINTS

- Corporate income tax is payable by a resident who is a legal entity established or has its place of effective management and control in the territory of the Republic of Serbia. Non-residents are taxed only on their income sourced through a permanent establishment in Serbia.
- The standard rate of Value Added Tax is 20%. A reduced rate of 10% applies to certain hospitalityrelated and other goods and services.
- A 20% withholding tax is applicable to various forms of payments to non-residents including: interest, dividends, royalties, rental fees, capital gains and certain service fees.
- Income tax is chargeable on all Serbian residents in respect of income generated in Serbia and other countries and non-residents on income sourced in the Republic of Serbia.

A. TAXES PAYABLE

CORPORATE TAX

Corporate income tax is payable by the following:

- Resident who is a legal entity established or has its place of effective management and control in the territory of the Republic of Serbia. Residents are taxed on their income generated in the territory of the Republic, as well as on worldwide income.
- Non-residents are taxed only on their income sourced through a permanent establishment in Serbia. A permanent establishment is any permanent place of business through which a non-resident conducts his business.

A taxable entity includes a company registered as a joint stock company, a limited liability company, a general partnership, limited partnership, a socially owned company or a public enterprise, co-operative, branch office or any other legal entity generating income from the sale of goods or rendering services to the market. The

tax year is the same as the calendar year, although a different tax year may be used if approved by the tax authorities. A tax period may not exceed 12 months in length and may only be changed once every five years. A tax return must be filed with the tax authorities within 180 days after the end of the tax year. A monthly instalment payment system is applicable during the year and it is based on profit computed in the previous period. The tax rate on all profits and gains is 15%.

BRANCH PROFITS TAX

Branch profit are treated as ordinary income and taxed accordingly.

CAPITAL GAINS TAX

Gains from the sale of capital assets are included in a company's taxable income and taxed at the same rate as other profits. Capital losses may be offset against capital gains in the year they arose. Capital losses may be carried forward for five years but may not be carried back.

VALUE ADDED TAX (VAT)

According to the VAT law, a taxpayer is an entity that independently trades in goods and services as a producer, trader or provider of services for the purpose of profit. The VAT rules also apply to the following:

- Tax representative of foreign entities;
- Recipients of goods and services if a foreign entity does not assign a tax representative;
- Entities that account for VAT in their invoices but are not obliged to pay tax according to the Law on VAT;
- Entities that import goods;
- Recipient of construction services;
- Recipient of electrical energy and natural gas if they are purchased for resale;
- Recipient of secondary raw materials.

Taxpayers whose total turnover did not exceed RSD 8,000,000 in the preceding calendar year are not obliged to register as VAT taxpayers. The taxable amount tor domestic goods and services is the sales price, including excise and duty costs and all secondary expenses charged to the recipient of the goods and services. The standard rate is 20%. A reduced rate of 10% applies to certain hospitality-related and other goods and services.

CUSTOMS DUTIES

Goods imported into Serbia are subject to customs duty rates provided in the Law on Customs Tariff. These rates are ad valorem (the only exception is related to the importation of other cigarettes containing tobacco, where a combined ad valorem and specific customs duty rate is prescribed) and apply to goods originating in countries that have a most favoured nation (MFN) status in trading with Serbia.

Goods originating in other countries are subject to MFN duty rates increased by 70%. At the moment, the only trading partner with Serbia that does not have MFN status is Taiwan. Customs duty rates in Serbia range from 0% to 57.6%, with most being under 30%. At the moment, the 57.6% rate only applies to cigarettes containing tobacco.

EXCISE DUTIES

Special excise duties apply to the following:

- Oil derivatives;
- Biofuels and biodiversity;
- Tobacco products, including tobacco products which are heated but not burned;
- Alcoholic beverages;
- Coffee;
- Fluids for filling electronic cigarettes and
- Electricity for final consumption.

Excise duty in Serbia is specific (for oil derivatives, alcoholic beverages, cigars, cigarillos, and coffee), ad valorem (for pipe tobacco), and combined (specific + ad valorem on retail price for cigarettes). Excise duties stated in Serbian currency are adjusted on a current year basis according to variations in the consumer

price index (CPI) declared for the previous year by the relevant government body in charge of statistics. For oil derivatives, the government can modify the specific excise duty amounts during the year according to changes in market prices of crude oil.

REAL ESTATE TRANSFER TAX

This is payable by the person or entity acquiring the real estate. The tax rate is 2.5%. The tax base is the contract value unless it is lower than market value on the date of acquisition.

LOCAL TAXES

There are no local taxes on income in Serbia.

PROPERTY TAX

Property tax is payable in Serbia by all legal entities and individuals who own or have rights over real estate located in the Republic of Serbia such as:

- Rights to usufruct;
- Right to use and inhabit;
- Tenancy right of one year or for indefinite period of time; and,
- Urban usage right (municipal, public and other state-owned land) exceeding 1,000 square meters in area.

If the legal owner of real estate is not known or cannot be determined, the property tax is levied on the person with beneficial ownership of the property (e.g. a tenant). Where the taxpayer keeps books, the property tax on real estate is levied at a flat rate of 0.40%. Where the taxpayers do not keep books, the maximum property tax on land is 0.30%. If the taxpayer is an individual or entrepreneur who is taxed on the so-called lump-sum income basis, the rates of property tax on real estate are progressive, as shown in the following table:

Number	Tax Base	Tax Liability
1.	To RSD 10,000,000	Until 0.40%
2.	From RSD 10,000,000 to RSD 25,000,000	Tax from point 1 plus 0.6% on amount over RSD 10,000,000
3.	From RSD 25,000,000 to RSD 50,000,000	Tax from point 2 plus 1.0% on amount over RSD 25,000,000
4.	Over RSD 50,000,000	Tax from point 3 plus 2.0% on amount over RSD 50,000,000

A taxpayer does not pay property tax relating to the ownership of real estate with a total value not exceeding RSD 400,000. Property tax is assessed on the basis of the facts reported in the tax return in the first taxable year applicable to that property. In subsequent years, the tax return should only be submitted if the facts relevant to the liability have changed. Property tax is paid quarterly within 45 days from the beginning of the three month period.

TRADE NAME TAX

This is payable by individuals and legal entities which are liable to pay corporate income tax or personal income tax and are registered for the performance of a business activity.

PAYROLL TAXES

Employers are liable to withhold personal income tax (PIT) and social security contributions on payment of salaries to employees, at the following rates:

- 10% PIT;
- 19.9% social security contributions payable by the employee;
- 17.9% social security contributions payable by the employer.

The tax and contributions base is gross salary. The social security contributions base is limited to five average monthly salaries in Serbia.

B. DETERMINATION OF TAXABLE INCOME

Taxable profits are those calculated under the accounting regulations, adjusted in accordance with the provisions of the Corporate Income Tax Law.

OPERATIONAL EXPENSES

Expenses which are not recognised as expenses for corporate income tax purposes and lead to significant adjustments include:

- Expenses which cannot be documented;
- Bad debt provisions for receivables to entities that are also creditors, to the liability amount;
- Gift and contributions to political organizations;
- Gifts if the recipient is a related entity;
- Interest payable for untimely payment of interests between related parties;
- Interest payable for untimely payment of taxes, contributions and other public charges;
- Cost of forced collection of tax and other debts and cost of tax offence proceedings and other proceedings conducted by competent authorities;
- Fines levied by competent authorities, penalty clauses and penalties;
- Expenses incurred other than for the purpose of conducting business activities.

Expenditure recognised for corporate income tax purposes up to certain amounts including:

- Depreciation computed in accordance with tax depreciation rules;
- Bad debt provisions, write-off of receivables and general provisions;
- Expenses for health care, scientific, educational, humanitarian, religious, ecological and sportrelated purposes are tax-deductible up to 5% of total revenue;
- Expenses for cultural purposes are tax-deductible up to 5% of total revenue;
- Membership fees paid to chambers of commerce and other associations (except political parties) are deductible up to 0.1% of gross revenue;
- Advertising and promotional expenses are tax deductible up to 10% of total revenue;
- Business entertainment expenses are tax deductible up to 0.5% of total revenue.

FIXED ASSETS

According to the Corporate Income Tax Law, fixed assets are tangible and intangible assets of which the service life is longer than a year and recognised in the records as fixed assets except natural resources and goodwill. Fixed assets are divided into five groups with depreciation rates prescribed for each as follows:

Depreciation Group	Depreciation Rate
I	2.5%
II	10.0%
III	15.0%
IV	20.0%
V	30.0%

A straight-line depreciation method is prescribed for the first group. A declining balance method is prescribed for assets in other groups. Detailed regulation of the division of fixed assets into groups, and the method of determining depreciation, is prescribed under the special Rulebook issued by the Ministry of Finance.

Depreciation of intangible assets is carried out using a proportional method in proportion to the lifetime defined by the moment of recognition of those assets in the debtor's records in accordance with accounting regulations.

VALUATION OF INVENTORY

Cost of materials and the purchase value of merchandise are tax deductible up to the amount calculated by applying the average weighted cost method or FIFO method. If another method is used, an adjustment for tax purposes should be made.

PROVISIONS AND RESERVES

Provisions for bad and doubtful debts are tax deductible if at least 60 days have expired from the due date. A provision has to be made individually for each debt. A write-off of an individual debt, (except for those from debtors which are also creditors) is recognised as an expense under the following conditions:

- The debt has been written off as uncollectible;
- Related revenue has already been recognised;
- The taxpayer has initiated a court procedure to collect debt or duly reported the receivables in case of liquidation or bankruptcy procedure over the debtor.

Long-term reserves are recognised for tax purposes if they are made for the renewal of natural resources, warranty period costs and retained caution money and deposits.

DIVIDENDS

Dividends and other income that constitutes a share in the profit of resident companies is not included in the tax base if received from resident companies.

INTEREST DEDUCTIONS

Interest payable is generally tax deductible except for interest payable on taxes, contributions and other public charges, fines and penalties. However, rules restrict deductions for interest on any loan owed to related parties if the loan is more than four times the net asset value of the company.

LOSSES

Ordinary losses may be carried forward for five years but may not be carried back.

C. FOREIGN-SOURCED INCOME

Companies resident in Serbia are taxed on their worldwide income. When profit generated in another country is taxed in the foreign country, a company has the right to decrease its tax liability by claiming a tax credit from the tax authorities in Serbia. There are no provisions that provide for the possibility that taxation of income earned abroad may be deferred.

D. INCENTIVES

A taxpayer who invests at least RSD 1,000,000,000 in fixed assets and additionally employs at least 100 employees is entitled to tax relief for the next ten years in respect of the invested asset. Every nonprofit organisation with excess income up to RSD 400,000 is tax exempt if it fulfils several conditions.

E. FOREIGN TAX RELIEF

Double tax relief is available under the provisions of various double tax treaties with other territories. Unilateral relief is available in other cases by means of a credit for overseas taxes against the Serbian tax payable on the same income.

F. CORPORATE GROUPS

Parent and subsidiary companies are recognised as a group for tax consolidation purposes if the parent has direct or indirect control of at least 75% of the subsidiary's share capital. All members of the group must be resident companies. Once approved, tax consolidation must be applied for the next five years.

G. RELATED PARTY TRANSACTIONS

A transfer price is the price of transactions between related parties. Related parties exist if there is a possibility of control or influence over business decisions between them. Ownership of 25% or more, or a majority of shares, is considered as potential control. Influence over business decisions exists when an associated party holds 25% or more, or individually holds the greatest portion, of votes in the taxpayer’s management bodies. If the same persons participate in management or control of both companies, a connection between them will be deemed to exist.

Close family members are also regarded as related parties. Non-resident entities from tax havens are considered as related parties of resident entities. The Serbian Ministry of Finance prescribed the list of countries that are to be considered as tax havens for the application of relevant CIT Law provisions. A company should disclose transactions with related parties separately at transfer prices and at arm's length prices in its CIT calculation. Positive difference between these prices (adjustments of expenses) and negative difference (adjustments of revenues) are included in taxable profit.

Serbian CIT Law recognises the following methods for determining at arm's length prices:

- Comparable uncontrolled price (CUP);
- Cost plus;
- Resale minus;
- Transactional net margin (TNMM);
- Profit split;
- Any other method that allows determination of at arm's length prices if none of the above methods can be applied.

It is mandatory to prepare and submit transfer pricing documentation together with the CIT return for periods starting from 1 January 2013.

Transfer pricing rules for intra-group loans

Any interest incurred on related party loans exceeding the at arm's length interest rate is not tax deductible. At arm's length interest is deemed to be the:

- Weighted average key policy rate for the tax period, for loans denominated in dinars, and
- Weighted average interest rate at which domestic banks borrowed from foreign lenders in related tax period, for foreign currency loans.

These indicators are determined by the National Bank of Serbia and published by the Ministry of Finance. However, taxpayers are entitled to determine market interest rates by using all general methods for determining at arm's length interest rates. In case the taxpayer decides to determine interest rates by applying general methods, he will have to apply such interest rates for the assessment of all related party loans.

Transfer pricing rules in this respect are applied up to the amount of tax deductible interest determined in accordance with the thin capitalisation threshold.

Thin capitalisation

The interest and related costs will be fully deductible if the loans from related parties do not exceed four times the taxpayer's net equity, i.e. a debt-to-equity ratio of 4:1 (ten times for banks and leasing companies). The amount of a taxpayer's net equity for this purpose is calculated as the average of the total assets less total liabilities at the beginning and the end of the year, while the amount of loans from related parties is calculated as a daily average for the year. In cases where the loans from related parties exceed the prescribed threshold, the amount of non-deductible interest will be calculated as proportional to the amount of loans exceeding the 4:1 (10:1) threshold.

H. WITHHOLDING TAX

A 20% withholding tax is applicable to various forms of payments to non-residents including:

- Interest;
- Dividends;
- Royalties;
- Rental fee;
- Capital gains; and,
- Certain service fees.

Special withholding tax rules apply in case of non-resident entities from tax havens. Withholding tax is payable at the rate of 25% on royalties, interest, income from lease of immovable property and other assets, and service fees paid to non-resident entities from tax havens. Dividend payments to nonresidents from tax havens are subject to withholding tax at 20%. The Serbian Ministry of Finance publishes a list of jurisdictions

that are regarded as tax havens. Withholding tax rates envisaged by applicable DTTs are provided in the following table in section K.

I. EXCHANGE CONTROL

There are no exchange controls in Serbia.

J. PERSONAL TAX

INCOME TAX

Income tax is chargeable on all Serbian residents in respect of income generated in Serbia and other countries and non-residents on income sourced in the Republic of Serbia.

A Resident of the Republic of Serbia (hereinafter referred to as "resident') is each person who:

- Has a personal residence or his centre of interests in Serbia;
- Resides in Serbia for at least 183 days, whether or not consecutively, within a period of 12 months beginning or ending in the respective taxation year.

Serbian residents are taxed on their worldwide income including:

- Income from wages (tax rate -10%);
- Income from agricultural activity and forestry (tax rate - 20%);
- Income from independent personal activities (tax rate - 10%);
- Income from royalties etc. (tax rate - 20%);
- Income from capital (tax rate - 15%);
- Income from property and property rights (tax rate - 15% and 20% on rental fees);
- Capital gains (tax rate - 15%); and,
- Other income (tax rate - 20%).

Annual personal tax is paid under a withholding tax system. Tax credits are available for overseas taxes up to the amount of tax suffered in Serbia on the income concerned.

INCOME FROM WAGES

Income from wages represents earnings based on the full and part-time employment based on contracts concluded with the employer, or with the Youth Cooperative, until the age of 26. Income from wages is tax chargeable either earned in cash or cash equivalents, shares (except the shares assigned in process of privatization) and similar.

The taxable person is the employee, but the employer is responsible for calculating and withholding personal income tax on behalf of his employees. The tax rate is currently 10%. Specified types of income, up to the prescribed amounts, are tax exempt. They include public transportation cost for home to office travel and daily allowances for business trips. In certain cases, non-residents working for diplomatic and consular missions or international organizations in Serbia are not taxable.

ANNUAL INCOME TAX

Annual income tax is also payable on any amount exceeding three times the annual average wage. It is payable based on the following rates:

- Any amount up to six times the average annual salary - 10%;
- Any amount higher than six times the average annual salary - 10% of six times the average annual salary + 15% on the amount which exceeds six times the average annual salary.

K. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	20/25	20	0/20/25	20/25
Individuals	15	-	0/15	20
Treaty countries:				
Albania	15	5	10	10
Armenia	8	8	8	8
Austria	15	5	10	5/10
Azerbaijan	10	10	10	10
Belarus	15	5	8	10
Belgium	15	10	15	10
Bosnia and Herzegovina	10	5	10	10
Bulgaria	15	5	10	10
Canada	15	5	5	10
China	5	5	10	10
Croatia	10	5	10	10
Cyprus	10	10	10	10
Czech Republic	10	10	10	5/10
Denmark	15	5	0	10
Egypt	15	5	15	15
Estonia	10	5	10	5/10
Finland	15	5	0	10
France	15	5	0	0
Germany	15	15	0	10
Georgia	10	5	10	10
Greece	15	5	10	10
Hungary	15	5	10	10
India	15	5	10	10
Iran	10	10	10	10
Ireland	10	5	10	5/10
Italy	10	10	10	10
Kazakhstan	15	102	10	10

Korea (North)	10	10	10	10
Korea (South)	10	5	10	5/10
Kuwait	10	5	10	10
Latvia	10	5	10	5/10
Libya	10	5	10	10
Lithuania	10	5	10	10
Luxembourg	10	5	10	5/10
Macedonia (FYR)	15	5	10	10
Malaysia	–	–	10	10
Malta	10	5	10	5/10
Moldova	15	5	10	10
Montenegro	10	10	10	5/10
Netherlands	15	5	0	10
Norway	15	5	10	5/10
Pakistan	10	10	10	10
Poland	15	5	10	10
Qatar	10	5	10	10
Romania	10	10	10	10
Russia	15	5	10	10
Slovak Republic	15	5	10	10
Slovenia	10	5	10	5/10
Spain	10	5	10	5/10
Sri Lanka	12.5	12.5	10	10
Sweden	15	5	0	0
Switzerland	15	5	10	0/10
Tunisia	10	10	10	10
Turkey	15	5	10	10
Ukraine	10	5	10	10
United Arab Emirates	10	5	10	10
United Kingdom	15	5	10	10
Vietnam	15	10	10	10

SEYCHELLES

MEMBER FIRM

City	Name	Contact Information
Mahe	Nico Ackermann	+248 434 6770 nico.ackermann@pkf.com

BASIC FACTS

Full name:	Seychelles
Capital:	Victoria
Main language:	Seychellois Creole, English, French
Population:	95,163 (2018 estimate)
Monetary unit:	Seychellois Rupee (SCR)
Internet domain:	.sc
Int. dialling code:	+248

KEY TAX POINTS

- For companies, the standard Business Tax rate is 25% on the first SCR 1,000,000 of taxable income and 30% on the remainder.
- There is no capital gains tax in the Seychelles.

A. TAXES PAYABLE

PROFITS TAX

For sole traders and partnerships, the Business Tax rate is 0% on the first SCR 150,000 of taxable income, 15% on the next SCR 850,000 of taxable income and 30% on the remainder.

For companies, the Business Tax rate is 25% on the first SCR 1,000,000 of taxable income and 30% on the remainder.

Businesses with a turnover of less than SCR 1,000,000 are eligible for the Presumptive Tax system and their turnover is taxed at a flat rate of 1.5%.

TAX TYPE	RATE OF TAX
Business Tax	FIRST SCHEDULE
Individual and Partnership	0% of the first taxable income; 15% between SCR150,001 and 1,000,000 of taxable income and 30% on the remainder
Company, government body or a trustee	25% on the first SCR 1,000,000 of taxable income, and 30% on the remainder
Telecommunications service providers, banks,	25% on the first SC 1,000,000 of taxable income and 33% on the remainder
Insurance companies, alcohol and tobacco manufacturers	3% on the gross amount received

Non-resident Person operating a ship or aircraft for the carriage of passenger, mail, merchandise, etc Or goods embarked in Seychelles	15% on the gross amount of dividend, interest, royalty, natural resources amount or technical services fee, The rate applicable under a taxation agreement entered between the Government of Seychelles and a Government of a foreign country 5% on insurance premium 15% in case of technical fees other than managerial fees payable to a non-resident by a financial institution operating in Seychelles
Offshore Banking	3% of the taxable business income generated by and sources from a non-resident person or an entity incorporated or registered in Seychelles which has personal and economic relations or place of effective management outside Seychelles
Presumptive Tax	TENTH SCHEDULE
A small business with the turnover of less than SCR1,000,000 and not registered for VAT	1.5% on the annual turnover
Business tax	EIGHT SCHEDULE
Tourism Sector and Agriculture & Fisheries Sector	0% of the first SCR 250,000 of taxable income; and 15% of the remainder
Business Tax	SEVENTH SCHEDULE
International Corporate Service Providers (CSP)	15% of fees in respect of incorporation or registration; 7.5% of fees in respect of annual renewal of license and 5% of all other fees
Companies Special License (CSL)	1.5% on global taxable income
Offshore Dredging, reclamation and Related Marine work	3% on total turnover
Residential Dwelling	15% of the gross rental income
Licensees under the Mutual Fund and Hedge Fund Act, 2008	10% of fees in respect of new mutual fund license and all other fees under that Act
Licensees under the Securities Act 2007	1.5% in respect of the assessable income
Company listed under the Seychelles Securities exchange	25% on the taxable income
Private Educational Institution	15% on the taxable income
Private Medical Service provider	15% on the taxable income
Business Tax	FOURTH SCHEDULE-PAY-SPECIFIED BUSINESS
Building Contractor Maintenance contractor Mechanic (motor vehicle, marine or refrigeration) Hirer or operator of plant, equipment including sea vessels, motor vehicle used for the transportation of goods and towing Hirer of Public omnibus	Person making payment to a specified business shall withhold 5% tax from the gross payment

A Business Tax year is a period of 12 months beginning 1st January and ending on 31st December each year. An annual tax return needs to be filed by 31st of March each year. There are two types of returns to choose from: A Presumptive Tax Return or Business Tax Return.

PRESUMPTIVE TAX RETURN

A one-page Presumptive Tax return if the income earned is less than SCR 1 million or even if the business has been in operation for less than a year.

BUSINESS TAX RETURN

A five-page Business Tax return which is required to be completed by all business with income received in excess of SCR 1 million. A set of accounts are not required to be submitted with the Tax return. They must however be submitted on request. Lodge a nil return if the business is dormant/not operational and lodge a Business Tax Return even when the business has been in operation for less than a year.

CAPITAL GAINS TAX

Capital gains are exempt from tax in the Seychelles.

BRANCH PROFITS TAX

There is no distinction between branch profits tax and corporation profits tax.

SALES TAX / VALUE ADDED TAX (VAT)

VAT is compulsory for businesses with annual taxable supplies made or expected of SCR 2,000,000 or more and on a voluntary basis for supplies less than SCR 2,000,000. The standard rate of VAT is 15% and 0% for zero rated supplies.

DIVIDENDS

Dividends paid to resident persons are not subject to withholding tax. Dividends paid to non-residents are subject to withholding tax of 15%. Dividends received from non-resident companies are non-taxable.

B. DETERMINATION OF TAXABLE INCOME

The taxable income of a business for a tax year is the amount remaining after deducting from the assessable income of the business for the year all allowable deductions.

DEPRECIATION

Depreciable assets costing SCR 10,000 or less: 100%;

Computers, research and development expenditure, data handling equipment, and approved environmental machinery: 40%;

Hotels: 20% in first tax year and 10% for each subsequent tax year;

Business buildings, ships and aircraft: 4%;

Other: 20%.

ASSET	Rate (%)
Plant & Machinery	20%
Office Equipment	20%
Vehicles	20%

STOCK / INVENTORY

For tax purposes, inventory may be valued at the lower of cost or market value, or at replacement cost.

PROVISIONS

Provisions are non-deductible.

INTEREST DEDUCTIONS

A business is allowed a deduction for any interest expense incurred by the business in a tax year to the extent to which the business has used the funds or benefit of the debt or other instrument or agreement giving rise to the interest to derive taxable business income.

LOSSES

If the total amount of deductions allowed to a business for a tax year exceeds the total assessable income of the business for the year, the amount of the excess is the net loss of the business for the year. If a business has a net loss for a tax year, the amount of the loss is carried forward to the following tax year and allowed as a deduction in computing the taxable income of the business for that following year. Losses can be carried forward for 5 years.

FOREIGN SOURCE INCOME

Foreign-sourced income is untaxed in the Seychelles.

TAX INCENTIVES

To further encourage investment in the Seychelles, certain businesses have been given various tax incentives. Some of these businesses include farming entities, fisheries, boat owners, hotels and guesthouses. The incentives include reduced tax rates, tax credits and special deductions. Businesses that fall in this section are taxed at 0% on the first SCR 250,000 and at 15% on the remainder.

C. FOREIGN TAX RELIEF

Since foreign-sourced income is untaxed in the Seychelles, it does not grant relief for foreign taxes paid.

D. CORPORATE GROUPS

Consolidated returns are not allowed. Each company has to submit its own tax return.

E. RELATED PARTY TRANSACTIONS

Transactions between related parties must be at arm's length.

F. WITHHOLDING TAX

Withholding tax in the Seychelles:

- 15% on dividends paid to non-residents;
- 15% on interests paid to non-residents other than financial institutions (for whom a nil rate applies);
- 15% on royalties paid to residents;
- 15% on certain types of royalties paid to non-residents (copyright, patent, design and trademark royalties are exempt);
- 15% on technical service fees paid to a non-resident company in respect of the supply of scientific, technical, industrial or commercial knowledge.

G. EXCHANGE CONTROL

No exchange controls exist in the Seychelles.

H. PERSONAL TAX

All persons in employment are liable for income tax, unless the monthly salary including taxable allowances is less than SCR 8555.50. Income Tax is a tax deducted from the income of each employee on a monthly basis. The employer is liable to deduct this tax and remit to SRC. Income tax is due on the emolument of the employee when the salary is paid.

Amount (SCR)	Rate
Up to 8,555.50	0%
8,555.50 – 10,065.29	0.15 – [8,555.50 – (A*0.85)]/A[1]
Over 10,065.29	15%

1. where A are gross emoluments.

All employees earning in excess of SR10,065.29 pay 15% income tax. There are special rates of tax for certain category of businesses.

The due date for payment is 21st of each month. All income tax deduction must be recorded on a payroll and attached to a Business Activity Statement every month. The payroll must contain the details of each employee, the taxable and non-taxable salary and allowances and the tax applicable.

Employees are encouraged to verify whether their employer is remitting the tax deducted from their salary every month. Late payment of income tax is liable to a penalty of 10% per annum.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)	Interest (%)	Royalties (%)
Non-treaty countries	15	15	15
Treaty countries:			
Barbados	5	5	5
Belgium	0/5/15[10]	5/10	5
Botswana	5/10[3]	7.5	10
China	5	10	10
Cyprus	0	0	5
Guernsey	0	0	5
Indonesia	10	10	10
Isle of Man	0	0	5
Jersey[1]	0	0	0
Luxembourg	0/10[4]	5	5
Malaysia	10	10	10
Mauritius	0	0	0
Monaco	7.5	5	10
Oman	0/5[5]	5	10
Qatar	0	0	5
San Marino	0/5	0/5[8]	0
Singapore	0	12	8
South Africa	5/10[7]	0	0
Sri Lanka	7.5/10[3]	10	10
Thailand	10	10/15[9]	15
United Arab Emirates	0	0	5
Vietnam	10	10	10
Zambia	5/10[3]	5	10
Zimbabwe[2]	10	10	10

Notes:

1. Effective 1 January 2018.
2. Not yet effective.

3. The reduced rate applies if the beneficial owner is a company which holds at least 25% of the capital of the paying company.
4. The 0% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the paying company.
5. The 0% rate applies to dividends paid to the Government, including local authorities thereof, a political subdivision, the Central Bank or any financial institution controlled by the Government.
6. The 5% rate applies if the beneficial owner is a company which has held directly at least 10% of the capital of the paying company for an uninterrupted period of at least 12 months prior to the decision to distribute the dividends. The 0% rate applies in all other cases.
7. The reduced rate applies if the beneficial owner is a company which holds at least 10% of the capital of the paying company.
8. The 0% rate applies to interest on debt-claims or loans paid to banks and financial institutions and on deposits made with banking or financial institutions while the 5% rate applies in all other cases.
9. The reduced 10% rate applies to interest paid to financial institutions (including insurance companies).
10. The 0% rate applies if the beneficial owner of the dividends is a resident company of the other state and which at the moment of the payment of the dividends holds, for at least 12 months (uninterrupted), shares representing directly at least 25% of the capital of the company paying the dividends. The 5% rate applies if the beneficial owner is a company which holds directly at least 10% of the capital of the dividend-paying company.

SIERRA LEONE

MEMBER FIRM

City	Name	Contact Information
Freetown	Madonna Thompson	+232 76 294 555 madonna.thompson@pkfmasonhill.com

BASIC FACTS

Full name:	Republic of Sierra Leone
Capital:	Freetown
Main language:	English
Population:	7.69 million (2018 estimate)
Monetary unit:	Sierra Leone Leones (SLL)
Internet domain:	.sl
Int. dialling code:	+232

S

KEY TAX POINTS

FEDERAL TAXES AND LEVIES

The National Revenue Authority (NRA) in Sierra Leone administers most of the taxes payable including the major revenue contributors. The Domestic Taxes Department (DTD) of the NRA was established as a 'one-stop shop' for the administration of all Sierra Leone's domestic taxes – namely the Goods and Services Tax, Pay-As-You-Earn (PAYE), Income Tax, Withholding Tax and Payroll Tax.

RESIDENTS AND NON-RESIDENTS

Resident Individual

1. An individual shall be treated as resident in Sierra Leone for the entire year of assessment if that individual:

- Has a normal place of abode in Sierra Leone and is present in Sierra Leone at any time during the year of assessment;

- Is present in Sierra Leone on more than one hundred and eighty two days (182) in a twelve month period that commences or ends during the year of assessment; or
- Is an official of the Government of Sierra Leone posted overseas during the year of assessment.

2. An individual who was not a resident in the preceding year of assessment shall not be treated as a resident for the period preceding the day the individual was first present in Sierra Leone during the year of assessment.
3. An individual who is not a resident in the following year of assessment shall not be treated as a resident for the period following the last day on which the individual was present in Sierra Leone during the year of assessment if during that period the individual had a closer connection to a foreign country than to Sierra Leone.
4. For the purposes of this section an individual shall not be treated as present in Sierra Leone on any day when:

- The individual crosses the border to Sierra Leone to perform services as an employee in Sierra Leone; The individual is in transit between two points outside Sierra Leone;
- The individual is present in Sierra Leone for the purpose of medical treatment or full-time study; or
- The individual is present in Sierra Leone by of diplomatic status or being dependant of a person
- with diplomatic status.

Temporary Resident Individual

An individual treated as resident, shall be treated as temporarily resident in Sierra Leone for the entire year of assessment if that individual:

- Is not a citizen of or domiciled in Sierra Leone;
- Does not intend, during the year of assessment, to reside in Sierra Leone for a total period of more than four years, and
- As of the end of the year, has not been resident in Sierra Leone for more than four years.

A company is a resident company if it (a) is incorporated or formed under the laws of Sierra Leone (b) has its effective management and control in Sierra Leone or undertakes the majority of its operations in Sierra Leone. A branch in Sierra Leone of a non-resident company is deemed to be a separate person, which is a resident company.

COMPANY TAX

Corporate Income Tax [CIT] is based on computed chargeable income. Resident companies pay tax at 30% on their worldwide income.

The Finance Act 2018 made amendments to section 85 of the Income Tax Act 2000 with regards to retained earnings. The new provision states that retained earnings in excess of 50% post tax profit in a current year of assessment for all corporate entities including parastatals shall be taxed at a 30% rate.

Temporarily Resident Taxpayer

The calculation of the chargeable income of a temporarily resident taxpayer is similar to that for a resident taxpayer except assessable income includes only Sierra Leone source income and income from other sources that is remitted to Sierra Leone.

A company is considered a resident if it satisfies the three alternative tests of residence; place of incorporation; place of management and control; and place of majority of operations. Subject to subsection (2), a company that does not satisfy any of these tests is a non-resident person for the year of assessment.

Non-resident companies pay tax at the rate of 30% on income sourced in Sierra Leone. A permanent establishment of a non-resident person in Sierra Leone shall be treated as a resident person separate from but associated with its non-resident owner.

CAPITAL GAINS TAX

Capital gains tax shall be payable by a chargeable person at the rate of 30% of the capital gain accruing to or derived by that chargeable person from the disposal of a chargeable asset owned by a chargeable person. Chargeable asset includes land and sea, property attached and integrated equipment, fixtures, improvements including leases, anything growing on the land and all interest in the property including sea which may be right to future ownership, right to occupy as tenant, life estate, the right to explore, develop, extract or produce

oil, and other minerals, the right to shares, stocks and other investment opportunities in an entity, business or company, intellectual property rights, reversion of property , if it is not used for its current purpose, an easement across another person's property and any other privileges relating to the property, business and business asset including goodwill wherever situated;

Chargeable disposal means the sale, realization or change of hands of a chargeable asset other than those specifically exempt from capital gain and chargeable person means a person, individual, corporation and related organizations including permanent establishment, associates, affiliates and joint ventures which have made chargeable disposal of a chargeable asset during a year of assessment.

Exemption from capital gains

- capital gain of a person that is up to and under the minimum chargeable income of SLL 3,600,000 per annum or per transaction;
- capital gain accruing to or derived by a company out of a merger, amalgamation or re-organization of the company where there is continuity of underlying ownership in the asset of at least one quarter;
- capital gain resulting from a transfer of ownership of the asset by a person to that person's spouse, children, parent, brother or sister;
- capital gain resulting from a transfer of ownership of the asset between former spouses as part of a divorce settlement or a genuine separation agreement;
- capital gain where the amount received on realization is, within one year of realization, used to acquire a chargeable asset of the same nature (referred to as "replacement asset"); and
- Where part only of the amount received or realized is used in the manner referred to in paragraph (e), any part of the capital gain represented by the amount used to acquire the replacement asset is less than the cost base of the asset realized at the time of realization.

BRANCH PROFITS TAX

A branch in Sierra Leone of a non-resident company shall be subject to tax on repatriated income at the rate of 30% as though such income were a dividend taxable at the rate of 10%, this tax being in addition to income tax on the chargeable income of the branch.

Repatriated income is the higher of:

- Funds repatriated in the year out of accumulated profits; and
- The chargeable income of the branch minus
- Sierra Leone income tax paid on that chargeable income and any profit reinvested or retained in the branch.

SALES TAX / GOODS AND SERVICES TAX

The Goods and Service Tax (GST) is a form of Value Added Tax (VAT) with a tax rate of 15%:

- It is a general tax on consumption expenditure;
- It is collected by GST registered businesses on behalf of the tax authorities;
- It is charged as an addition to the price of goods and services at importation, wholesale and retail stages;
- At each stage in the chain of production and distribution of goods and services, GST is effectively charged on the value added generated.

Export will be zero-rated and imports will be levied the same taxes as domestic goods and services adhering to the destination principle. Turnover threshold for supplies over a 12-month period is SLL 350,000,000. GST applies to each of the following (with some exceptions):

- All goods subject to customs duty;
- All goods subject to excise duty;
- All goods listed in the First Schedule of the GST Act 2009. These include foods and beverages, wines and spirits, hydrocarbons, tobacco, cement, medicines, paints, perfume and toiletries, soaps, detergents, candles, matches, plastics, paper and paper articles, ammunition and weapons, furniture, motor vehicle bodies, structures and parts of structures for building, bridges, etc.

Zero Rated Supplies: (a) Exports of goods including rutile and its by-products, iron ore, bauxite, gold, diamonds and other minerals (b) Goods shipped as stores on vessels and aircraft leaving Sierra Leone.

Exempted Supplies: (a) Animals, fish, birds imported for breeding and rearing (b) Rice in its raw state (c) Agriculture inputs including chemicals used solely for agricultural inputs (d) Supply of water excluding bottled, packaged or distilled water (e) Books and newspapers (f) Education services (g) Medical services and pharmaceutical.

In addition to other exempt supplies in the Goods and Services Act 2009, the 2016 Finance Act makes the following exempted provisions;

- For tourism between the period of 1 January 2016 and 31 December 2018, the incorporation of materials required for constructing and setting up new hotels that have more than 100 rooms;
- Issuing identification documents such as passport and voter identification. Goods and services tax shall be imposed on the following in accordance with the Goods and Services Tax Act 2009:
- For mining companies, all non-production related items;
- For construction companies all non-construction related items; and
- For agricultural companies all non-agricultural related items.

The classification of items that are non-production related, non-construction related and non-agricultural related shall be determined by the Commissioner-General.

The rate of GST applicable to a taxable supply or import is:

- If the supply or import is zero-rated under the First Schedule, zero per cent;
- In any other case, 15% (fifteen percent).

FRINGE BENEFITS TAX

Non-cash benefits given by employers to employees are included in employment income on the basis of the higher of the cost to the employer or the market value.

Non-Cash Benefit

Motor vehicle	Value to be added for tax purposes P×(R+20%C) where C is the purchase cost or full lease cost of the vehicle; P is the proportion of the employee's non business use; R is the employer portion of the running cost of the vehicle in the year.
Accommodation	Market rent of accommodation reduced by payment made by employee toward the benefit
Discharge/reimbursement of employee utility expenditure	Amount paid or reimbursed
Provision of domestic assistants	Employer's contributions towards the total emoluments paid to domestic assistant
Provision of meal, refreshment or entertainment	Actual cost to employer of providing the benefits
Waiver of an obligation	Amount of payment or repayment waived

LOCAL TAXES

The City/Town Councils in the 14 Districts administer local taxes.

OTHER TAXES

1. National social security and insurance trust (Nassit)

The National Social Security and Insurance Trust (NASSIT) is a Statutory Public Trust set up by the National Social Security and Insurance Trust Act No. 5 of 2001 to administer Sierra Leone's National Pension Scheme. The primary responsibility of the Trust is the part replacement of income lost as a result of the contingencies of old age, invalidity and death. Employers and employees contribute 10% and 5% respectively of the employees' employment income.

2. Small and Micro Tax Payer Regime

Turnover income tax payable in Leones

A Micro Tax Payer is a taxpayer whose annual turnover is between SLL 10,000,000 and SLL 90,000,000.

A Small Tax Payer is a taxpayer whose annual turnover is between SLL 90,000,001 and SLL 350,000,000. Micro and Small taxpayer refers to Small and Medium Enterprises.

3. Payroll Tax

Non-resident individuals are subject to a 25% income tax rate.

All employers are obliged to make a yearly payroll tax return for all non-citizens (foreign national) employees they hire, as follows:

- ECOWAS Nationals: SLL 1,500,000 per employee per year;
- Non-ECOWAS Nationals: SLL 5,000,000 per employee per year.

The amount payable, together with the completed Return, must be submitted to the DTD on or before 31st January of the year in which they apply. Where a non-citizen is employed in the course of the year, a subsequent return and payment must be filed within 14 days from the date of the employment.

4. Business Registration

The Corporate Affairs Commission (CAC) is tasked with the registration of all Companies, both locally incorporated business and branch registration in accordance with the Companies Act 2009.

5. Inheritance / Estate duty

A tax duty of 10% of the value of the entire estate is payable.

6. Stamp and Transfer Duty

Stamp duty rates vary from 1% to 12.5%. This applies to agreements, bills of exchange, promissory notes, bills of lading, bonds, leases and conveyances.

B. DETERMINATION OF TAXABLE INCOME

Deductions for income tax assessment purposes include expenses incurred necessarily to obtain, maintain and preserve such income. The Income Tax Act 2000 lists specific regulations for dealing with fixed assets, real estate, products, shares or securities sold, as well as deductible property plant and equipment, depreciation, bad and doubtful debts and meals, refreshment and entertainment.

CAPITAL ALLOWANCES

Depreciable assets are classified into groups with depreciation rates as follows:

1. Plant, machinery and equipment, including automobiles and trucks: 40%
2. All other tangible depreciable assets except buildings & intangible depreciable assets: 10%
3. Buildings used to house industrial, manufacturing, or agricultural activities: 15%
4. Buildings used to house commercial activities other than those described in group 3: 10%
5. Buildings other than those described in groups 3 and 4: 5%
6. Expenditure on start-up costs on mineral and petroleum prospecting and exploration: 100%
7. Production rights and other expenditure incurred on mineral and petroleum development
8. shall be as follows:
   - Initial allowance: 40%
   - Annual allowance: 20%.

INVESTMENT ALLOWANCES

The amount of investment allowance to be deducted from business income is five percent of the cost of the relevant asset.

BUSINESS INVESTMENT RELIEF

The maximum relevant amount of business investment relief available to an individual is fifty percent of qualifying investments totaling not more than SLL 3, 000,000 in any year of assessment.

New businesses that invest at least USD 10 million and existing businesses that invest USD 5 million in the expansion of their business will be granted duty free importation of 3 years for the imports of plants, machinery excluding spare parts and general purpose vehicles (vehicles for personal use are excluded) for use in their business operations.

Public Private Partnership (PPP) infrastructural projects get 15 years relief from corporation tax.

DEPRECIATION

Depreciation is not allowed. However, capital allowances deduction for depreciation of a taxpayer's Depreciable assets are allowed

STOCK/INVENTORY

Trading stock:

- A taxpayer who maintains trading stock shall establish and maintain inventories of such stock.
- A deduction shall be allowed for the cost of trading stock sold during the year of assessment.
- The cost of trading stock sold in a year of assessment shall be determined by adding to the value of opening trading stock the cost of goods acquired during the year and subtracting the value of closing trading stock.
- A cash-basis taxpayer may calculate the cost of trading stock on the prime-cost or absorption-cost method and an accrual-basis taxpayer shall calculate the cost of trading stock on the absorptioncost method.
- The value of trading stock on hand at the end of the year of assessment shall be the lower of its cost or market value at that date.
- Where particular items of trading stock are not readily identifiable, a taxpayer may account for the trading stock on the first-in-first-out method or the average-cost method, but once chosen, a stock valuation method may only be changed with the written permission of the Commissioner, and a taxpayer using the last-in-first-out method shall change to the first-in-first-out or the average stock method within five years from the date of commencement of this Act.

CAPITAL GAINS AND LOSSES

- The gain realised or the loss incurred on the disposal of a business or investment asset is taken into account in determining chargeable income.
- The gain from the disposal of an asset is the excess of the consideration received over the adjusted cost base of the asset.
- The loss from the disposal of an asset is the excess of the adjusted cost base over the consideration received.
- The gain or loss on disposal of an asset which is not a business or investment asset is not taken into account in determining chargeable income.

DIVIDENDS

Dividends received from an investment in Sierra Leone by a resident and a non-resident person is subject to a final withholding tax at 10%. The withholding tax on dividend does not apply to a dividend paid by a resident company to another resident company or to a complying retirement fund resident in Sierra Leone. Under certain conditions, payments other than distributions out of profits may be treated as dividends.

INTEREST DEDUCTIONS

A taxpayer that is not a bank is entitled to a deduction of eighty percent of the interest expenses paid in respect of a debt obligation incurred by the taxpayer to produce assessable income.

LOSSES

Losses can be carried forward. Any allowable loss suffered by the taxpayer to the extent that the loss has not been deducted in a previous year of assessment in-so-far as the tax payable each year will be less than 50% of the tax due if such loss is not carried forward.

FOREIGN SOURCED INCOME

Income is from a foreign-source if it is derived from an activity which occurs outside of Sierra Leone. Any income which is not from a source in Sierra Leone is foreign-source income.

THIN CAPITALISATION

The Finance Act 2016 (re)introduced the limitation of the deductibility of interest expenses that are borne on a loan from a shareholder or his associate, by restricting it to 50% of the excess of that loan over the shareholder's paid-up shares (section 35 of the ITA).

Furthermore, in line with the Finance Act 2016, the standard gearing ratio applicable to mining companies is 3:1. Excess interest is deemed a dividend (paragraph 7 of the Sixth Schedule of the ITA).

NATIONAL INSURANCE LEVY

A national insurance levy of 0.5% has been introduced on all contracts for the supply of goods and services to support the free health care Government initiative. In this regard withholding tax has been increased by 0.5% to respectively 5.5% on local supplies and 10.5% on foreign supplies.

EMPLOYMENT OF WOMEN

Businesses that employ females in management positions from 1 January 2016 to 31 December 2018 would be eligible for a tax credit of 6.5% of the PAYE paid for its female employees. However the Finance Act 2016 does not define the term “management position”.

INCENTIVES

Importation of plants, machinery or equipment

The following shall be entitled to duty free import for a period of three years from the date of first registration:

- New and existing businesses importing plants, machinery or equipment excluding vehicles;
- New business if it invests at least USD 10,000,000; and
- An existing business if it invests at least USD 5,000,000 in expanding the business.

Petroleum refinery

A petroleum refinery investing a minimum of USD 20,000,000 and employing at least fifty Sierra Leonean citizens shall be eligible for the following relief:

- A corporate tax relief not exceeding five years; and
- Equipment and machinery for establishing the refinery shall be imported free of duty for a period of five years.

A new business investing a minimum of USD 2,000,000 and employing at least twenty Sierra Leonean citizens shall be eligible for the following relief:

- A corporate tax relief not exceeding five years; and
- Equipment and machinery for establishing a new business shall be imported duty free for a period of five years.

Agriculture

(1) Entities engaged in agricultural production shall be entitled to duty-free import of agricultural inputs for a period of five (5) years from the date of first registration.

(2) For the purpose of this section “agricultural inputs” means:

(a) Fertilizers;

(b) Pesticides;

(d) Seeds and seedlings;

(e) Hybrid tree seeds;

(f) Seed animal for feeding purpose;

(g) Day-old-chicks; and

(h) Animal segment

(3) The income derived from investment in poultry business shall be exempt from income tax for a period of three (3) years:

(a) In the case of a Sierra Leonean citizen if the investment is at least USD 50,000; and

(b) In the case of a non-citizen, if the investment is at least USD 500,000.

(4) Import of feeds, vaccine and veterinary drugs for poultry and livestock shall attract duty free import for a period of five years from the date of commencement of business.

Research and development

For the purposes of income tax, any expenses incurred on research and development by an investor, shall be eligible for deduction from profits of 100% of the cost incurred up to the extent of profits of the same year the expenditure is made but any unclaimed amount shall not be available for future deductions.

Training

For the purposes of income tax, any expenses incurred on training of local staff in an approved training programme, shall be eligible for deduction from profits of 100% of the cost incurred up to the extent of profits of the same year the expenditure is made but any unclaimed amount shall not be available for future deductions.

C. FOREIGN TAX RELIEF

- A resident taxpayer is entitled to an allowable tax credit in respect of foreign income tax borne by the taxpayer on assessable income derived from a foreign source.
- The allowable tax credit in respect of any foreign-source income may not exceed the Sierra Leone income tax on that foreign-source income, calculated by applying the average rate of Sierra Leone income tax to the foreign-source income reduced by any deduction properly allocated to that income.
- The allowable tax credit in respect of foreign-source income and the Sierra Leone income tax imposed on that income are calculated separately for each amount of foreign-source income derived by a taxpayer.
- Foreign-source income derived by a foreign branch of a resident company is aggregated and considered a single receipt of income.

Foreign Employment Income of Residents

Foreign-source employment income derived by a resident individual during a year of assessment from employment in a foreign country shall be exempt from income tax if the income is chargeable to tax in the foreign country.

D. CORPORATE GROUPS

There are no special rules existing for the taxation of groups.

E. RELATED PARTY TRANSACTIONS

Expenses incurred in these transactions are allowable. But the Commissioner General has power to recharacterise

a transaction entered into as part of a tax avoidance scheme.

In line with paving the way for the enactment of Transfer Pricing regulations, the 2016 Finance Act requires transactions with a related party during the assessment year to disclose;

- The relationship with the related party;
- The volume and value of the transaction;
- The price charged and the basis or method of ascertaining that price;
- The comparative price for a similar transaction made with non-controlled entities or charged by noncontrolled entities.

In light of the above, there will be increased scrutiny from the tax authorities on transactions between related parties

F. EXCHANGE CONTROL

Exchange controls are under the direct supervision of the Corporate Affairs Commission (CAC) and the Bank of Sierra Leone (BoSL). Application must be made in first instance to the CAC before proceeding to the BoSL for granting of an Exchange Control Permit (ECP).

Foreign Exchange: In order to improve transparency and efficiency in foreign exchange transactions and achieve a market-determined foreign exchange rate, the Bank of Sierra Leone (BSL) has initiated weekly auctions of non-cash foreign exchange. While the auction is primarily designed as a mechanism for the BSL to efficiently inject foreign exchange into the market, it also envisages a window for the sale of foreign exchange by other economic agents at market rates.

DIAMOND EXPORTING

- Residents and non-residents are allowed to finance their diamond operations in Sierra Leone in United States Dollars, in notes, drafts or bank transfers.
- Diamond Exporters should ensure that moneys brought into Sierra Leone for their transactions are channelled through the banking system. Foreign exchange could be brought into Sierra Leone in any of the following ways:
  a) Letter of Credit
  b) Telegraphic Transfer
  c) Cash Dollar Notes
- For b) and c) above, Diamond Exporters will be allowed to export up to the amount of funds confirmed by the commercial banks as brought in.
- On a quarterly basis, commercial banks will be required to submit to the Bank of Sierra Leone returns on the inflows and outflows in respect of each licensed exporter.
- The list of commercial banks in Sierra Leone at any point in time would be obtained from the Bank of Sierra Leone.

G. PERSONAL TAX

Rates of Tax Applicable to Individual Resident in Sierra Leone

The minimum monthly wage is SLL 500,000 and non-taxable allowance is SLL 220,000.

Chargeable Yearly Income	Tax rate
SLL 6,000,000 and less	0%
SLL 6,000,000 – SLL 12,000,000	15%
SLL 12,000,000 – SLL 18,000,000	20%
SLL 18,000,000 – SLL 24,000,000	30%
Above SLL 24,000,000	35%

The highest tax band of 35% is paid on yearly salaries above SLL 24,000,000 (SLL 2,000,000 per month). The income tax year of assessment is 1 January to 31 December.

H. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	10			
Individuals	10			
Treaty countries:				
Norway	-[1]	-[1]	0	0
South Africa	-[1]	-[1]	-[1]	-[1]
United Kingdom	0	0	-[1]	0

Notes:

1. No reduction under the treaty, the domestic withholding tax rate applies.

WITHHOLDING TAX RATES

(a) Rates of Tax to be withheld from Payments made to Residents:

Types of Payment Rates

Payments to contractors: 5.5% (includes the 0.5% national insurance levy)

Dividends: 10%

Interests: 15%

Rents: 10%

Royalties: 25%

Pensions and annuities: 15%

Natural resource payments: 25%

Real property: 10%

Winnings of SLL 500,000 and above from any lottery: 10%

(b) Rates of Tax to be withheld from Payments made to Non-Residents:

Employment income: 25%

Payments to contractors: 10.5% (includes the 0.5% national insurance levy)

Dividends: 10%

Interest: 15%

Rents and royalties: 25%

Pensions and annuities: 25%

Natural resource payments: 25%

Payments to or applications for the benefit of non-resident beneficiaries: 25%

INVESTMENT INFORMATION

The Investment Promotions Act 2004 was enacted to promote and attract both domestic and foreign private investment for the development of production and value adding opportunities, to improve export and employment opportunities. The Act provides for several incentives for investors (Sections 8-10):

- Expatriate personnel with work permits shall be permitted to make remittances abroad through their commercial banks, subject to such withholding tax obligations as are contained in the Income Tax Act 2000.
- The remittance of profits, after taxes, earned by a foreign investor from a business enterprise, is guaranteed as constituting current international transactions in respect of which payments transferred abroad shall be allowed without restriction.
- An investor may freely repatriate proceeds received from the liquidation of a business enterprise and awards resulting from any settlement of disputes in respect of such business enterprise.
- There shall be no restriction on the transfer of repayments of principal and interest on an armslength third party loan contracted outside Sierra Leone and registered with the Bank of Sierra Leone but interest payments due on such loans may be subject to the withholding tax obligations in the Income Tax Act, 2000.

Residence and Work Permit

All foreign citizens are required to obtain a work permit from the Ministry of Labour.

Other Provisions

Section 25 (1) of the 2018 Finance Act within the Common External Tariff gives NRA the following option - "The National Revenue Authority may install a prescribed device or software in a taxable premises, facility or installation in order to obtain information on all business transactions undertaking including supplies made for goods and services and payment received in a year of assessment in

order to determine the tax liability for the period of assessment"

However, in practice the National Revenue Authority currently does not have the prescribed infrastructure to deploy such software and in practical terms they would require that a recognised accounting software package is used by businesses which would enable the tax authority to capture the correct tax data.

Common External Tariff

Section 26 of the 2018 Finance Act states that the ECOWAS Common External Tariff (CET) shall come into force on the date ECOWAS accepts Sierra Leone's 3% ECOWAS preferential rates.

SINGAPORE

MEMBER FIRM

City	Name	Contact Information
Singapore	Bun Hiong Goh	+65 6500 9359 bunhiong@pkf.com

S

BASIC FACTS

Full name:	Republic of Singapore
Capital:	Singapore
Main language:	English, Malay, Mandarin, Tamil
Population:	5.78 million (2018 estimate)
Monetary unit:	Singapore Dollar (SGD)
Internet domain:	.sg
Int. dialling code:	+65

KEY TAX POINTS

- Resident and non-resident companies are liable for corporate income tax on income accruing or derived in Singapore, or income received in Singapore from outside Singapore. Companies and individuals are taxed on a preceding year basis.

- Goods and service tax, a value added tax, is levied on taxable goods and services in Singapore and on imports into the territory.
- Subject to certain conditions, foreign branch profits and certain foreign-sourced income remitted into Singapore by any resident person are exempt from tax.
- Dividends received from Singapore-resident companies are exempt from tax.
- Capital gains are not taxable, although transactions may be categorised as being trading in nature, and thus taxable.
- There are various tax exemptions and incentives to encourage trading and investment in Singapore.
- Up to a certain amount, chargeable income (CI) of new companies is tax-exempt for the first three tax years of assessment. There are also exemptions on the first SGD 100,000 of CI and on 50% of the next SGD 200,000 of CI.
- Related party transactions are expected to be carried out at arm's length. There are no thin capitalisation or controlled foreign company (CFC) provisions.
- Payments between resident companies do not attract withholding tax. Interest, royalty and certain other payments by Singaporean companies to non-resident companies are, however, subject to withholding tax.
- Individual residents are subject to tax on income accruing in or derived from Singapore, or received in Singapore. Foreign income received by residents is otherwise generally exempt from tax. Non-residents are generally subject to tax on income accruing in or derived from Singapore, but not on foreign income remitted to Singapore.
- A 'not ordinarily resident scheme' is designed to attract global talent to relocate to Singapore, and provides certain personal income tax incentives for the first five years of residence.

A. TAXES PAYABLE

COMPANY TAX

Resident and non-resident companies are taxed on income accruing in or derived from Singapore as well as on foreign income received (actual or deemed) in Singapore. Remittance of foreign income (dividends, branch profits, services income) may be tax exempt when remitted by a resident company under certain conditions. A company is tax resident in Singapore if the management and control of its business is exercised in Singapore.

The standard corporate tax rate is 17% with effect from the 2010 year of assessment. A partial tax exemption is given for the first SGD 300,000 of chargeable income (CI). Under this scheme, 75% of the first SGD 10,000 of CI is tax exempt and 50% of the next SGD 290,000 of CI is tax exempt (reduced to SGD 190,000 from the current SGD 290,000 from the year of assessment 2020). This exemption does not apply to income of a non-resident company subject to a final withholding tax rate. Qualifying newly incorporated Singaporean companies may enjoy a separate tax exemption scheme for their first three consecutive years of assessment. This scheme allows qualifying new companies to enjoy a tax exemption on the first SGD 100,000 of CI and on 50% of the next SGD 200,000 of CI.

The tax year, referred to as the year of assessment (YA), runs from 1 January to 31 December of each year. Income for the YA is computed based on the income derived in the preceding calendar year (known as the basis year) from all sources. For a trade, business, profession or vocation with a non-31 December accounting year-end, the Inland Revenue Authority of Singapore (IRAS) normally accepts the accounting year as the basis year instead of the calendar year. Under such circumstances, tax is assessed for each YA on the income for the accounting year preceding that YA.

A company is required to provide an estimate of its CI within three months after the end of its financial year. The estimated tax payable can be paid via instalments. The number of instalments available depends on when the estimated CI is filed within the three month window period and on the method of filing. The annual corporate income tax return must be filed by 30 November of the YA. After the submission of the tax return, IRAS will issue a notice of assessment to collect any tax shortfall. The tax shortfall has to be paid within one month after the date of issue of the notice of assessment.

GOODS AND SERVICES TAX (GST)

GST is a broad-based consumption tax aimed at taxing the final consumer of the goods and services. The supply of goods and services made in the ordinary course of business in Singapore by a GST registered

person is subject to GST. The importation of goods into Singapore is also subject to GST. Persons carrying on businesses that make taxable supplies are required to register for GST if their annual turnover (retroactive or prospective) is more than SGD 1 million. A GST registered person (GST taxpayer) has to charge GST on their supplies (output GST) and pay GST on their purchases (input GST). The GST taxpayer has to file a monthly or quarterly GST return to declare the Output GST collected and the Input GST incurred. They will pay (or claim) the difference (after netting the Output GST against the Input GST) together with the GST return.

The standard GST rate is 7%. The export of goods and the provision of international services are zerorated. The sale and rental of residential properties and specified financial services are exempt from GST.

STAMP DUTY

Stamp Duty is levied on legal instruments relating to the sale, mortgage or lease of immovable property and the sale or mortgage of stocks and shares.

B. DETERMINATION OF TAXABLE INCOME

Singapore-incorporated companies are required to prepare their financial accounts according to Singapore Financial Reporting Standards (FRSs). The FRSs are closely modelled after the International Accounting Standards (IAS) and International Financial Reporting Standards (FRS) issued by the International Accounting Standards Board (IASB). The accounting profits are adjusted in accordance with Singapore tax rules to arrive at the taxable income.

Companies are required under FRSs to prepare their financial accounts according to their functional currency. Those with non-Singapore dollar functional currency accounts are required to furnish their tax computations to the IRAS in that functional currency. Expenses must be incurred wholly and exclusively for the production of income in order to be tax deductible unless specifically disallowed or restricted (e.g. non-commercial motor vehicles, medical expenses, expenses of a capital nature). Special rules apply to expenses incurred by investment holding companies, companies that commence business activities during the financial year and expenses incurred in respect of foreign-sourced income.

INTEREST DEDUCTIONS

Interest expenses are tax deductible unless they are incurred in respect of non-taxable income or are regarded to be of a capital nature. There are no thin capitalisation rules in Singapore.

STOCK / INVENTORY

There are no prescribed valuation methodologies under domestic income tax law. As such, the IRAS will generally accept the valuation methodology under the FRSs.

CAPITAL GAINS AND LOSSES

There is no separate capital gains tax regime in Singapore. Gains of a capital nature are not subject to income tax. Similarly, expenses of a capital nature are not deductible for income tax purposes. The IRAS will look at the facts and circumstances of the transaction to determine whether the gain is capital in nature or a trading gain which is subject to income tax.

DIVIDENDS

Dividends paid by Singapore companies are exempt from tax in the hands of the shareholder from 1 January 2008. Foreign-sourced dividends remitted into Singapore may be tax-exempt under certain circumstances.

CAPITAL ALLOWANCE

Capital allowances, instead of accounting depreciation, are granted for plant and machinery acquired and used in a trade or business. Most plant and machinery qualify for three-year straight line tax depreciation. Low cost items (costing not more than SGD 5,000 per item) may be tax depreciated in full, subject to a total claim of SGD 30,000 for each YA. Certain equipment (such as computers, automation equipment, pollution-control equipment and energy-saving equipment) may qualify for 100% tax depreciation in the year of acquisition.

Current year unutilised capital allowances can be carried back (up to a total of SGD 100,000 for both unutilised capital allowances and unutilised tax losses) to the YA immediately preceding the YA in which the capital allowance arose. The unutilised capital allowances can also be carried forward indefinitely. The

utilisation of unutilised capital allowances carried back or carried forward is subject to the business continuity test and the shareholding test.

The business continuity test requires the business/trade for which the capital allowances were granted to continue. The shareholding test requires that there is no substantial change (no more than 50%) in the ultimate shareholders and their respective shareholdings on certain dates.

TAX LOSSES

Current year unutilised trade losses can be carried back (up to a total of SGD 100,000 for both unutilised capital allowances and unutilised tax losses) to the YA immediately preceding the YA in which the trade losses were incurred. The unutilised tax losses can also be carried forward indefinitely. The carry back/forward of tax losses is subject to the same shareholding test as for the carry back/forward of unutilised capital allowances.

TAX INCENTIVES

Singapore has a comprehensive list of tax incentives and development schemes to attract investments and to assist investors in expanding their businesses. Highlights of key incentives and schemes are summarised below. The Regional and International Headquarters Awards encourages companies to use Singapore as a regional or global base. A customised package of tax incentives (such as Pioneer

Incentive, Development and Expansion Incentive and Investment Allowances) and grants will be given to qualifying companies.

The Pioneer Incentive encourages the introduction and growth of new industries in Singapore. A pioneer enterprise is granted full income tax exemption on its qualifying profits for up to 15 years. Investors undertaking projects that will generate significant economic benefits for Singapore may apply for the Development and Expansion Incentive. This incentive provides preferential income tax rates on all qualifying profits above a pre-determined base for a set period.

Other than the above, Singapore also offers a range of tax incentives with respect to the banking, finance and shipping industries. In addition, companies investing into new equipment that introduces new technology to the industry or contributes to its efficiency can apply for Investment Allowances. This is a capital allowance given to partially offset the costs of acquiring qualifying equipment within a set period and is in addition to the normal tax depreciation.

The Approved Royalties Incentive encourages companies to transfer their cutting edge technology and know-how to Singapore by providing full or partial withholding tax exemptions for royalty payments or technical assistance fees payable to non-residents. Grants are also available with respect to productivity/process improvement projects, staff training, new product development, business capabilities improvements, R&D, intellectual property protection initiatives and overseas ventures.

C. FOREIGN TAX RELIEF

Under Singapore's network of comprehensive double tax treaties, Singapore will grant a tax credit for foreign tax suffered in the treaty country. The tax credit granted is limited to the lower of the foreign tax suffered and the Singapore tax payable on that income. Singapore also grants a unilateral tax credit for certain income derived from countries that have not entered into tax treaties with Singapore.

D. CORPORATE GROUPS

A corporate group (comprising of a Singapore-incorporated holding company and its Singaporeincorporated subsidiaries) can transfer current-year unutilised losses, unutilised capital allowances and unutilised donations within companies in the corporate group. There is a 75% ownership requirement that needs to be maintained to remain within the corporate group.

E. RELATED PARTY TRANSACTIONS

Under domestic tax law, related party transactions have to satisfy the arm's length principle. The IRAS can make adjustments if it is of the opinion that the arm’s length principle is not applied appropriately by the taxpayer.

F. WITHHOLDING TAX

1.	Interest, fees, payments in connection with any loan or indebtedness	15% (final tax)
2.	Royalty or other payment for the use of movable property	10% (final tax)
3.	Payment for the use or right to use scientific, technical, industrial or commercial knowledge or information	10% (final tax)
4.	Technical assistance and service fees and management fees	Prevailing corporate tax rate (22% for individuals)
5.	Rent or other payments for the use of movable properties	15% (final tax)
6.	Time charter fees and voyage charter fees, bareboat charter fees	Nil to 2%
7	Directors' remuneration/directors' fees	22% (Effective from 2016)

There is no withholding tax on dividends.

G. EXCHANGE CONTROLS

There are no exchange controls in Singapore.

H. PERSONAL TAXATION

Resident individuals deriving employment income and rental income is subject to income tax based on the following progressive rates (effective from 2016). Various personal reliefs are available to resident individuals.

Taxable Income (SGD)	**(%)**
Up to 20,000	0
20,001 – 30,000	2
30,001 – 40,000	3.5
40,001 – 80,000	7
80,001 – 120,000	11.5
120,001 – 160,000	15
160,001 – 200,000	18
200,001 – 240,000	19
240,001 – 280,000	19.5
280,001 – 320,000	20
Over 320,000	22

A Singapore citizen is considered tax resident if the individual normally resides in Singapore except for temporary absences that are consistent with the claim to be a resident. A foreigner is considered resident in Singapore for tax purposes if the individual is physically present or exercises a Singapore employment for 183 days or more during the basis year.

Non-resident individuals exercising an employment in Singapore are subject to income tax depending on the number of days spent in Singapore. Employment income derived from short-term employment (not more than 60 days) is exempt from Singapore income tax for the non-resident employee. This exemption does not apply to non-resident company directors, non-resident public entertainers or nonresident professionals including foreign experts, foreign speakers, queen's counsels, consultants, trainers, coaches etc. Non-resident employees exercising an employment in Singapore for a period of 61-182 days will be taxed at the higher of

15% (without personal tax reliefs) or the progressive resident rates (with personal tax reliefs). Non-residents deriving rental income are taxed at 22%.

Dividend income from Singapore companies, interest income from savings, current or fixed deposit accounts with approved banks or finance companies in Singapore and foreign-sourced income are taxexempt for individuals (regardless of residency).

NOT ORDINARILY RESIDENT SCHEME (NOR)

The NOR scheme was first introduced to attract global talent to relocate to Singapore. Under the NOR scheme, qualifying individuals are taxed based on the days spent in Singapore. An individual can apply for NOR status if they have three consecutive non-resident tax years immediately prior to their first year of residency in Singapore. The NOR status would be accorded to the qualifying individual for a five-year period commencing with their first year of residency in Singapore. During this five-year period, the individual may claim for applicable yearly tax concessions under the NOR scheme as long as they are tax resident for that year.

I. TREATY WITHHOLDING TAX RATES

The chart shows the withholding tax rates applicable under the Singapore tax treaties that are currently in force. The domestic withholding tax rate will apply if it is lower than the treaty rate. Singapore does not levy any withholding taxes on dividend payments. Special rates with respect to distributions by Real Estate Investment Trusts have not been reflected in this summary.

In addition, Singapore has pending treaties with Ghana, Latvia (Protocol), Nigeria and Tunisia. Transport treaties have also been concluded with Bahrain, Brazil, Chile, Hong Kong, Norway, Oman, Saudi Arabia, United Arab Emirates and United States of America.

	Dividends (%)	Interest (%)	Royalties (%)
Treaty countries:			
Albania	0[18]/5	0[18]/5	5
Australia	15	10	10
Austria	0[19]/10	0[18]/5	5
Bahrain	0	5	5
Bangladesh	15	10	10
Barbados	0	0[18]/12	8
Belarus	5[18]	0[18]/5	5
Belgium	0/5[4]/15	0[2]/5	5
Brunei	10	5[2] /10	10
Bulgaria	5	5	5
Cambodia	10	0[18]/10	10
Canada	15	15	15
China	5[1]/10	7[2]/10	10
Cyprus	0	7[2]/10	10
Czech Republic	5	0	5/10
Denmark	0[1]/5[9]/10	10	10
Ecuador	0[18]/5	0[18]/10	10
Egypt	15	15	15
Estonia	5[1]/10	10	7.5

Ethiopia	5	5	5
Fiji	5[4]/15	10	10
Finland	5[4]/10	5	5
France	5[4]/15	10	0
Georgia	0	0	0
Germany	5[4]/15	8	8
Guernsey	0	12[18]	8
Hungary	5[1]/10	5	5
India	10[1]/15	10[2]/15	10
Indonesia	10[1]/15	10	15
Ireland	0	0[18]/5	5
Isle of Man	0	12[18]	8
Israel	5[4]/10	7	5
Italy	10	12.5	15[11]/20
Japan	5[5]/15	10	10
Jersey	0	12[18]	8
Kazakhstan	5[1]/10	10	10
Kuwait	0	7	10
Laos	0[18]/5[4]/8	0[18]/5	5
Latvia	5[1]/10	10	7.5
Libya	0/5[18,19]/10	0[18]/5	5
Liechtenstein	0	0[18]/12	8
Lithuania	5[1]/10	10	7.5
Luxembourg	0	0	7
Malaysia	5[1]/10	10	8
Malta	0[15]	7[2]/10	10
Mauritius	0	0	0
Mexico	0	5[2]/15	10
Mongolia	5[1]/10	5[2]/10	5
Morocco	0	0[18]/10	10
Myanmar	5[1]/10	8[2]/10	10[11]/15
Netherlands	0[1]/15	10	0
New Zealand	5[4]/15	10	5
Norway	5[1]/15	7	7
Oman	5	7	8
Pakistan	10[6]/12.5[6]/15	12.5	10

Panama	4/5[19]	0[18]/5	5
Papua New Guinea	15	10	10
Philippines	15[12]/25	15	0[13]/15[14]/25
Poland	5/10[19]	5[18]	2[20]/5
Portugal	10	10	10
Qatar	0	5	10
Romania	5	5	5
Russian Federation	5[16,18]/10	7.5	7.5
Rwanda	7.5	0[18]/10	10
San Marino	0	0[18]/12	8
Saudi Arabia	5	5	8
Seychelles	0	0[18]/12	8
Slovak Republic	5[4]/10	0	10
Slovenia	5	5	5
South Africa	5[4]/10	0[18]/7.5	5
South Korea	10[1]/15	10	15
Spain	0/5[19]	5	5
Sri Lanka	15	0[2]/10	15
Sweden	10[1]/15	10[2]/15	0
Switzerland	5[18,19]/15	0[18]/5	5
Taiwan	-7	-[17]	15
Thailand	10	10/15	5/8/10
Turkey	10[1]/15	7.5[2]/10	10
Ukraine	5[3]/15	10	7.5
United Arab Emirates	5	7	5
United Kingdom	0/15[21]	0[2,18]/5	8
Uruguay	5[4]/10	0[18]/10	5/10
Uzbekistan	5	5	8
Vietnam	5[8]/ 7[8]/12.5	10	5[11]/10

Notes:

1. The rate applies to dividends paid to a company which holds directly at least 25% of the capital of the paying company. For the treaty with Demark, the shares must be held for an uninterrupted period of at least one year, and the dividends are declared in that period. For the treaty with Netherlands, the capital can be held indirectly.
2. The rate applies to interest received by a bank or financial institution. For the treaty with Belgium, the payer must be a banking enterprise. For the treaty with Sweden, the payer must be engaging in an industrial undertaking.
3. The rate applies to dividends paid to a company which holds directly at least 20% of the capital of the paying company.

4. The rate of 5% applies to dividends paid to a company which holds directly at least 10% of capital or voting power, as the case may be, of the paying company.
5. The rate applies to dividends paid to a company which holds directly at least 25% of the voting shares of the paying company during a six month period prior to the year-end for which the distribution of profits occur.
6. 10% if the beneficial owner is a company and paid by a company engaged in an industrial undertaking. 12.5% if the beneficial owner is a company and paid by a company not engaged in an industrial undertaking.
7. The aggregate of dividend withholding tax and corporate income tax on the payer's profits cannot exceed 40% of the taxable income from which the dividends are declared.
8. 5% for dividends paid to a company which contributed directly or indirectly more than 50% of the capital of the paying company or more than USD 10 million. 7% for dividends paid to a company which contributed between 25% to 50% of the capital of the paying company.
9. The rate applies to dividends received by a pension fund or similar institution providing pension schemes in which individuals may participate in order to secure retirement benefits.
10. The rate applies to a royalty paid for any industrial, commercial or scientific equipment and related technical service fees.
11. The rate applies to payments of any kind received as consideration for the use of, or the right to use, any copyright of scientific work, any patent, trade mark, design or model, plan, secret formula or process or for the use of, or the right to use, industrial, commercial or scientific equipment, or for information concerning industrial or scientific experience.
12. The tax rate applies when the recipient is a company (including partnership) and during the part of the paying company's taxable year which precedes the date of payment of the dividend and during the whole of its prior taxable year (if any), at least 15% of the outstanding shares of the voting stock of the paying company was owned by the recipient company.
13. The tax rate applies in the case of Singapore where the royalties are approved under the Economic Expansion Incentives (Relief from Income Tax) Act of Singapore.
14. The tax rate applies in the case of the Philippines where the royalties are paid by an enterprise registered with the Philippine Board of Investments and engaged in preferred areas of activities and also royalties in respect of cinematographic films or tapes for television or broadcasting.
15. The tax on the gross amount of the dividends shall not exceed the tax chargeable on the profits or income of the company out of which the dividends are paid.
16. The lower rate applies if the beneficial owner of the dividends is a company which holds directly 15% of the capital of the company paying the dividends and has invested in it at least USD 100,000 or its equivalent in other currencies.
17. The treaty is silent in respect of interest income. As such, the domestic rules will apply.
18. Exempt if paid to certain government/quasi-government institutions.
19. The lower rate applies to dividends paid to a company which holds at least 10% of the capital.
20. The rate applies to a royalty paid for any industrial, commercial or scientific equipment.
21. The higher rate applies in the case of distributions to a real estate investment trust.

SLOVAK REPUBLIC

MEMBER FIRM

City	Name	Contact Information
Prievidza	Richard Clayton Budd	+421 46518 3811 +421 907 769 768 budd@pkf.sk

BASIC FACTS

Full name:	Slovak Republic
Capital:	Bratislava
Main language:	Slovak
Population:	5.45 million (2018 estimate)
Monetary unit:	1 Euro (EUR) = 100 cents
Internet domain:	.sk
Int. dialling code:	+421

KEY TAX POINTS

- Resident companies are subject to corporate income tax on their worldwide income. Non-residents are subject to corporate income tax only on income sourced in the Slovak Republic.
- The corporate tax rate is 21%.
- VAT is paid on the supply of goods and services. The standard rate is 20%, with a reduced rate of 10% for specific items.
- Capital gains are considered as taxable income and taxed at the applicable flat tax rate of 21%.
- There is no concept of group relief.
- All transactions between related companies realised both inside the Slovak Republic and across borders must be conducted at an arm's length basis. Any difference arising between the price of the actual transaction and the one regarded as the arm's length price will be adjusted for tax purposes.
- Dividends are subject to personal income tax and taxed at a separate rate of 7% for countries with which Slovak Republic has a double tax treaty and 35% in the absence of a tax treaty.
- Income sourced in the Slovak Republic (including interest, royalties and technical and management fees paid to non-residents) is subject to 19% withholding tax.
- Personal income tax is payable by permanent residents within the Slovak Republic on their worldwide income. Non-residents are only subject to tax on Slovak-sourced income.
- An annual property tax is levied on the owner or beneficial owner of a building, flat or land situated within the Slovak Republic. There is no inheritance tax, gift tax or real estate transfer tax.
- In addition to income tax, employees also pay mandatory social and health insurance premiums and prepay tax, all of which are withheld from their gross pay. Employers are likewise subject to payroll contributions and taxes on their employees' salaries.
- Individuals can request the tax authorities to donate 2% of their Slovak personal income tax liability to an eligible Slovak non-profit organisation, while legal entities similarly can request between 1.5 and 2% of their corporate income tax liability.

A. TAXES PAYABLE

COMPANY TAX

Slovak resident companies are subject to corporate income tax on income derived from worldwide sources, while non-residents are subject to corporate income tax only on income sourced in the Slovak Republic. Resident companies are those which have their legal seat or place of effective management in the Slovak Republic. With effect from 1 January 2017, corporate income tax is levied at a rate of 21%. This is the final tax burden on corporate profits because dividends paid out of profits derived as from 1 January 2017 are not taxed in the hands of shareholders if the shareholders are corporate entities based in another state than a non-contracting state, i.e. a state not on the "white list" published by the Slovak Ministry of Finance (basically non-treaty countries or countries that have not signed the Convention on Mutual Administrative Assistance in Tax Matters). The fiscal year is the calendar year or the taxpayer's fiscal year (subject to notification to the tax authorities). Tax is due and payable:

- In a single payment if the previous tax liability was less than EUR 2,500;
- In quarterly instalments if the previous tax liability was between EUR 2,500 and EUR 16,600;
- In monthly instalments if the previous tax liability was over EUR 16,600.

Tax returns for the applicable period should be filed by 31 March of the following year. A three-month extension of the deadline may be requested with a simple notice to the tax authorities.

Withholding tax is 35% for payments made in favour of a taxpayer residing in a ***non-contracting state,*** i.e. a state not on the "white list" published by the Slovak Ministry Finance (basically non-treaty countries or countries that have not signed the Convention on Mutual Administrative Assistance in Tax Matters). A list of such countries is published by the Ministry of Finance of the Slovak Republic on its website: www.finance.gov.sk. Taxpayers can donate 1.5% to 2% of their paid taxes to non-profit organisations. Based on a written request, the tax authorities will provide the donated amount to the designated nonprofit organisation. There is an opportunity to inform the tax authorities in writing about any change of the tax period from the calendar year to a fiscal year.

CAPITAL GAINS TAX

There is no separate capital gains tax. However, the taxable amount for calculating personal income tax includes income generated from capital assets, regardless of whether the income was earned inside or outside the Slovak Republic. This is taxed at 19%. Gains from sales of assets are incorporated into taxable income when determining the company's tax liability.

BRANCH PROFITS TAX

There is no separate branch profits tax in the Slovak Republic. The income of Slovak branches of foreign companies is subject to taxation in the Slovak Republic at the flat rate of 21%. There is no branch remittance tax in the Slovak Republic. Dividends are not subject to personal income tax unless they are paid out or received from entities in a non-contracting state, i.e. a state not on the "white list" published by the Slovak Ministry of Finance (basically non-treaty countries or countries that have not signed the Convention on Mutual Administrative Assistance in Tax Matters).

VALUE ADDED TAX (VAT)

VAT is paid on the supply of goods and services within the country, the intra-Community acquisition of goods, and on the importation of goods from countries outside the EU. The standard rate is 20%. There is a reduced rate of 10% for medicines, books and other printed matter, and specific foods such as meat, fish, milk and bread. A complete list is provided in an annex to the VAT Act. Goods and some services exported from the Slovak Republic are exempt from tax. There is also a special excise tax imposed on selected commodities such as petroleum, wine, spirits, tobacco, beer, electricity, coal and natural gas.

FRINGE BENEFITS TAX

Fringe benefits (goods or services) to employees are taxed as part of their total taxable amount at a flat rate of 19%. Any tax levied on an employee is deducted by the employer. There is an increased rate of 25% levied on personal income earned during the year in excess of EUR 35,022.31.

LOCAL TAXES

The main local taxes that a municipality can levy are property tax (on land, buildings and flats), hotel tax, tax on the operation of vending machines and machines that do not offer cash prizes, as well as local fees on community waste disposal and low-value construction waste. Motor vehicle tax is also charged for categories of vehicles used by businesses or self-employed persons. Local taxes paid are a recognised deduction from income tax.

OTHER TAXES

An annual tax is levied on the owner or beneficial owner of a building, flat or land situated within the Slovak Republic. The rate of tax depends on the size, quality, type and location of the property. This tax is deductible on a cash basis for income tax purposes. There is no inheritance tax, gift tax or real estate transfer tax levied in the Slovak Republic. Employers pay contributions to social security and health insurance amounting to 35.2% of gross income paid to employees as shown on payroll records up to a maximum assessment set by law. These contributions are deductible when determining taxable income. The rates are as follows:

Health insurance	10.00%
Hospitalisation	1.40%
Retirement insurance	14.00%

Disability	3.00%
Unemployment insurance	1.00%
Accident insurance	0.80%
Guaranty insurance	0.25%
Reserve fund	4.75%

B. DETERMINATION OF TAXABLE INCOME

A company's taxable income is determined by ascertaining assessable income according to official accounting and then subtracting all deductions. Generally, to be deductible, expenditure must be wholly and exclusively incurred for the purposes of the business. Certain income that has already been subject to withholding tax is not included in taxable income, with some exceptions such as royalties. Special additional conditions apply to deductions of some expenses. For example, special expenses defined by tax law are tax-deductible only for the period in which they are fully paid. Examples include legal and consulting services and sports sponsorships. On the other hand, special income such as marketing studies and marketing research, as well as contractual penalties and late fees is taxable only for the period in which it is received.

DEPRECIATION

The tax law prescribes the rules under which a business depreciates its assets. Property, plant and equipment are divided into six groups according to their expected useful life (periods ranging from 4 to 40 years). The straight-line depreciation method is used, although accelerated (declining-balance) depreciation may be applied in the case of machinery and technological equipment in depreciation groups 2 and 3 (in general, NACE Classifications 25-32, although the amended Income Tax Act specifically outlines the applicable statistical classification numbers).

The choice of method is carried out on an asset-by-asset basis and, once the method is selected, it cannot be changed. Intangible assets (capitalised development costs) can be amortised over five years from when they were expensed. Amortisation may be postponed without the taxpayer losing the right to amortise in future periods. (Note: Starting from 1 January 2012, assets are depreciated in the first year pro rata according to the number of months.)

STOCK / INVENTORY

All trading stock on hand is valued at purchase price including any additional procurement costs incurred. Internally generated inventory must be valued on the basis of production costs. In the event that a temporary impairment in inventories is found during stocktaking, an allowance is made. Accepted valuation methods include FIFO, average acquisition costs or pre-defined (planned) prices but not LIFO.

CAPITAL GAINS AND LOSSES

Capital gains are considered taxable income and taxed at the applicable tax rate of 21%. Losses from the sale of securities are recognised as a tax deduction only up to the amount of income. There are two exceptions when the loss is fully recognised for tax purposes:

- A loss from the sale of bonds to the extent of income received from the bond included in its price;
- A loss from the sale of stock certified by a broker.

DIVIDENDS

Dividends paid out of profits generated after 31 December 2003 are not subject to personal income tax, unless the distributing company is based in a non-contracting state, i.e. a state not on the “white list” published by the Slovak Ministry of Finance (basically non-treaty countries or countries that have not signed the Convention on Mutual Administrative Assistance in Tax Matters), in which case dividends paid out of profits are subject to tax at a rate of 35%. Dividends paid out of profits generated before 1 January 2004 are included in the taxable base of the recipient and taxed at a standard tax rate of 21%, if the old dividends arguably still exist. However, under domestic Slovak law implementing the provisions of the EU Parent-Subsidiary Directive, even such dividends are exempt in the hands of the recipient company if the distributing company has its seat in an EU Member State, and the recipient company holds directly at least 25% of the capital of the distributing company.

INTEREST DEDUCTION

Interest paid by a company is treated as an ordinary business expense. Since 2015 the Slovak Republic has applied thin-capitalisation related restrictions on the deduction of interest from loans. These restrictions apply to interest expenses arising in tax periods starting on or after 1 January 2015 and cover all resident legal entities and non-resident legal entities having a permanent establishment in the Slovak Republic, with the exception of financial institutions (banks, insurance companies, reinsurance companies and bodies of collective investments) and leasing companies). The deduction of interest expenses on loans from related parties exceeding 25% of a company's earnings before interest, taxes, depreciation, and amortization (EBIDTA) will be prohibited.

LOSSES

As from 1 January 2014, losses in a year may be carried forward and set off against profits in the subsequent four years uniformly with no obligation to reinvest the deducted losses.

FOREIGN SOURCED INCOME

The Slovak authorities levy taxes on all foreign-sourced income received by Slovak residents and companies whose registered office is in the Slovak Republic.

INCENTIVES

Incentives for investors are governed by legislation on investment aid (No. 561/2007 Coll., as amended) and investment assistance (Act 561/2007 Coll.), under which tax benefits and relief may also be an incentive to invest. Specific tax benefits have to be negotiated with the Economics Ministry.

C. FOREIGN TAX RELIEF

No unilateral double taxation relief is provided. Double taxation is relieved only on the basis of tax treaties. Tax paid in a foreign country is offset against tax liabilities in the home country in accordance with double tax treaties with the applicable country (either by a deduction or exemption). Income earned by individuals (i.e. from wages and salaries) is tax-exempt where proof is given that the income will be taxed abroad and where the Slovak Republic has no double tax treaty with the other country which has taxed the income. If a double tax treaty exists, exemptions stipulated in the treaty take precedence.

D. CORPORATE GROUPS

There is no concept of corporate groups in the Slovak Republic. For tax purposes, profits and losses of holding and subsidiary companies may not be consolidated.

E. RELATED PARTY TRANSACTIONS

All transactions between related parties must be conducted on an arm's length basis with the meaning of arm's length price depending upon each individual transaction. Any difference arising between the price of the actual transaction and that regarded as the arm's length price will be adjusted for tax purposes. It is possible to negotiate an advance pricing agreement (APA) with the tax authorities. The APA may cover up to five tax periods and is renewable. Mandatory transfer pricing documentation requirements exist, which generally follow the recommendations contained in the OECD Guidelines. There is no CFC legislation in the Slovak Republic.

F. WITHHOLDING TAX

Dividends

- Dividends distributed by a Slovak entity out of profits generated as from 2017 to a non-resident entity resident in a country with which Slovakia has concluded a tax treaty are exempt from withholding tax;
- Dividends distributed by a Slovak entity out of profits generated as from 2017 to a non-resident individual in a country with which Slovakia has concluded a tax treaty are subject to a 7% withholding tax;
- Dividends distributed out of profits generated as from 2017 and paid to a non-resident entity or individual in a non-contracting state (i.e. a state not on the ‘white list’ published by the Slovak MoF) are subject to a 35% withholding tax.

Interest and royalties

- Interest or royalties paid to a non-resident are subject to a 19% withholding tax, unless the rate is reduced under a tax treaty or exempt under the EU Interest and Royalties Directive;
- A 35% withholding rate applies where the payment is made to a resident of a non-contracting state (i.e. a state not on the 'white list' published by the Slovak MoF).

G. EXCHANGE CONTROL

The Slovak Republic has been using the euro as its currency since 1 January 2009. The Foreign Exchange Act allows the euro to be used freely to pay for business and other costs, for direct investment and reinvestment and for purchase of real estate property abroad. Also, it is legal to accept financial credit (i.e. receive loans) from companies with no registered office within the Slovak Republic but, in certain circumstances, there is a requirement to report such credit.

The Foreign Exchange Act partially restricts the ability for companies without a registered office in the Slovak Republic to acquire real property in the Slovak Republic. Capital transfers are regulated and there is a duty to report and obtain a special permit or licence from the central bank. Since 2013 cash payments are restricted under a separate law to a ceiling of EUR 5,000, except for individuals not operating an undertaking, where the ceiling for payments in cash is EUR 15,000.

H. PERSONAL TAX

Personal income tax is payable by permanent residents within the Slovak Republic on their worldwide income. Non-residents are only subject to tax on Slovak-sourced income. If an individual spends 183 days or more of the relevant calendar year in the Slovak Republic, that person is deemed to be a resident in the Slovak Republic. Under Slovak law, employees hired under an employment contract pay contributions for social security, retirement and health insurance amounting to 13.4%. This is withheld by the employer. The rate of contributions is as follows:

Health insurance	4.00%
Hospitalisation	1.40%
Retirement	4.00%
Disability	3.00%
Unemployment insurance	1.00%

Different rates apply to contributions made by self-employed persons. The personal income tax rate in the Slovak Republic is 19% for annual earnings up to EUR 35,022.31 and 25% above that figure. In addition and in all cases, the personal allowance is reduced on a sliding scale to zero when taxable income is more than 176.8 times subsistence income (in 2017, this figure remains EUR 35,022.31).

The taxable amount includes income generated from capital assets, which is taxed at 19%.

Old dividends are exempt if paid from profits derived by the distributing company between 1 January 2004 and 31 December 2016. Dividends paid out of pre-2004 profits and profits derived as from 1 January 2017 are taxable at a rate of 7%, or a rate of 35% if the dividends are from sources in noncontracting states (see higher on the concept of a non-contracting state).

Tax returns for the applicable period should be filed by 31 March of the following year, although a threemonth extension can be requested with a simple notice to the tax authorities. Income tax on earnings from employment is withheld monthly. Provisional payments on income from business operations, rental income, etc. are paid quarterly or monthly depending on the last known tax liability (between EUR 2,500 and EUR 16,000 or over EUR 16,600 respectively) and as a single payment if the last tax liability did not exceed EUR 2,500).

Individuals can request the tax authorities to donate 2% of their Slovak personal income tax liability to an eligible Slovak non-profit organisation. The Act sets out who can receive such charitable contributions, for example, civic associations, foundations and religious organisations. These recipients must meet several conditions.

Real property tax is paid on land, flats and buildings, with the tax rate depending on the quality of land and location of the buildings or flats (number of citizens).

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends[1] (%)	Interest[2,3,5] (%)	Royalties[2,4] (%)
Non-treaty countries			
Companies	0/19/35	0/19/35	0/19/35
Individuals	0/7/35	0/19/35	0/19/35
Treaty countries			
Armenia	0	10	5
Australia	0	10	10
Austria	0	0	5/0
Belarus	0	10/0	10/5
Belgium	0	10/0	5
Bosnia and Herzegovina	0	0	10
Brazil	0	15/10	25/15
Bulgaria	0	10	10
Canada	0	10/0	10/0
China	0	10/0	10
Croatia	0	10	10
Cyprus	0	10/0	5/0
Czech Republic	0	0	10/0
Denmark	0	0	5/0
Estonia	0	10/0	10
Finland	0	0	10/5/1
France	0	0	5/0
Georgia	0	5	5
Germany	0	0	5
Greece	0	10	10/0
Hungary	0	0	10
Iceland	0	0	10
India	0	15/0	30
Indonesia	0	10/0	15/10
Ireland	0	0	10/0
Israel	0	10/5/2[5]	5
Italy	0	0	5/0
Japan	0	10/0	10/0
Kazakhstan	0	10/0	10

Korea	0	0/10	10/0
Kuwait	0	10/0	10
Latvia	0	10/0	10
Lithuania	0	10	10
Libya	0	10	5
Luxembourg	0	0	10/0
Macedonia	0	10	10
Malaysia	0	10	5/0
Malta	0	0	5
Mexico	0	10/0	10
Moldova	0	10	10
Mongolia	0	0	0
Montenegro	0	10	10
Netherlands	0	0	5
Nigeria	0	15/0	10
Norway	0	0	5/0
Poland	0	10/0	5
Portugal	0	10	10
Romania	0	10/0	10/15
Russia	0	0	10
Serbia	0	10	10
Singapore	0	0	10
Slovenia	0	10	10
South Africa	0	0	10
Spain	0	0	5/0
Sri Lanka	0	10/0	10/0
Sweden	0	0	5/0
Switzerland	0	10	10/0
Syria	0	10	12
Taiwan	0	0/10	5/10
Tunisia	0	12	15/5
Turkey	0	10/0	10
Turkmenistan	0	10/0	10
Ukraine	0	10	10
United Arab Emirates	0	10	10
United Kingdom	0	0	10/0

United States	0	0	10/0
Uzbekistan	0	10	10
Vietnam	0	10	5/10/15

Notes:

1. Dividends are subject to personal income tax but not to corporate income tax, except for non-contracting states (i.e. a state not on the 'white list' published by the Slovak MoF), in which case a 35% rate applies. A rate of 19% applies for profits generated before 1 January 2004.
2. Interest and royalties are tax exempt for associated companies in EU Member States in accordance with EU Directives (see Section 'F' above).
3. The lower tax rate generally applies to interest on loans provided by the government or the central bank. It is advisable to check the applicable double taxation treaty for specific details.
4. Separate tax rates for royalties are generally applied so that the higher rate is for industrial royalties and the lower rate is for cultural royalties. It is advisable to check the applicable double taxation treaty for specific details.
5. The withholding rate is reduced to 5% if a bank or financial institution receives the interest.

SLOVENIA

MEMBER FIRM

City	Name	Contact Information
Ljubljana	Luka Vremec	+386 1 541 19 44 luka.vremec@gmrevizija.si

BASIC FACTS

Full name:	Republic of Slovenia
Capital:	Ljubljana
Main language:	Slovenian
Population:	2.08 million (2018 estimate)
Monetary unit:	Euro (EUR)
Internet domain:	.si
Int. dialling code:	+386

KEY TAX POINTS

- Resident companies are subject to corporate income tax on their worldwide income. Non-residents are taxable on Slovenian source income on particular types of income.
- Capital gains are included in a company's profits subject to corporate income tax. 50% of gains/losses derived from the disposal of shares are exempt subject to certain conditions.
- VAT is chargeable in accordance with the provisions of EU law. A standard rate of 22% applies to most transactions with a reduced rate of 9.5% available for some goods and services.
- Relief for double taxation is provided by means of credit for overseas tax suffered on overseas income. The credit is the lower of the foreign tax paid and the Slovenian tax on the income concerned.
- Withholding taxes are due in respect of various types of payments to residents and non-residents. Withholding taxes do not apply to dividends distributed to legal persons where a common system of taxation applies or in respect of dividends and similar income distributed through a business unit of a non-resident located in Slovenia.

- Resident individuals are subject to personal income tax on their worldwide income. Non-residents are taxable on Slovenian source income.

A. TAXES PAYABLE

COMPANY TAX

A company is resident in Slovenia if it has its legal seat or place of effective management in Slovenia. Resident companies are taxed on their worldwide income. Non-resident companies are taxed on their Slovenian source income. Corporate income tax is levied on the taxable profits of legal persons at a rate of 19% with a special rate of 0% for investment funds, pension funds and insurance undertakings for pension plans (under certain conditions. As of 1 January 2013 there is an optional flat-rate taxation regime. In accordance with this flat-rate regime, the tax base was determined on the basis of lump-sum costs accounting for 80% of income. The income shouldn't exceed EUR 50,000 per year (EUR 100,000 under certain conditions).

BRANCH PROFIT TAX

Non-resident companies are subject to corporate income tax in Slovenia on business activities carried on through a permanent establishment in Slovenia.

VALUE ADDED TAX (VAT)

General

All companies pay VAT except those carrying out certain defined activities, small businesses and farmers with a turnover and income below defined thresholds, and those dealing with products intended for export and international transport. VAT is payable on all supplies of goods and services effected by a taxable person acting as such for consideration within the territory of Slovenia, on intra-Community acquisition (including intra-Community acquisition of new means of transport) and on importation of goods. It is also imposed on the transfer of ownership of buildings or parts thereof if the transfer is made before first occupancy or within a period of two years after first occupancy.

Slovenia adopted a value added tax system in July 1999. In May 2004, when Slovenia became a member of the European Union, all provisions concerning intra-Community trade were enacted. The Slovenian VAT Act was generally changed with effect from 1 January 2010. The purpose of those changes was to follow the development of European VAT regulations.

Taxable Persons

A taxable person must apply for registration if the value of his supplies within the period of the last 12 months exceeds the threshold of EUR 50,000. There is a separate threshold for registration in the VAT system for agricultural activities exceeding EUR 7,500 in accordance with the cadastral income of agricultural and forestry land. A foreign taxable person who makes supplies where the place of supply is Slovenia is liable to be registered irrespective of the fact that his turnover does not meet the prescribed threshold of EUR 50,000. Small businesses (including farmers) may apply for voluntary registration which is valid for at least a five-year period.

Rates

There are two VAT rates applicable in Slovenia:

1. The standard rate of 22% applies to all supplies of goods and services not specified as being subject to the reduced rate or to exemptions.
2. The reduced rate of 9.5% applies to goods and services specifically defined by the VAT Act. These include food, medicines, the supply of medical appliances for the personal use of disabled persons, supply of water, supply of books and other printed materials, tickets to cultural and sports events and the construction, renovation and supply of residential property unless it is built or supplied as part of social policy.

VAT Declaration – Payment / VAT Return

VAT shall be paid no later than the last working day of the month following the expiration of the tax period. Registered persons shall calculate their tax liability and submit a VAT return for the tax period (calendar month or calendar quarter). Taxable persons who are obliged to submit recap statements shall submit a monthly

VAT return on the 20th day of the month following the expiration of the tax period. In principle, tax credits (excess of input tax over output tax in the tax period) shall be carried forward to the next tax period. However, VAT may be refunded to a taxable person upon his request within 21 days after the VAT return is submitted.

The Place of Supply of Services

There are different rules depending on the place of the provision and type of service. Business-tobusiness (B2B) supplies of services are taxed where the buyer is situated, rather than where the seller is located. For business-to-consumer (B2C) supplies of services, the place of taxation is where the seller is established. However, in certain circumstances, the place of supply is the place of consumption. These exceptions include services such as intermediary services, services connected with immovable property, transport services, cultural, artistic, sporting, scientific, educational, entertainment or similar services, ancillary transport services, valuations of movable tangible property or work on such property, restaurant and catering services, the hiring of means of transport, and electronic services supplied to consumers.

For services provided in the fields of culture, art, sports, science, education, entertainment, fairs, exhibitions to businesses, the place of consumption is the headquarters of the purchaser.

Foreign Taxable persons VAT Refund

Foreign taxable persons are entitled to a refund of VAT paid in the Republic of Slovenia on supplies of goods and services and upon importation of goods if the conditions defined by law are fulfilled. The claim for a refund of VAT must be filed electronically in the claimant's own territory. To obtain a refund of VAT in Slovenia, the taxable person, if established in another Member State, must address an electronic refund application to Slovenia and submit it to the Member State in which he is established via the electronic portal set up by that Member State. Minimum refund limits are as follows:

- EUR 400 or the equivalent in national currency if the refund period is between three months and less than a calendar year;
- EUR 50 or the equivalent in national currency if the refund period is of a calendar year or the remainder of a calendar year.

VAT refunds due to taxable persons established outside the EU are only granted according to the conditions of reciprocity. Refund applications must be submitted by 30 June of the calendar year following the refund period to the competent tax authority.

Special Scheme for Small Taxable Persons

Small enterprises whose turnover does not exceed EUR 50,000 are exempt from charging VAT and have consequently no right to recover input VAT.

Special Scheme for Farmers

Farmers are exempt from charging VAT if their farming income does not exceed EUR 7,500. They are not able to recover VAT incurred on their purchases, but they are allowed to charge VAT at a flat rate of 8% on supplies to taxable persons and retain it.

Special Cash Accounting Scheme

Small businesses with a taxable turnover of up to EUR 400,000 per year, exclusive of VAT, may opt for the cash accounting scheme under which a taxable person may account for VAT on the basis of cash paid and received. Certain transactions are excluded from the scheme, e.g. exports, imports, intra-Community supplies, intra-Community acquisitions, etc.

FINANCIAL SERVICES TAX

Financial Services Tax Act is introducing liability to pay tax on financial services that are exempt from VAT according to current regulations governing the VAT system and services performed by insurance brokers and insurance agents. Subject of taxation are:

(a) Grant and negotiation of credits or loans in the form of money and the management of credits or loans in the form of money by the person granting them;

(b) Negotiation of or any dealings in credit guarantees or any other security for money and the management of credit guarantees by the person who is granting the credit; (c) Transactions, including negotiation, involving deposit and current accounts, payments, transfers, debts, cheques and other payment instruments;

(c) Transactions, including negotiation, involving currency, bank notes and coins used as legal tender;

(d) Services provided by insurance brokers and insurance agents.

The tax base is the fee or commission paid on the basis of a concluded financial service. Transactions in shares, interests in companies or associations, debentures and other securities and management of investment funds are not subject to the financial services tax, even though these services are exempt from VAT. Liability to pay the tax arises when the financial service is performed. A financial service is considered to have been performed when a fee (commission) has been paid tor this service.

Any person performing financial services in the territory of the Republic of Slovenia is subject to the financial services tax. A financial services tax return must be filed by anyone subject to the tax. It is a transaction tax and is charged at the moment when the financial service is performed. A financial service is considered to have been performed when a fee (commission) has been paid for this service. The tax rate increased from 6.5% to 8.5% of the tax base in 2015 and forward.

FRINGE BENEFITS TAX

In principle, all fringe benefits given by employers or other persons to their employees or family members of employees in connection with employment, such as the private use of company cars, rental benefits, zero-interest loans, discounts on products and services, gifts and share options, are taxed.

LOCAL TAXES

There are no special regional or local taxes in Slovenia.

OTHER TAXES

Other taxes not covered above are:

- Personal income tax;
- Derivative instruments gains tax;
- Contractual work tax;
- Contributions to social security insurance;
- Taxes on lottery winnings;
- Tax on gambling;
- Inheritance and gift tax;
- Property tax (new Real Estate Tax has not been enforced yet);
- Tax on vessels;
- Circulation tax;
- Tax on insurance services;
- Immovable property transfer tax;
- Customs Duties and Excise Duties.

B. DETERMINATION OF TAXABLE INCOME

DEPRECIATION

Depreciation costs are allowed in Slovenia. Rates applicable to the main types of assets are:

Description	Rate
Building projects, including investment property	3%
Parts of building projects, including parts of investment property	6%
Equipment, vehicles and machinery	20%
Parts of equipment and equipment for research	33.3%
Computers and computer equipment, software	50%
Long-term plantations	10%

Breeding and working herds	20%
Other investments	10%

RECEIVABLES

The write-off of a receivable is recognised as an expense when recorded in the business accounts. However, the amount of receivables value adjustment must not exceed the lower of the following two amounts: the arithmetical average of the actual write-off of the last three years or the amount representing 1% of taxable revenue in the tax period.

CAPITAL GAINS AND LOSSES

Capital gains from regular income are subject to tax. Capital gains are included within the profits chargeable to corporation tax for an accounting period. Capital losses can be offset against income of an accounting period when they are realised. 50% of capital gains derived on the disposal of shares are exempt where:

- The shares represent at least an 8% participation in capital or voting rights of the company;
- The shares have been held for at least six months;
- The company has at least one employee;
- The participation is not in a company in a low tax jurisdiction (where the nominal tax rate is less than 12.5% and the jurisdiction is listed with the Ministry of Finance.

DIVIDENDS

Domestic dividends are exempt from corporate income tax in the hands of corporate shareholders if:

- The payer is liable to corporate income tax in Slovenia; and
- The dividends result from income that was taxed at the level of the payer in a previous tax year.

A lump-sum amount equal to 5% of the dividends received is excluded from the exemption, representing deemed expenses incurred with respect to the exempt dividend income.

No withholding tax is levied on dividends and other profit distributions paid by a resident company to another resident company that communicates its tax identification number to the paying company.

DEDUCTIONS

Interest paid on borrowed money is treated as a regular financial expense and can be offset against income arising in the same accounting period. Thin capitalisation rules apply to loan finance received from shareholders who have at least a 25% participation in the company unless the taxpayer can demonstrate that the loan finance would have been provided on the same terms by a non-related entity. These rules apply also to loans by related parties and prescribe a maximum debt to equity ratio of 4:1.

LOSSES

Losses are calculated as the surplus of expenses over revenues defined by the Corporate Income Tax Act. Losses may be offset against taxable profits in the following years. Losses may be carried forward indefinitely but the carry back of losses is not permitted. The tax base may be decreased by the amount of losses from previous tax periods up to a maximum of half the tax base and may be carried forward indefinitely (unless more than 50% ownership of the capital has changed in the meantime and under some other additional circumstances).

FOREIGN SOURCE INCOME

Slovenia has no special rules that apply to foreign source income. All legal persons carrying out commercial activities and having their head office in Slovenia or having their place of effective management in Slovenia (partnerships and other corporate forms, investment funds, banks, insurance companies, co-operative enterprises, public enterprises and other legal persons) are subject to corporate income tax.

Non-residents (legal persons who do not have their headquarters in Slovenia or their place of effective management in Slovenia) are subject to corporate income tax to the extent that their income has its source in Slovenia for certain types of income.

INCENTIVES

A 100% deduction is available for research and development (R&D) investment activities and the purchase of R&D services not exceeding the amount of the taxable base. There is also a 40% deduction for amounts invested in equipment and intangibles, again only up to the amount of the taxable base. There are also further general tax incentives under certain conditions for entities that provide work for employees, trainees or disabled persons, as well as relief for donations and voluntary supplementary pension insurance. Unused tax reliefs may be carried forward for 5 years.

A tax relief of 45% of eligible salary payments (subject to a maximum of the employer's tax base) is granted to a taxpayer who employs a person under the age of 26 or a person above the age of 55 who has been registered as unemployed with the Employment Service of the Republic of Slovenia for at least six months and has not been employed with this taxpayer or his/her associated enterprise for the last 24 months. There are further general tax incentives available to entities that provide work for apprentices or disabled persons. A taxpayer who employs disabled persons may claim a tax deduction equal to 50% of the salaries of such persons but not exceeding the amount of the taxable base. A taxpayer who employs disabled persons with a 100% physical or hearing disability may claim a reduction in the taxable base in the amount of 70% of the salaries of such persons but not exceeding the amount of the taxable base.

If a taxpayer under a teaching agreement employs an apprentice or student to perform practical work in professional education, the taxpayer may claim a reduction in the taxable base in the amount of the salary paid but not exceeding 20% of the average monthly salary in Slovenia for each month of performing practical work and for each individual person who takes part in such professiona education.

Relief is available for voluntary supplementary pension insurance up to 24% of the compulsory contributions for pension and disability insurance for an insured employee but no more than EUR 2,819.09 annually (for the year 2018) per employee may apply under certain conditions. Additional tax incentives for eligible costs for initial investments and employment costs are given to companies which operate in an economic zone.

C. FOREIGN TAX RELIEF

Relief for double taxation is provided by means of credit for overseas tax suffered on overseas income. The credit is the lower of the foreign tax paid and the Slovenian tax on the income concerned.

D. CORPORATE GROUPS

Groups cannot be taxed as a single entity in Slovenia.

E. RELATED PARTY TRANSACTIONS

Transactions of Slovenian resident companies with non-resident companies must be carried out on an arm's length basis or adjustments are required for tax purposes. The rules also apply to transactions between Slovenian resident companies with which they are related where one is in a tax advantageous position (e.g. through losses brought forward from an earlier period). Companies are related by virtue of a 25% participation of one in the other or a common 25% participation by a third company.

F. WITHHOLDING TAX

Companies paying dividends withhold tax at a rate of 15% on each dividend distributed to residents and non-residents of Slovenia. If double tax treaties stipulate a tax rate lower than 15%, the treaty tax rate applies. No withholding tax applies where a resident taxpayer notifies the payer of its tax number or if a non-resident taxpayer with activities in a business unit in Slovenia notifies the payer of its tax number. No tax is withheld from payments of dividends and similar income distributed to companies resident in the EU with a minimum 10% equity stake which has been held for at least 24 months prior to the dividend payment.

There is no withholding tax on dividends paid to a non-resident who is a resident of the EU or EEA (excluding the Principality of Liechtenstein) if the recipient of the dividend is not able to offset the applicable Slovenian withholding tax in his country of residence. This also applies to payments o dividends and interest paid from Slovenia to EU and EEA (excluding the Principality of Liechtenstein) investment and pension funds. Companies are, in most cases, exempt from tax on dividends if the payer is:

- Liable to pay tax by the Corporate Income Tax Act; or,
- A taxpaying resident in an EU Member State under that State's domestic tax law is not deemed to be resident outside the EU under a tax treaty concluded with a non-member state; or,
- Liable to pay the equivalent of Slovenian corporate income tax and is resident in a country in which the rate of tax on corporate profits is at least 12.5%.

Withholding tax at a rate of 15% applies to interest payments. In the case of interest on loans raised and securities issued by the government of Slovenia and interest paid by banks there is no withholding tax. Withholding tax at a rate of 15% applies to royalties. There is no withholding tax if a resident taxpayer notifies the payer of its tax number and if a non-resident taxpayer for activities in a business unit in Slovenia notifies the payer of its tax number.

G. EXCHANGE CONTROLS

There are no exchange controls in Slovenia.

H. PERSONAL TAX

Personal income tax is levied on six categories of income:

- Income from employment;
- Business income (from self-employment);
- Income from basic agriculture and forestry;
- Income from rents and royalties;
- Income from capital;
- Other income accruing to persons liable to tax in the Republic of Slovenia. Residents are liable to income tax on their worldwide income (i.e. income derived in Slovenia as well as abroad). Non-residents are liable to income tax on income derived in Slovenia.

An individual, regardless of his nationality, is a resident in Slovenia for personal income tax purposes if he has a formal residential tie with Slovenia i.e. has permanent residence in Slovenia, is a Slovenian public employee employed abroad or was a Slovenian resident but is currently employed in an EU institution). A person who is present for more than 183 days in a taxable year in Slovenia is deemed to be resident there in that tax year. Each individual is treated as a separate taxpayer. There is no taxation of spouses or a family as a whole. The tax year is the calendar year.

Tax on income from capital (on interest, dividends and capital gains) is paid according to a flat income tax rate. Any such tax payment is treated as a final tax for residents and non-residents alike. Tax rates are the following:

- Interest: 25%;
- Dividends: 25%;
- Capital gains: 25% for a holding period of up to five years, 15% for a holding period from five to 10 years, 10% for a holding period from 10 to 15 years, 5% for a holding period from 15 to 20 years, and 0% for a holding period greater than 20 years.

Income tax on other categories of income (income from employment, business income, income from basic agriculture and forestry, rental income, royalties and other income hereinafter referred to as active income) is paid during the tax year in the form of advance tax payments. The rate for advance tax payment is prescribed by the Personal Income Tax Act. Any such advance tax payment of a nonresident is treated as a final tax while, in the case of a resident, it is treated as a prepayment of tax. The tax schedule for the year 2018 is as follows:

Taxable income (EUR)	Tax (EUR)	Rate on excess (EUR)
Up to 8,021.34	0	16%
8,021.34 – 20,400.00	1,283.41	+ 27% over 8,021.34
20,400.00 – 48,000.00	4,625.65	+ 34 over 20,400.00
48,000.00 – 70,907.20	14,009.65	+ 39% over 48,000.00
Over 70,907.20	22,943.46	+ 50 % over 70,907.20

Advance tax payments are deductible from the annual active income tax liability of a resident and any difference is collected upon receipt of an assessment from the tax authorities. The Tax Administration is obliged to generate an annual tax return based on its own information, to assess the tax and submit the return to the taxpayer. If the taxpayer does not dispute the tax assessment, the tax will be due (the difference between the total tax payable and the total amount of tax paid in advance) within 60 days of the day the tax assessment is submitted.

When the total sum of advance payments exceeds the annual tax payable, a refund will be provided within the same time limit. If the tax assessment has not been submitted to the taxpayer by the end of May, then the taxpayer is obliged to file an annual income tax return by the end of June. Then the tax liability of the taxpayer will be calculated by the Tax Administration which is obliged to issue a written order before 31 October of the same year. The tax due (the difference between the total tax payable and the total amount of tax paid in advance) must be paid within 30 days of the day the written order is submitted. When the total sum of advance payments exceeds the annual tax payable, a refund is provided within the same time limit. A tax return is required for all taxpayers regardless of the annual taxable base.

All taxpayers (except for basic agricultural and forestry activity) must keep records of their income. They are obliged to keep records for at least five years from the year to which they relate. To avoid double taxation of income, Slovenia has concluded a considerable number of double tax treaties.

EXEMPTIONS

There are a number of exemptions within each category of income which are defined by the Personal Income Tax Act.

ALLOWANCES AND DEDUCTIONS

Allowances that reduce the aggregated taxable base (deductions) for a resident taxpayer on an annual level include (for the year 2018):

General allowance:

- EUR 6,519.82 for residents with active income up to EUR 11,166.37;
- EUR 3,302.70 + (19,922.15 – 1.49601 x total income) for residents with active income between EUR 11,166.37 and EUR 13,316.83;
- EUR 3,302.70 for residents with active income in excess of EUR 13,316.83.

Personal allowances:

- Disabled person's allowance: EUR 17,658,84 if the resident is a disabled person;
- Independent artists, journalists and sportsmen: a special deduction of 15% of their revenues (up to EUR 25,000 of revenues);
- Student allowance: 75% of the basic yearly allowance (amount of 2,477.03 for 2016 and 2017) for income earned by pupils or students for temporary work done on the basis of a referral issued by a special organization dealing with job-matching services for pupils and students.

Family allowances:

Family allowances are granted to residents who are supporting their family members, as follows:

- EUR 2,436.92 for the first dependent child; for each subsequent dependent child this amount is increased;
- EUR 8,830.00 for a dependent child who requires special care;
- EUR 2,436.92 for any other dependent family member;

Special deduction for voluntary additional pension insurance payments:

Premiums paid by a resident to the provider of a pension plan based in Slovenia or in an EU Member State according to a pension plan that is approved and entered into a special register, but limited to a sum equal to 24% of the compulsory contribution for compulsory pension and disability insurance for the taxpayer, or 5.844% of the taxpayer's pension, and no more than EUR 2,819.09 annually. Pensioners and working disabled persons are entitled to a tax credit in the amount of 13.5% of the pension/compensation received from compulsory pension and disability insurance.

WAGE FOR BUSINESS SUCCESS

Part of the wage for business success is not subject to tax for personal income tax purposes if the amount doesn't exceed 70 % of the average wage in Slovenia but is subject to regular social security contributions. It can only be paid once in a single year and should cover all the employees. Such wages should also be paid in accordance with the employer's general act and collective agreement.

DIRECT TAXES ON PROPERTY

INHERITANCE AND GIFT TAX

Inheritance and gift tax applies to transfers of property. The tax is paid by individuals or legal persons of private law receiving property in the form of inheritance or gifts. Taxpayers are divided into four categories according to their relationship with the deceased or donor as follows:

- Class I: all direct descendants and spouses;
- Class II: parents, siblings and their descendants;
- Class III: grandparents;
- Class IV: others.

The tax base of inherited or given property is the value after deduction of debts and other liabilities. For real estate, this value is set at 80% of gross appraisal value. For movable property - except money - this value is set as market value. Exemptions to the inheritance and gift tax include:

- Individuals classified under Class I;
- Taxpayers who inherit a house or apartment and who own only one house or apartment themselves and have lived in the same house as the decedent;
- Farmers who inherit agricultural land or an entire farm; and,
- Legal persons of private law, established for religious, humanitarian, educational, cultural, charitable and certain other activities.

Movable property up to a value of EUR 5,000 is also exempt from taxation. The tax is levied progressively depending on the value of the property and the category under which the relation to the deceased or donor is classified. Inheritance and gift tax rates are as follows:

Category	Tax Rate Ranges
Class II	5% to 14%
Class III	8% to 17%
Class IV	12% to 39%

Taxpayers must declare their liability to the local tax authority within 15 days of receiving a gift. The assessment of inheritance tax is made according to the inheritance decision sent by the court to the tax authority. The tax is payable within 30 days of the assessment being issued.

PROPERTY TAX

A fee for the use of construction land is charged to owners by municipalities (% depending on individual municipality).

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies[1] (%)		
Domestic rates				
Companies	15	0	0/15[2]	0/15[3]
Individuals	25	-	0/25	25
Treaty countries:				
Albania	10	5	0/7	7
Armenia	10	5	10	5

Austria	15	5	0/5	5
Azerbaijan	8	8	8	5/10
Belarus	5	5	0/5	5
Belgium	15	5	10	5
Bosnia and Herzegovina	10	5	0/7	5
Bulgaria	10	5	5	5/10
Canada	15	5	10	10
China	5	5	10	10
Croatia	5	5	5	5
Cyprus	5	5	0/5	5
Czech Republic	15	5	5	10
Denmark	15	5	5	5
Estonia	15	5	10	10
Finland	15	5	5	5
France	15	0	0/5	0/5
Georgia	5	5	0/5	5
Germany	15	5	5	5
Greece	10	10	10	10
Hungary	15	5	5	5
Iceland	15	5	5	5
India	15	5	10	10
Iran	7	7	5	5
Ireland	15	5	5	5
Israel	15	5 /10	5	5
Italy	15	5	0/10	5
Japan	5/10	5/10	5	5
Kazakhstan	15	5	0/10	10
Korea (South)	15	5	5	5
Kuwait	5	0	5	10
Latvia	15	5	10	10
Lithuania	15	5	10	10
Luxembourg	15	5	5	5
Macedonia (FYR)	15	5	10	10
Malta	15	5	5	5
Moldova	10	5	5	5
Montenegro[4]	10	5	10	5/10

Netherlands	15	5	5	5
Norway	15	0	5	5
Poland	15	5	10	10
Portugal	15	5	10	5
Qatar	5	5	5	5
Romania	5	5	5	5
Russia	10	10	10	10
Serbia[4]	10	5	10	5/10
Singapore	5	5	5	5
Slovak Republic	15	5	10	10
Spain	15	5	5	5
Sweden[5]	15	5	0	0
Switzerland	15	0	0/5	0/5
Thailand	10	10	10/15	10/15
Turkey	10	10	10	10
Ukraine	15	5	5	5/10
United Arab Emirates	5	5	5	5
United Kingdom	15	0	0/5	5
United States	15	5	5	5
Uzbekistan	8	8	8	10

Notes:

1. Dividends and other profit distributions paid to non-residents are subject to a 15% final withholding tax levied on the gross amount, unless a reduced rate applies under a tax treaty. Under Slovenian domestic tax law implementing the provisions of the EU Parent-Subsidiary Directive, outbound dividends are exempt from withholding tax if the recipient is an EU company subject to a corporate income tax listed in the directive and holds directly at least 10% of the capital or voting rights of the paying company. A minimum holding period of years is required. If the 2-year holding period has not yet elapsed, the exemption can be directly applied if the recipient lodges a bank guarantee. The benefits of the directive do not apply if the main purpose or one of the main purposes of the transaction is to achieve a tax advantage. Reduced withholding tax rates on dividends (qualifying companies) are also available under the treaties with non-EU member states, subject to certain conditions and participations.
2. Interest paid to non-residents is subject to a 15% final withholding tax levied on the gross amount, unless a reduced rate applies under a tax treaty. Under Slovenian domestic tax law implementing the provisions of the EU Interest and Royalties Directive, interest and royalty payments by resident companies are exempt from withholding tax, provided that the recipient company is resident in another EU Member State and is subject to corporate income tax in that state, and is an associated company of the paying company. Two companies are associated companies if (i) one of them holds directly at least 25% of the capital of the other or (ii) a third EU company holds directly at least 25% of the capital of the two companies. In both cases, a continuous minimum holding period of 2 years is required.
3. Royalties paid to non-residents are subject to a 15% final withholding tax levied on the gross amount, unless a reduced rate applies under a tax treaty. For the implementation of the EU Interest and Royalties Directive, see footnote 2.
4. Treaty concluded between Slovenia and the former Serbia and Montenegro.
5. Treaty concluded by the former Yugoslavia.

SOMALILAND

MEMBER FIRM

City	Name	Contact Information
Hargeisa	Enock Barongo	+252 633 349 312 +254 720 779 459 ebarongo@pkf.so info@pkf.so

BASIC FACTS

Full name:	Republic of Somaliland
Capital:	Hargeisa
Main language:	Somali, Arabic
Population:	Somaliland Shilling (SLSH)
Monetary unit:	Euro (EUR)
Internet domain:	.so
Int. dialling code:	+252

KEY TAX POINTS

- Companies pay tax at a rate of 25% on computed profits.
- Capital gains are liable to tax at a rate of 10% (of the net gain).
- Value Added Tax (VAT) is levied at 5%.
- Employee tax is levied according to a graduated scale of between 3% and 9%. However, in practice 6% is applied by entities.
- Personal tax is levied according to a graduated scale of between 3% and 9% on gross income. However, in practice 6%

A. TAXES PAYABLE

COMPANY TAX

Company tax is based on computed tax profits as follows: 25% as per Article 38 of Somaliland Direct Tax law.

CAPITAL GAINS TAX

Capital gains are subject to tax at a rate of 10% of the net gain.

BRANCH PROFITS TAX

A branch of a foreign entity pays tax at the rate of 25%.

VALUE ADDED TAX (VAT)

The VAT rate is 5%.

EMPLOYMENT TAX

Employment income is taxed according to a graduated scale of between 3% and 9% on gross annual income as per Article 37 of Somaliland Direct Tax law. However, in practice 6% is applied by entities.

LOCAL TAXES

The following local taxes are levied in the republic of Somaliland:

VEHICLE ROAD TAX

Vehicle road tax at a rate of 0.5% on the value of the vehicle

LAND RATES

Land rates are based on the percentage of the site value.

RENTAL INCOME TAXES

18% of the rental income.

SINGLE BUSINESS PERMIT

Depending on the type of business, this permit costs a minimum of USD 200 to a maximum of USD 600.

B. DETERMINATION OF TAXABLE INCOME

CAPITAL ALLOWANCES

Asset	Rate
Land	0%
Buildings	5%
Machinery	10%
Computers	33%
Equipment	20%
Trucks	20%

C. PERSONAL TAX

Employment income is taxed according to a graduated scale of between 3% and 9% on gross annual income as per Article 37 of Somaliland Direct Tax law. However, in practice 6% is applied by entities.

SOUTH AFRICA

MEMBER FIRM

City	Name	Contact Information
Cape Town North	Jan Kotze	+27 21 914 8880 jan.kotze@pkf.co.za
Cape Town South	Kobus Nell	+27 21 713 8400 kobus.nell@pkf.co.za
Durban	Paul Gering	+27 31 573 5000 paul.gering@pkf.co.za
Johannesburg (East Rand)	Herman Nieuwoudt	+27 10 595 9610 herman@vg-a.co.za
Johannesburg (West Rand)	Josua Pietersen	+27 11 675 0907 josua.pietersen@pkf.com
Johannesburg (Octagon)	Trudie Rohlandt	+27 10 003 0150 trudier@pkfoctagon.com
Port Elizabeth	Deon van Zyl	+27 41 398 5600 deon.vanzyl@pkf.co.za

Pretoria	Retief Smith	+27 12 809 7000
		retief.smith@pkf.co.za
Saldanha	Francois Hofmeyr	+27 22 714 1981
		francois.hofmeyr@pkf.co.za
Welkom	Roland Heiriss	+27 57 353 2601/2
		roland.heiriss@pkf.co.za

BASIC FACTS

Full name:	Republic of South Africa
Capital:	Pretoria (executive), Bloemfontein (judicial), Cape Town (legislative)
Main language:	Afrikaans, Northern Sotho, English, Southern Ndebele, Southern Sotho, Swazi, Tsonga, Tswana, Venda, Xhosa, Zulu
Population:	57.22 million (2018 estimate)
Monetary unit:	South African Rand (ZAR)
Internet domain:	.za
Int. dialling code:	+27

KEY TAX POINTS

- Resident companies are generally taxed on their worldwide income. Non-resident companies are taxed on their South Africa-sourced income.
- Dividends paid or that become payable by a South African company to a shareholder are subject to a 20% withholding tax. Withholding tax is not levied on dividends paid to another South African company and dividends paid by headquarter companies.
- Where a branch of a foreign company operates in South Africa, a branch profits tax at the rate of 28% of taxable income applies.
- VAT is imposed at 15% (prior to 1 April 2018: 14%) on most goods and services supplied by a vendor. Exports are zero-rated and very few exemptions exist.
- Employees are taxed on the value of fringe benefits as determined in accordance with a separate schedule to the Income Tax Act.
- Although group taxation is not applicable, corporate rules provide relief in respect of transactions between group companies and between founding shareholders and their company.
- The South African Revenue Services are empowered to make adjustments to cross-border transactions between related parties that are not conducted on arm's length terms. While no specific thin capitalisation rules apply, the normal arm's length transfer pricing principle applies in respect of loans as well.
- Royalties and similar income are subject to withholding taxes at source, at a rate of 15% (effective 1 January 2015). Royalties paid by headquarter companies are exempt from the withholding tax. A 20% withholding tax applies to dividends earned by non-residents and a 20% withholding is also applicable to dividends in specie (where the company declaring the dividends will be liable for the tax).
- A 20% withholding tax applies to dividends earned by non-residents and a 20% withholding is also applicable to dividends in specie (where the company declaring the dividends will be liable for the tax).
- A 15% withholding tax on interest paid or payable to non-residents was imposed from 1 March 2015. Notable exclusions include interest paid on so-called portfolio debt capital, i.e. government bonds, listed securities, debts owing by local banks, domestic brokerage accounts, etc., international bank finance and interest paid by a headquarter company.
- Resident individuals are generally subject to personal income tax on their worldwide income irrespective of the source. Non-resident individuals are generally subject to tax on their South African-sourced income only.

A. TAXES PAYABLE

COMPANY TAX

A company is resident in South Africa (SA) if it is incorporated, formed or established in SA or has its place of effective management in SA. Subject to certain limited exemptions, South African resident companies and close corporations (companies) are taxed on their worldwide income. Furthermore, and again subject to certain exemptions, the international 'anti-avoidance' practice of taxing income earned by Controlled Foreign Companies (CFCs) applies to South African residents.

Normal tax is payable by South African companies on their worldwide taxable income at the rate of 28%. The tax is payable by both public and private companies as well as close corporations. Small business corporations are close corporations and private companies with only natural persons as shareholders, gross income of less than ZAR 20 million during a year of assessment, and where not more than 20% of its gross income consists of investment income or income from the rendering of a personal service. These corporations qualify for taxation at the following rates in respect of the years of assessment ending between 1 April 2018 and 31 March 2019:

Taxable income	Rates of tax
ZAR 0 – ZAR 78,150	Nil
ZAR 78,151 – ZAR 365, 000	7% of the amount over ZAR 75,750
ZAR 365,001 – ZAR 550,000	ZAR 20,080 + 21% of the amount over ZAR 365,000
ZAR 550,001 +	ZAR 58,930 + 28% of the amount over ZAR 550,000

Life assurers are taxed according to the four fund approach. The taxable income of what is known as The Individual Policyholder Fund is taxed at 30%. The Company Policyholder Fund and The Corporate Fund are taxed at 28%. Retirement Fund's receipts and accruals are exempt from tax.

Mining companies are, in addition to their specific corporate rates of tax, subject to a royalty calculated on the gross sales relating to the transfer of mineral resources. The royalty is calculated in terms of a specific formula and can range from 0.5% to 7% depending on whether refined or unrefined minerals are transferred.

TRUSTS

South African trusts pay tax at a flat rate of 45% (2017: 41%) on each Rand of taxable income. Notwithstanding the aforementioned, special provisions apply to testamentary trusts (for so long as the beneficiaries remain minors under the age of 18 years) and trusts created for the benefit of mentally or physically challenged persons. These trusts pay tax at rates applicable to resident individuals. Founders and donors of trusts may be taxed on income earned by the trust in terms of certain attribution rules (deeming provisions). The same can apply to beneficiaries of non-resident trusts in certain circumstances.

CAPITAL GAINS TAX

CGT was introduced with effect from 1 October 2001. South African residents are taxed on their worldwide assets while non-residents are only subject to CGT on any direct or indirect interest or right in or to immovable property situated in SA, and assets of a permanent establishment through which they carry on a trade in SA. CGT is triggered on the disposal or deemed disposal of an asset which includes but is not limited to any event, act, forbearance or operation of law that results in the creation, variation, transfer or extinction of an asset.

A noteworthy deemed disposal arises on emigration from SA or termination of SA tax residence (exit charge). CGT not only affects assets purchased and sold after 1 October 2001 but it also affects assets acquired prior to this date and disposed of subsequent to 1 October 2001. In the case of assets acquired prior to 1 October 2001 and disposed of subsequent thereto, the gain is calculated based on the growth in value after 1 October 2001 which, of necessity, has resulted in legislation providing for complex alternatives to determine the gain at the time of disposal.

Strictly speaking, CGT is not a separate tax but rather forms an integral part of SA's income tax legislation. In short, subject to any exclusions and exemptions, a taxable gain is calculated by taking the difference between the proceeds received on disposal of the asset and the base cost and then multiplying this amount by an inclusion factor (which varies depending on the nature of the taxpayer). The resultant sum is then added to the taxpayer's normal taxable income and taxed accordingly. A capital loss results where the base cost exceed the proceeds on disposal.

Capital losses are however ring-fenced and may not be set off against a taxpayer's taxable income from revenue sources but may be set off against capital gains, with any excess capital losses carried forward for set off against any capital gains arising in subsequent years of assessment. A summary of some of the more relevant inclusion rates and effective rates are set out below:

Nature of taxpayer	Inclusion rate	Maximum tax rate	Effective rate
Company/close corporation	80%	28%	22.4%
Natural person	40%	45%	0% to 18%
Trust	80%	45%	36%

BRANCH PROFITS TAX

Where a branch of a foreign company operates in South Africa, a branch profits tax at the rate of 28% of taxable income applies. There is no branch remittance tax in SA.

DIVIDENDS TAX (DT)

Dividends paid or that become payable by a South African company to a shareholder are subject to a 20% withholding tax. Notable exclusions from the DT are dividends paid to another South African company and dividends paid by headquarter companies. The DT may be reduced for dividends paid to foreign shareholders in terms of any applicable Double Tax Treaty.

VALUE ADDED TAX (VAT)

VAT is imposed on most goods and services supplied by a vendor at 15% (prior to 1 April 2018: 14%). Exports are zero-rated. Very few exemptions exist. Compulsory VAT registration is triggered when the value of taxable supplies in a 12 month period exceeds or is expected to exceed ZAR 1 million. As from 1 April 2014, compulsory VAT registration is triggered when the value of taxable supplies have already exceeded the ZAR 1 million threshold within the preceding 12 months or there is a written contractual commitment to make taxable supplies exceeding ZAR 1 million within the next 12 months.

FRINGE BENEFITS TAX

Employees are taxed on the value of fringe benefits as determined in accordance with a separate schedule to the Income Tax Act. The tax levied is in accordance with the tax rates applicable to natural persons.

DONATIONS TAX

Subject to certain exemptions, donations tax is levied at the rate of 20% on the value of any property disposed of under any donation (or deemed donation) made by a natural person, company, municipality or trust resident for tax purposes in SA.

SECURITIES TRANSFER TAX

With effect from 1 July 2008, securities transfer tax is levied on every transfer of a security. A security in essence is any share in a company, member's interest in a close corporation or any right or entitlement to receive any distribution from a company or close corporation. Only securities issued by companies incorporated, established or formed inside SA and companies incorporated, established or formed outside SA, which are listed on a South African exchange, are taxable. The tax rate is 0.25% and is applied to the taxable amount in respect of any transfer of a security.

TRANSFER DUTY

Transfer duty is imposed on the transfer of immovable property (on or after 1 March 2017) at the following rates:

On the first ZAR 900,000	0%
For ZAR 900,001 to ZAR 1,250,000	3% on the value above ZAR 900,000
For ZAR 1,250,001 to ZAR 1,750,000	ZAR 10,500 + 6% on the value above ZAR 1,250,000
For ZAR 1,750,001 to ZAR 2,250,000	ZAR 40,500 + 8% on the value above ZAR 1,750,000

For ZAR 2,250,001 to ZAR 10,000,000	ZAR 80,500 + 11% on the value above ZAR 2,250,000
For ZAR 10,000,001 and above	ZAR 933,000 + 13% on the value above ZAR 10,000,000

OTHER TAXES

These include, amongst others, customs and excise duties, and skills development levies.

B. DETERMINATION OF TAXABLE INCOME

The taxable income of a company is determined by deducting expenditure incurred in the production of income and other allowable expenses and allowances from the company's income. Capital gains are subject to CGT with effect from 1 October 2001.

CAPITAL ALLOWANCES

Asset Type	Conditions for annual allowance	Annual Allowance
Industrial buildings or improvements and buildings used for research and development (note 1)	Construction of buildings or improvements on or after 1 January 1989, provided building is used wholly or mainly for carrying on process of manufacture or similar process or research and development. Construction of buildings or improvements on or after 1 July 1996 to 30 September 1999 and the buildings or improvements are bought into use before 31 March 2000 and used in the process of manufacture or similar process.	5% of cost (previously 2%) (Note 2) 10% of cost (Note 2)
New commercial buildings (other than residential accommodation) (Note 3)	Any cost incurred in erecting any new and unused building, or improving an existing building on or after 1 April 2007 wholly or mainly used for the purpose of producing income in the course of trade.	5% of cost
Building in an Urban	Costs incurred in erecting or extending a building in respect of demolishing, excavating the land, or to	20% in first year
Development Zone	provide water, power or parking, drainage or security, waste disposal or access to the building. Improvement to existing buildings.	8% in each of the 10 subsequent years 20% of cost
Hotel Buildings	Construction of buildings or improvements, provided used in trade as hotelkeeper or used by lessee in trade as hotelkeeper. Refurbishments (Note 4) which commenced on or after 17 March 1993.	5% of cost 20% of cost
Hotel equipment	Machinery, implements, utensils or articles bought into use on or after 16 December 1989.	20% of cost
Aircraft	Acquired on or after 1 April 1995.	20% of cost (Note 2)
Airport and port assets	New and unused assets and improvements brought into use on or after 1 January 2008 and used directly and solely for purpose of business as airport, terminal or transport operation or port authority	5% of cost

Farming equipment and equipment used for production of renewable energy	Machinery, implements, utensils or articles (other than livestock) bought into use on or after 1 July 1988 for farming operations. Biodiesel plant and machinery bought into use after 1 April 2003. Machinery used for the generation of electricity from wind power, solar energy, hydropower, biomass comprisi	50% in first year 30% in second year 20% in third year
Ships	South African registered ships used for prospecting, mining or as a foreign-going ship, acquired on or after 1 April 1995.	20% of cost (Note 2)
Plant and Machinery (Note 1)	New and unused manufacturing assets acquired on or after 1 March 2002 will be subject to wear and tear allowances over 4 years. Used manufacturing assets	40% in first year 20% in each of the 3 subsequent years (Note 5) 20% of cost
Plant and Machinery (small business corporations only)	New and unused plant and machinery bought into use on or after 1 April 2001 and used by the taxpayer directly in the process of manufacture.	100% of cost
Non-manufacturing assets (small business corporation only)	Acquired on or after 1 April 2005.	50% in first year 30% in second year 20% in third year
Licences	Expenditure, other than for infrastructure to acquire a licence from government body to carry on telecommunication services, exploration, production or distribution of petroleum or the provision of gambling facilities.	Evenly over the period of the licence, subject to a maximum of 30 years
Strategic projects	An additional industrial investment allowance is allowed on new and unused assets used for preferred qualifying strategic projects which were approved between 31 July 2001 and 31 July 2005 Any other qualifying strategic projects	100% of cost 50% of cost
Electronic telecommunication lines and cables	New and unused structures contracted for and construction commenced on or after 23 February 2000 As from 1 April 2015, not only new and unused Premium in respect of an indefeasible right of use (IRU)	5% of cost 6.67% of cost Period of use (IRU must have a legal term of at least 15 years)
Pipelines, electricity cables and railway tracks	New and unused structures contracted for and construction commenced on or after 23 February 2000	10% of cost (oil pipelines) 5% of cost (other)
Environmental treatment and recycling asset and improvements	Any new and unused air, water and solid waste treatment and recycling plant or pollution control and monitoring equipment used in the course of the taxpayer's trade and required by law of the Republic.	40% in first year 20% in each of the three subsequent years
Environmental waste disposal asset and improvements thereto	Any new and unused air, water, and solid waste disposal site, dam, dump, reservoir, or other structure of a similar nature of a permanent nature, used in the course of the taxpayer's trade and required by the law of the Republic.	5% of cost

Energy efficiency savings	All forms of energy efficiency savings as reflected on an energy savings certificate in any year of assessment ending before 1 January 2020	Determined in accordance with a formula
Solar PV renewable energy	Generation capacity not exceeding 1 000kW or 1MW For years of assessment on or after 1 January 2016	50% in first year 30% in second year 20% in third year 100% of cost

Notes:

1. As from 1 April 2012, new or unused assets or buildings used for the purposes of research and development will also qualify for the allowances.
2. Recoupment of allowances can be deducted from the cost of the replacement asset.
3. Allowances available to owners as users of the building or as lessors/financiers.
4. Refurbishment is defined as any work undertaken within the existing building framework.
5. Where plant and machinery is used in a process of manufacture or similar process, the taxpayer is obliged to make use of the allowances and not the wear and tear rates.
6. Prior to 1 January 2013, wear and tear on any assets acquired from a connected person may only be claimed on the original cost to the seller less allowances claimed by the seller, plus recoupments and CGT included in the seller's income.

Certified Emission Reductions

Income received by a person disposing of credit emission reductions (CERs) emanating from Clean Development Mechanism (CDM) projects as envisaged in the Kyoto Protocol, will be wholly exempt from income tax and capital gains tax. This exemption includes 'in specie' distributions and applies in respect of CERs disposals on or after 11 February 2009. This concession ceases to apply from 1 January 2021. As CERs will, by default, be exported, they will be zero-rated for VAT purposes.

STOCK / INVENTORY

All trading stock on hand at the end of the tax year must be added to income while all trading stock on hand at the beginning of the year ranks as a deduction. Trading stock is valued at the lesser of cost or net realisable value. Consumable stores and work-in-progress on hand constitute trading stock. The LIFO method of valuing trading stock is not permitted in respect of years of assessment commencing on or after 1 July 2000.

RESEARCH AND DEVELOPMENT EXPENDITURE

As from 2 November 2006, specific deductions are allowed for expenditure incurred in respect of qualifying research and development activities. The department of Science and Technology must approve the entire 150% deduction. Only expenditure incurred on or after the date of receipt of the application is eligible for this deduction. Plant and machinery used for research and development qualify to be written off over four years (40:20:20:20). As from 1 January 2015, these assets can be written off over three years (50:30:20). Buildings used for research and development activities qualify for a 5% annual allowance.

INTELLECTUAL PROPERTY

Where the expenditure was incurred before 29 October 1999, the deduction is allowed over the number of years of the duration of use or 4% of the expenditure, whichever is greater. Where the expenditure was incurred on or after 29 October 1999 and exceeds ZAR 5,000 the annual deduction is limited to:

- 5% of the expenditure in the case of an invention, patent, copyright, knowledge or other property of a similar nature;
- 10% of the expenditure in the case of a design or other property of a similar nature.

No allowance is allowed in respect of any expenditure incurred on or after 29 October 1999 in respect of the acquisition of any trademark or property of a similar nature.

INTEREST AND FINANCE CHARGES

Interest incurred in the production of income is a deductible expense. Where the loan or instrument in respect of which interest is incurred complies with certain requirements, such interest is deemed to be incurred on

a day-to-day basis. Interest incurred prior to the commencement of trade is deductible in the year in which trade commences.

TAX LOSSES

Subject to certain anti-avoidance provisions, company tax losses are carried forward to the following year provided the trading activity is perpetuated and income is derived from that trade. For natural persons, tax losses from secondary trades are ring-fenced in certain circumstances. There is no carry back of assessed losses to prior years.

INTEREST RECEIVED

Interest received (or accrued) is included in gross income. Where the loan or instrument in respect of which interest is received complies with certain requirements, such interest is deemed to accrue on a day-to-day basis.

FOREIGN SOURCE INCOME

South African resident individuals and corporates are subject to tax in SA on their worldwide income. However, this general principle may be overridden by the provisions of a double taxation treaty or certain unilateral relief provisions contained in South African tax legislation. A comprehensive set of rules govern the determination of the source of income. Foreign dividends, i.e. dividends paid or payable by a foreign company, in respect of a share in that company are taxable, subject to certain exemptions. The following foreign dividends are fully exempt from tax:

- If the shareholder (whether alone or together with any other company forming part of the same group of companies as that person) holds at least 10% of the total equity shares and voting rights in the company;
- If the shareholder is a company which is in the same country as the foreign company paying the
- dividend;
- If the dividend is in respect of foreign shares listed on the Johannesburg Stock Exchange and from 1 March 2014 includes a dividend in specie;
- If the dividend is declared out of net income which has already been taxed in SA in terms of the legislation regulating the taxation of CFCs, in the hands of the shareholder. Certain limitations apply in respect of this exemption.

Foreign dividends that are not fully exempt from tax are exempt in part based on a specified formula, the effect of which is that the foreign dividend will be subject to an effective 20% tax.

TAX INCENTIVES

The Department of Trade and Industry provides an additional industrial investment allowance for qualifying industrial assets and projects. No tax holiday scheme is in force.

Regional headquarter company and investment fund regimes

A headquarter company regime applies from years of assessment commencing on or after 1 January 2011. Qualifying criteria for a headquarter company are:

- For the duration of the year of assessment each shareholder of the headquarter company must have held at least 10% of the headquarter company's equity shares and voting rights;
- Where the company in question was dormant for a part of the year of assessment in which the qualifying 10% shareholding stands to be determined, the shareholding during the dormant part of the year must be ignored;
- At the end of the year of assessment and all previous years of assessment of that company, 80% or more of the cost of the total assets of the company was attributable to one or more of the following:
  - any interest in equity shares in;
  - any amount loaned or advanced to;
  - any intellectual property that is licensed by the company to any foreign company in which that company (whether alone or together with any other company forming part of the same group of companies as that company) held at least 10% of the equity shares and voting rights (qualifying investments);

  - Where the foreign company in question is dormant, the 80% of the cost of its total assets requirement should be ignored for that part of the year of assessment or previous years of assessment during which it was dormant);
  - For years of assessment commencing 1 January 2013, no regard need be had to any year of assessment in which the company had assets with total market value of ZAR 50,000 or less.
- Where the gross income of that company for that year of assessment exceeds ZAR 5 million, 50% or more of that gross income consisted of amounts in the form of one or both of the following:
  - any rental, dividend, interest, royalty or fee paid or payable by any foreign company that constitutes a qualifying investment; or
  - any proceeds from the disposal of any interest in a foreign company or in intellectual property licensed to a foreign company that constitutes a qualifying investment; and
- The company elects to be classified as a headquarter company.

The SA tax implications of qualifying as a headquarter company are:

- The company is resident in SA for normal tax purposes but is excluded from the definition of a resident for purposes of the corporate roll over rules.
- Dividends declared are not subject to Dividends Tax.
- Dividends received from a headquarter company do not enjoy the general local dividend exemption
- and are treated as foreign dividends, subject to the foreign dividend taxation rules.
- The disposal of shares by the headquarter company in foreign companies could qualify for CGT exemption in SA in terms of the participation exemption rule.
- No application of transfer pricing rules for back to back cross-border loans to foreign companies that constitute qualifying investments.
- No application of transfer pricing rules for back to back licensing of intellectual property (losses as result of back to back licensing will however be ring-fenced).
- Exemption from the pending withholding tax on interest in respect of back to back loans.
- Exemption from withholding tax on royalties in respect of back to back royalties paid to a foreign shareholder (applicable from 1 January 2015).
- Exemption from securities transfer tax.

A regional investment fund regime also applies from years of assessment commencing on or after 1 January 2011. Qualifying foreign investors will be regarded as passive investors with no exposure to South African tax because of the use of a South African portfolio manager.

C. FOREIGN TAX RELIEF

Tax credits are granted in respect of foreign taxes paid on foreign sourced income in accordance with unilateral provisions contained in the Income Tax Act and numerous Double Tax Treaties. Where income is sourced in SA, no foreign tax credit will be allowed but a deduction of the foreign taxes suffered is likely to be allowed.

D. CORPORATE GROUPS

Group taxation is not applicable. However, corporate rules exist which provide relief in respect of transactions between group companies and between founding shareholders and their company. The relief provisions deal with the following transactions:

- Asset-for-share transactions;
- Intra-group transactions;
- Unbundling transactions;
- Transactions relating to liquidation, winding-up or deregistration;
- Amalgamation transactions.

Briefly, the corporate rules provide for the following tax relief in respect of the abovementioned transactions, provided certain requirements are met:

- CGT;
- STC (until 31 March 2012);

- Dividends Tax (effective from 1 April 2012);
- Securities transfer tax;
- Income tax, specifically with respect to capital allowances claimed, recovery of capital allowances and the transfer of trading stock;
- Transfer duty;
- VAT.

The corporate rules have been expanded to include most inbound and foreign-to-foreign restructuring transactions that fall within the list of transactions set out above. These rules are complex. However, for the most part they require that the transactions be effected within a group of companies and that only built in capital gains assets would qualify for the roll over relief.

E. RELATED PARTY TRANSACTIONS

The Commissioner for the South African Revenue Services is empowered to make adjustments to crossborder transactions between connected persons that are not conducted on arm's length terms. While no specific thin capitalisation rules apply, the normal arm's length transfer pricing principle applies in respect of loans as well. There are also limitations on certain deductions and allowances on transactions between connected parties.

For years of assessment commencing on or after 1 October 2016, entities which enter into cross border transactions with connected persons, and the value of the transactions exceed or are reasonably expected to exceed ZAR 100 million are required to maintain transfer pricing policy documentation. Where the value of a specific transaction exceeds ZAR 5 million, detailed records of the transaction must be maintained.

For years of assessment commencing on or after 1 January 2016, the ultimate parent company of a multinational enterprise (MNE) group that is tax resident in South Africa will be required to file a countryby-country report to the South African Revenue Service. The threshold for reporting is a consolidated turnover of at least ZAR 10 billion in the fiscal year prior to the year in which the report must be submitted. The first report was due for filing from 31 December 2017. However, an extension has been granted to 28 February 2018.

F. WITHHOLDING TAX

Royalty and similar income are subject to withholding taxes at source. The applicable rate increased from 12% to 15% on 1 January 2015. As from 1 July 2013, royalties paid by headquarter companies are exempt from the withholding tax.

A 20% withholding tax on dividends earned by non-residents applies from 1 April 2012. Dividends in specie will be subject to the 20% tax but the company declaring the dividends will be liable for the tax. A 15% withholding tax on interest paid or payable to non-residents applies from 1 March 2015. Notable exclusions include interest paid on so-called portfolio debt capital, i.e. government bonds, listed securities, debts owing by local banks, domestic brokerage accounts, etc., international bank finance and interest paid by a headquarter company.

There is no withholding tax on cross border consultancy, management and technical fees from a South African source.

G. EXCHANGE CONTROL

Subject to certain limited exclusions, South African residents are subject to exchange controls. Exchange controls have been relaxed somewhat in recent years. Non-residents are excluded from the ambit of exchange controls.

H. PERSONAL TAX

As a result of the change from a source-based system of taxation to a resident-basis of taxation, SA resident individuals are subject to tax on their worldwide income irrespective of the source of the income, except for certain exclusions. Non-resident individuals, subject to certain exclusions, are subject to tax on their SA-sourced income only. A natural person will be regarded as a resident for tax purposes if he is ordinarily resident in SA or where the person is not ordinarily resident in South Africa but spends more than a certain number of days in SA (the physical presence test).

The income tax rates applicable to natural persons for the tax year ending 28 February 2019 are:

ZAR 0 – ZAR 195,850	18% of each ZAR 1
ZAR 195,851 – ZAR 305,850	ZAR 35,253 + 26% of the amount over ZAR 195,850

ZAR 305,851 – ZAR 423,300	ZAR 63,853 + 31% of the amount over ZAR 305,850
ZAR 423,301 – ZAR 555,600	ZAR 100,263 + 36% of the amount over ZAR 423,300
ZAR 555,601 – ZAR 708,310	ZAR 147,891 + 39% of the amount over ZAR 555,600
ZAR 708 311 – ZAR 1,500,000	ZAR 207,448 + 41% of the amount over ZAR 708,310
ZAR 1,500,001 +	ZAR 532,041 + 45% of the amount over ZAR 1,500,000

In respect of the 2019 year of assessment, the first ZAR 23,800 (2013: ZAR 22,800) of local interest earned is exempt from tax for individuals younger than 65 years and the first ZAR 34,500 (2013: ZAR 33,000) for individuals aged 65 years or older. As from 1 March 2015, natural persons can invest in approved saving instruments, subject to a lifetime investment limit of ZAR 500,000 and an annual investment limit of ZAR 33,000 (2017: 30,000) with the resulting returns which include interest, dividends and capital gains being fully exempt from tax. Where the investment limits are exceeded a 40% penalty will apply to excess amounts invested.

Deductions available to salaried employees and directors are restricted to the following:

- Bad debt allowance;
- Doubtful debts allowance;
- Wear and tear allowance;
- Business travel expenses limited to the travel allowance or fringe benefit for the use of a company motor vehicle;
- Pension or retirement annuity fund contributions;
- As from 1 March 2016, provident fund contributions;
- Donations to qualifying Public Benefit Organisations;
- Home office expenses, subject to requirements;
- Legal expenses;
- Prior to 1 March 2015, premiums paid in terms of an certain allowable insurance policies;
- As from 1 March 2008, refunded awards for services rendered and refunded restraint of trade awards.

Retirement saving contribution deductions are subject to certain limitations. Medical expenses are not deductible but a tax credit is available in respect of medical scheme contributions/fees. In addition to the medical scheme fees tax credit a further tax credit is available in respect of additional medical expenses, subject to certain limitations.

DEEMED EXPENSES

Labour brokers and personal service providers are regarded as employees. A labour broker is a natural person who, for reward, provides a client with other persons to render a service for the client or procures such other persons for the client and remunerates such person. A personal service provider is a company or trust where any service rendered on behalf of the entity to its client is rendered personally by any person who is a connected person in relation to such entity and certain provisions are met.

A labour broker who is not in possession of an exemption certificate will be subject to employees' tax at the rate applicable to individual taxpayers. A personal service provider will be subject to employees' tax at a rate of 28% in the case of a company and 45% in the case of a trust. Deductions available to deemed employees are limited to remuneration for services rendered, contributions to pension and provident funds, legal expenses, bad debts, rent, finance charges, insurance, repairs and maintenance and fuel, incurred wholly and exclusively for trade.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Withholding tax rates for dividends, royalties and interest (from 1 March 2015) paid to non-residents from SA are set out in the table below The rates below assumes a South African domestic withholding tax rate of 15% as it applies in respect of interest and royalties paid to non-residents from 1 January 2015. For the purposes of dividends the assumed South African domestic withholding tax rate is 20% as it applies to dividends paid on or after 22 February 2017. For the rates as they would have applied in respect of royalties and dividends paid to non-residents prior to 1 January 2015 and 22 February 2017 respectively, please refer to earlier versions of this guide.

	Dividends (%)	Interest (%)	Royalties (%)
Non-treaty countries	15	15	15
Treaty countries			
Algeria	10	10/15	10
Australia	5	5/15	10
Austria	0	5/15	0
Belarus	5/10	5/15	5/10
Belgium	0	5/15	10
Botswana	10	10/15	10
Brazil	10/15	10/15	15
Bulgaria	5/10	5/15	5
Cameroon	10	10/15	10
Canada	6/10	5/15	10
Chile	5/10	5/15	5/15
Croatia	5	5/10	0
Cyprus	0	5/10	0
Czech Republic	10	5/15	0
Denmark	0	5/15	0
Democratic Republic of Congo	10	5/15	10
Egypt	15	15	12
Ethiopia	15	10	8
Finland	0	5/15	0
France	0	5/15	0
Germany	0	7.5/15	10
Ghana	10	5/15	5/10
Greece	5/7	5/15	8
Hong Kong	5	5/10	10
Hungary	0	5/15	0
India	10	10	10
Indonesia	10	10/15	10
Iran	10	10	5
Ireland	0	5/10	0
Israel	0/15	15	15
Italy	6	5/15	10
Japan	10	5/15	10

Kenya	10	10	10
Korea	10	5/15	10
Kuwait	10	0	0
Lesotho	10	10/15	10
Luxembourg	0	5/15	0
Malawi	15	15	15
Malaysia	5	5/10	10
Malta	10	5/10	10
Mauritius	5	5/10	10
Mexico	10	5/10	10
Mozambique	5	8/15	8
Namibia	10	5/15	10
Netherlands	0	5/10	0
New Zealand	10	5/15	10
Nigeria	7.5	7.5/10	7.5
Norway	0	5/15	0
Oman	8	5/10	0
Pakistan	10	10/15	10
Peoples Republic of China	7/10	5	10
Poland	10	5/15	10
Portugal	10	10/15	10
Qatar	5	0/5/10	10
Romania	15	15	15
Russian Federation	0	10/15	10
Rwanda	10	10/20	10
Saudi Arabia	10	0/5/10	5
Seychelles	0	5/10	0
Sierra Leone	15	15	0
Singapore	5	0/5/10	7.5
Slovak Republic	10	5/15	0
Spain	5	5/15	5
Swaziland	10	10/15	10
Sweden	0	5/15	0
Switzerland	0	5/15	5
Taiwan	10	5/15	10

Tanzania	10	10/20	10
Thailand	15	10/15	10/15
Tunisia	10	10	5/12
Turkey	10	10/15	10
Uganda	10	10/15	10
Ukraine	10	5/15	10
United Arab Emirates	10	0/5/10	10
United Kingdom	0	5/10/15	0
USA	0	5/15	0
Zambia	15	15	15
Zimbabwe	10	5/10	5

Note: the above rates are provided as a guide only. A number of DTT's provide for alternative rates, including zero, to be applied in specific circumstances. The DTTs are available on www.sars.gov.za

SOUTH SUDAN

MEMBER FIRM

City	Name	Contact Information
Juba	Atul Shah	+254 20 4270000 atulshah@ke.pkfea.com

BASIC FACTS

Full name:	Republic of South Sudan
Capital:	Juba
Main language:	English, Arabic, Bari, Dinka, Murle, Nuer, Zande and around 60 other languages
Population:	12.85 million (2018 estimate)
Monetary unit:	South Sudanese Pound (SSP)
Internet domain:	.ss
Int. dialling code:	+211

KEY TAX POINTS

- The business tax rate is 10% for small, 20% for medium sized and 25% for large enterprises respectively.
- Advance business profit tax on imports at 2% on all imported food items and 4% on all other imported goods.
- Capital gains are deemed to be business income subject to the aforementioned applicable corporate tax rate.
- Excise Duty applicable at the rate of 5% to 300% depending on the type of excisable goods and services.
- Sales tax applies to the import of goods into South Sudan, production of goods in South Sudan and provision of hospitality services in hotels, bars and restaurants at a rate of 18% as from 2017 during an austerity period.

- Transactions between related parties are required to be at arm's length.
- From an accounting perspective, financial statements must be presented in accordance with applicable relevant laws and International Financial Reporting Standards.

A. TAXES PAYABLE

COMPANY TAX

A company, partnership or other entity that is established in South Sudan or has its place of effective management in South Sudan is a resident. Resident companies are liable for tax on their worldwide income while non-resident companies are liable for tax on their South Sudan-sourced income only.

For corporate income tax purposes, companies are classified into three categories on the basis of their gross annual turnover: small, medium-sized and large. The 2014/2015 Finance Act revised the gross annual turnover limits as follows:

- Entities with a turnover of less than SSP 1 million are small;
- Entities with a turnover between SSP 1 million and SSP 30 million are medium-sized;
- Entities with a turnover of over SSP 30 million are large.

Small companies are subject to corporate income tax at a rate of 10%, medium-sized companies at a rate of 20% and large companies at a rate of 25%. The tax year is the calendar year unless the tax authorities approve a different tax year.

Type of Business	Tax Rate
Small Business Enterprise (SSP 0 – 1,000,000 annual gross turnover)	10%
Medium Business Enterprises (SSP 1,000,001 to 30,000,000)	20%
Large Business Enterprises (SSP 30,000,001 and above)	25%

All imports are charged advance income tax at the rates of 2% for food items and 4% for non-food items.

CAPITAL GAINS TAX

Capital gains are deemed as business income subject to the abovementioned applicable corporate tax rate.

BRANCH PROFITS TAX

Branches are subject to the same corporate rates as resident companies (10%, 20% and 25%). There is no branch remittance tax in South Sudan.

SALES TAX

Sales tax applies to the import of goods into South Sudan, production of goods in South Sudan and provision of hospitality services in hotels, bars and restaurants at a rate of 20% as from 2017 at the level of small, medium sized and large companies. Manufacturers and service providers are required to file a VAT return and pay the tax due not later than the 15th day of every month for the tax collected in the prior month.

STAMP DUTY

There are no stamp duty provisions.

REAL PROPERTY TAX

There is no legislation, although, in practice, rates vary by locality.

EXCISE TAX

Taxpayers are subject to Excise Duty at the rate of 5% (e.g. mineral water) to 300% (e.g. alcohol) depending on the type of excisable goods and services stipulated by the Taxation Act. Other examples of goods that attract excise duty are: fruit juices, soft drinks, cigars, cigarettes, petroleum products, motor vehicles and transport services etc.

TAX INCENTIVES

Various incentives are available for foreign investors on a case-by-case basis including concessions for machinery and equipment in qualified investment priority areas, capital and deductible annual allowances, certain depreciations and access to land for investment.

B. DETERMINATION OF TAXABLE INCOME

Taxable income generally comprises worldwide income for resident companies and business profits derived from South Sudan by non-resident companies less expenditure incurred wholly and exclusively in the production of the income for the year. Certain expenses are specifically disallowed like e.g. the cost of acquisition and/or improvement of land, cost of acquisition, improvement, renewal and reconstruction of assets that are depreciated or amortized, corporate income tax and fines and penalties.

DEPRECIATION

Depreciation rates for tangible assets are as follows:

- Buildings and other structures: 10% (straight-line method);
- Vehicles, office equipment and computers: 33% (reducing balance method);
- Any other property: 25% (reducing balance method).

CAPITAL ALLOWANCES

Allowances are granted for certain capital expenditure like e.g. initial allowance on plant and machinery (50% or 75% depending on the development of the area), start-up and development costs (25% or 40% depending on the development of the area), scientific and research expenditure (100%) etc.

In addition to the aforementioned capital allowances, investments in priority sectors enjoy annual allowances ranging from 8% (intangible assets) to 40% (Class 4 depreciable assets like railroad cars, locomotives and equipment, vessels, tugs and similar water transportation equipment, air craft, specialized public utility plant, equipment and machinery, office furniture, fixtures and equipment, etc.).

DIVIDENDS

Dividends that have been subjected to final withholding tax are exempt from corporate income tax. Domestic dividends are subject to a 10% final withholding tax.

INTEREST DEDUCTIONS

There are no thin capitalization rules in South Sudan.

LOSSES

Business losses may be carried forward and set off against taxable income for up to five successive years. Losses cannot be carried back.

FOREIGN SOURCE INCOME

South Sudan operates a worldwide system of taxation on the basis of which the income of a resident company includes all economic benefits regardless of their source.

C. FOREIGN TAX RELIEF

A resident taxpayer generating profit from business activities outside South Sudan through a permanent establishment and paying foreign tax on such income is entitled to a foreign tax credit, provided the other country allows a similar treatment for tax paid in South Sudan. The foreign tax is creditable for the year in which the income is taxable in South Sudan. The foreign tax credit is the foreign tax or the South Sudan tax applied to the part of the foreign-sourced income liable for tax in South Sudan, whichever is less. The credit is limited on a country-by-country basis.

D. CORPORATE GROUPS

There is no legislation on the consolidation of accounts for companies within a group.

E. RELATED PARTY TRANSACTIONS

Transfer pricing

The arm's length principle applies to all transactions between related parties. The difference between the arm's length price and the transfer price needs to be included in the taxable profit. The preferred method for determining the arm's length price is the comparable uncontrolled price method and where it is not possible to use this method, the resale price method or the cost-plus method may be used. Advance price agreements (APAs) cannot be negotiated with the tax authorities.

Controlled Foreign Companies (CFC)

There are no CFC rules in South Sudan

F. WITHHOLDING TAX

Dividends, interest and royalties paid by a South Sudan resident company to a non-resident company are subject to a 10% final withholding tax on the gross amount. With effect from 20 December 2016, technical fees (i.e. fees paid for technical, managerial and consultancy services performed in South Sudan) paid to non-resident companies without a permanent establishment in South Sudan are subject to a 15% final withholding tax for amounts exceeding SSP 10,000. Rent and contract payments by government institutions (GRSS) to non-resident companies are subject to a 20% final withholding tax rate.

Type	Resident	Non-resident
Technical fees	–	15%
Dividends	10%	10%
Interest	10%	10%
Royalties	10%	10%
Rent	20%	20%
Contract payments by GRSS institutions	20%	20%

G. EXCHANGE CONTROL

There are no exchange controls but banks must report significant foreign exchange transactions to the Central Bank.

H. PERSONAL TAX

Both resident and non-resident are taxed at progressive rates from 0% (under 3,600 SSP yearly) of up to 15% (in excess of 60,000 SSP yearly).

Amount of Taxable Income (Monthly Average)	Tax Rate
Up to SSP 600	
SSP 601 – SSP 5,000	10%
SSP 5,001 and above	15%

Residents individuals are subject to tax on their worldwide income derived from employment, entrepreneurial activities, leasing income and personal income while non-resident are subject to tax on South Sudan-source income only. The employer is required to contribute an amount equal to 17% of the monthly salary of its Sudanese and expatriate employees for social security while the employee contributes 8%. The fiscal year-end for resident individuals is 31 December.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

South Sudan has not concluded any double tax treaties.

SPAIN

MEMBER FIRM

City	Name	Contact Information
Barcelona	Aischa Laarbi	+34 93 414 59 28 legaldpt@pkf.es
Madrid	Santiago Gonzalez Barrau	+34 91 556 11 99 sgonzalez@pkf-attest.es

BASIC FACTS

Full name:	Kingdom of Spain
Capital:	Madrid
Main language:	Spanish (Castilian), Catalan, Valencian, Gallego (Galician), Euskera (Basque)
Population:	46.39 million (2018 estimate)
Monetary unit:	1 Euro (EUR) = 100 cents
Internet domain:	.es (.cat for Catalonia)
Int. dialling code:	+34

KEY TAX POINTS

- A Spanish resident company is liable to corporation tax on all sources of income and capital gains, wherever arising. A non-resident company is taxed on income and gains of a branch carrying on a trade in Spain. Foreign branch profits of a Spanish company are liable to Spanish tax.
- Capital gains are taxed as ordinary income.
- The transfer of real estate is generally subject to VAT at 21%. This is reduced to 10% for private residential property. If the transferor is not within the VAT system, transfer tax at 6% is applicable.
- Transfer tax is payable on the transfer of movable property, at a rate of 4% of the value.
- VAT is levied on the supply of taxable goods and services. The normal VAT rate is 21%. There is a reduced rate of 10% and a super-reduced rate of 4% on certain basic goods and services. A zero rate exists for exports and international services provided to EU and non-EU countries.
- Dividends and interest are generally paid subject to a withholding tax of 19% at source, although this is normally reduced or eliminated by a double tax treaty.
- Foreign taxes may be credited against Spanish corporation tax, whether or not a treaty exists with the foreign country.
- Spanish-resident individuals are liable for personal tax on their worldwide income; non-residents are only liable for tax on Spanish-sourced income.
- Resident individuals are subject to net wealth tax in respect of their worldwide assets. The various autonomous governments can establish different reductions.
- There is an inheritance tax charge on a recipient of property passing by gift or death.

A. TAXES PAYABLE

COMPANY TAX

Spanish resident companies are liable to corporation tax on all sources of income and capital gains, wherever arising. A company is treated as resident in Spain if it is incorporated in Spain, has its registered office in Spain or its effective management is in Spain. A non-resident company is taxed on income and gains of a branch carrying on a trade in Spain.

Trading profits, other income and capital gains are liable to corporation tax at the rate of 25%. Special tax rates are chargeable on portfolio investment funds (1%), on mutual insurance societies (25%), on co-operatives (except for capital gains) (20%), and on non-profit institutions (10%). For companies established after 1

January 2015, the applicable tax rate for the first profitable period and the following will be 15%.

The Spanish tax year is the calendar year but companies can establish a different tax year. The main condition is that the tax year must not exceed 12 months. Corporation tax is due for payment 6 months and 25 days after the financial year-end (on 25 July 2018, for example, for the year ended 31 December 2017). The tax return must be filed by the same date. There are two systems for advance payments:

(1) Payments are calculated as 18% of the previous year's tax liability. The payments are due on 20 April, 20 October and 20 December.

(2) Payments are based on the forecasted taxable income of the period as follows:

General rate for companies with an annual turnover lower than EUR 10 million is 17%. For companies with an annual turnover higher than EUR 10 million, the general rate is 24%. Additionally, for companies with an annual turnover higher than EUR 20 million, the minimum payment is the 23% of the accounting result after taxes, less the advance payments of the period. Three payments due on:

- 20 April: Taxable income of the period January-March less withholdings.
- 20 October: Taxable income of the period January-September less withholdings and advance payment of 20 April.
- 20 December: Taxable income of the period January-November less withholdings and advance payments of 20 April and 20 October.

The second system is mandatory for companies whose annual turnover exceeds EUR 6,010,121.

CAPITAL GAINS

Capital gains are taxed as ordinary income. Foreign-sourced capital gains are fully liable to Spanish corporate income tax with a credit for any foreign taxes payable, although such gains can be exempt under the terms of a double tax treaty.

Personal income tax

The personal income tax rate for capital gains as a result of the sale of wealth goods is 19%. Capital losses realised on the sale of goods may be offset against capital gains and saving incomes (with a limit of 25% from 2018) or carried forward for four years to offset against capital gains realised in subsequent years.

The losses not generated from the disposal of any wealth good may be set off against up to 25% of ordinary income and the remainder may be carried forward for up to four years to be offset against future capital gains realised on the sale of assets.

BRANCH PROFITS TAX

Foreign branch profits of a Spanish company will be liable to Spanish tax.

VALUE ADDED TAX (VAT)

VAT is levied on the supply of taxable goods and services. The normal VAT rate is 21%. There is a reduced rate of 10% and a super-reduced rate of 4% on certain basic goods and services. A zero rate exists for exports and international services provided to EU and non-EU countries.

FRINGE BENEFITS TAX (FBT)

There is no fringe benefits tax in Spain.

LOCAL TAXES

The main local taxes comprise: transfer tax, economic activity tax (trade licenses), property tax, tax on the increase of the value of urban land, tax on motor vehicles, tax on construction, planning permission and opening licenses for each business premises.

OTHER TAXES

The transfer of real estate is generally subject to VAT at 21%. This is reduced to 10% for private residential property and to 4% in the case of some housing. If the transferor is not within the VAT system, transfer tax at 6% is applicable. Transfer tax is also payable on the transfer of movable property. The rate is 4% of the value. The Spanish autonomous regions are allowed to modify the transfer tax rate and to set their own rates (e.g. the tax rate for real estate properties is 10% in Catalonia and 6% in Madrid).

B. DETERMINATION OF TAXABLE INCOME

Trading profits are calculated for tax purposes in accordance with financial accounts but adjusted for the main items as follows.

DEPRECIATION

Depreciation can be deducted on a straight-line basis, reducing-balance basis (in the case of new tangible assets with a life of more than three years) or on an individual basis (if approved by the tax authorities). The Ministry of Finance issues guidelines on the maximum straight-line rates as follows:

Asset	Rate (%)
Motor vehicles	16
Office equipment	10
Industrial buildings and hotels	3
Office and shop buildings	2
Machinery	12
Computer equipment	25
Software	33

Land cannot be depreciated.

STOCK

Stock and work in progress are valued at the lower of cost or market value. FIFO and average cost methods are acceptable.

CAPITAL GAINS AND LOSSES

As discussed above, capital gains and losses are included in the overall taxable profits of companies.

DIVIDENDS

Dividends paid are subject to a 19% withholding tax when paid to residents. Dividends paid to EEC residents are subject to a 19% withholding tax rate while dividends paid to non-EEC residents are subject to a 24% withholding tax rate. The withholding tax rate may be reduced under the relevant double tax treaties. Dividends received by certain companies (EU parent companies) are not subject to withholding tax if the holding is more than 5% and has been held for more than 12 months. All withholding tax suffered may be credited against the recipient company's corporate income tax liability.

INTEREST DEDUCTIONS

Interest is normally deductible on an accruals basis. Withholding tax of 19% is generally deductible from interest paid although this may be reduced or eliminated by a double tax treaty. Interest paid to certain companies (EU companies) is not subject to withholding tax. Since 2012 there are certain limits to some financial expenses deductions.

LOSSES

As from 1 January 2015 there is no time limit to carry forward tax losses with future profits. The loss carry forward is normally not restricted by a change in the ownership of a company's shares. As from 2016 companies can only offset part of their positive tax basis with previous year's tax losses. The

general rate of losses that can be compensated is limited to 70% as from 2017. Stricter rates apply to big companies:

a) Companies with an annual turnover between EUR 20 million and 60 million are only allowed to compensate 50% of the positive tax basis.

b) Companies with an annual turnover exceeding EUR 60 million are only allowed to compensate 25% of the positive tax basis. However, there exists a deductible minimum amount of EUR 1,000,000.

FOREIGN SOURCED INCOME

Under the International Fiscal Transparency regime, Spanish resident companies can be subject to tax on profits earned by certain non-EU resident subsidiaries in which they have a more than 50% interest. These rules apply to passive income earned by the subsidiary and taxed at a rate less than 75% than it would have been taxed at if it had been earned by the Spanish resident company.

INCENTIVES

A credit against tax payable may be taken for 25% of research and development expenses. Where the expenses exceed the average amount incurred in the preceding two years, a credit equal to 42% is available on the amount exceeding the average amount. In addition there is a credit against tax payable of 12% of the cost of technological innovation of existing products. Industrial development banks and companies and venture capital companies and funds are subject to special tax regimes.

C. FOREIGN TAX RELIEF

Foreign taxes may be credited against Spanish corporation tax regardless of whether a double tax treaty exists with the foreign country. There is no system of global foreign tax credits. Under certain circumstances, profits arising in permanent establishments of Spanish companies may be exempt from Spanish tax if they have suffered a similar tax overseas. Foreign tax credits are not available for the underlying taxes which the foreign company pays on the profits.

D. CORPORATE GROUPS

Permission may be obtained from the tax authorities to consolidate the results of a group of companies for corporate income tax purposes. The group must be headed by a company which directly or indirectly owns more than 75% of its subsidiaries. All subsidiaries must be Spanish resident companies. The result of consolidation is that all income, gains and losses of the group are brought together for tax purposes.

E. RELATED PARTY TRANSACTIONS

For tax purposes, transactions between related companies will be treated as if they had been made at arm's length prices. In certain cases (if certain thresholds are exceeded), the companies must disclose related parties transactions made during the year in the annual corporate tax return.

F. WITHHOLDING TAX

Withholding taxes paid to Spanish resident companies must generally be deducted from dividends, from interest at 19% and from royalties at 24%. A 0% rate applies to royalties paid to associated EU resident companies. There are also withholding taxes due on technical assistance fees and management fees payable to non-residents. All types of interest paid to EU resident companies (excluding Cyprus holding companies) are exempt.

G. EXCHANGE CONTROLS

In principle, all direct investments into Spain require previous verification by the Dirección General del Tesoro y Politica Financiera (DGTPF). Outward direct investments also require approval by the DGTPF.

H. PERSONAL TAX

Individual residents are liable to Personal Income Tax (IRPF) in respect of their worldwide income. Non residents are liable to IRPF only on their Spanish-sourced income. An individual is deemed to be resident for tax purposes if:

(i) He or she stays in Spain for more than 183 days in any calendar year;

(ii) His or her centre of vital interests is in Spain;

(iii) His or her spouse and minor dependent children qualify as residents of Spain. Fringe benefits in

cash or kind constitute employment income. Ordinary gains and losses are treated as ordinary income.

All businessmen and self-employed professionals are required to file quarterly returns and make advance payments by 20 April, 20 July and 20 October of the current year and 30 January of the next year on account of final income tax liability for the current year. All resident employees and selfemployed individuals must register and pay monthly contributions to the Spanish social security system. The general rate of the employee's general social security contributions is 6.35% and the employer's contribution is 30.15%.

The current tax rates for taxpayers are as follows:

Tax basis (EUR)	2018 tax rate
Up to 12,450	19%
From 12,450 to 20,200	24%
From 20,200 to 35,200	30%
From 35,200 to 60,000	37%
From 60,000	45%

The current tax rates for savings income are as follows:

Tax basis (EUR)	2018 tax rate
Up to 6,000	19%
From 6,000 to 50,000	21%
From 50,000	23%

The autonomous governments can establish different taxation rates. Usually when earned income is less than EUR 22,000 the individual is not obliged to prepare a tax return.

Until 31 December 2017, resident individuals were subject to net wealth tax in respect of their worldwide assets. However, as from 1 January 2018 the tax has been eliminated. The tax could be reinstated by the Spanish tax authorities in the future.

Inheritance tax is also levied on the recipient of property passing by way of gift or death. The inheritance tax rate can be charged at progressive rates, from 0% to 34% from father to son, and increased rates in other cases. The different autonomous governments can establish different reductions. The rate is determined with reference to the total value of assets gifted to each beneficiary.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies[1] (%)		
Domestic rates				
Companies	19	0	0/19[2]	0/19/24[3]
Individuals	0/19	-	0/19	0/19/24
Treaty countries:				
Albania	10	0/5	6	0
Algeria	15	5	0/5	7/14
Andorra	15	5	5	5
Argentina	15	10	0/12	3/5/10/15
Armenia	10	0	5	5/10
Australia	15	15	10	10
Austria	15	10	5	5
Barbados	5	0	0	0

Belarus[5]	18	18	0	0/5
Belgium	15	0	0/10	5
Bolivia	15	10	0/15	0/15
Bosnia and Herzegovina	10	5	0/7	7
Brazil	15	10/15	0/10/15	10/15
Bulgaria	15	5	0	0
Canada	15	5	0/10	0/10
Chile	10	5	5/15	5/10
China	10	10	10	10/60
Colombia	5	0	0/10	10
Costa Rica	12	5	0/5/10	10
Croatia	15	0	0	0
Cuba	15	5	0/10	0/5
Cyprus	5	0	0	0
Czech Republic	15	5	0	0/5
Dominican Republic	10	0	0/10	10
Ecuador	15	15	0/5/10	5/10
Egypt	12	9	0/10	12
El Salvador	12	0	0/10	10
Estonia	15	5	0/10	0/5/10
Finland	15	10	10	5
France	15	0	0/10	0/5
Georgia	10	0	0	0
Germany	15	5	0	0
Greece	10	5	0/8	6
Hong Kong	10	0	0/5	5
Hungary	15	5	0	0
Iceland	15	5	0/5	5
India	15	15	0/15	10/20
Indonesia	15	10	0/10	10
Iran	10	5	0/7.5	5
Ireland	15	0	0	5/8/10
Israel	10	10	5/10	5/7
Italy	15	15	0/12	4/8
Jamaica	10	5	0/10	10
Japan	15	10	10	10

Kazakhstan	15	5	0/10	10
Korea (South)	15	10/15	0/10	10
Kuwait	5	0	0	5
Kyrgyzstan5	18	18	0	0/5
Latvia	10	5	0/10	0/5/10
Lithuania	15	5	0/10	5/10
Luxembourg	15	10	0/10	10
Macedonia (FYR)	15	5	0/5	5
Malaysia	5	0	0/10	5/7
Malta	5	0	0	0
Mexico	10	0	4.9/10	0/10
Moldova	10	0/5	0/5	8
Morocco	15	10	10	5/10
Netherlands	15	5/10	10	6
New Zealand	15	15	0/10	10
Nigeria	10	7.5	0/7.5	3.75/7.5
Norway	15	10	0/10	5
Oman	10	0	0/5	8
Pakistan	10	5/7.5	10	7.5
Panama	10	0/5	0/5	5
Philippines	15	10	0/10/15	15/20
Poland	15	5	0	0/10
Portugal	15	10	15	5
Qatar4	5	0	0	0
Romania	15	10	0/10	10
Russia	15	5/10	0/5	5
Saudi Arabia	5	0	0/5	8
Senegal	10	10	0/10	10
Serbia	10	5	0/10	5/10
Singapore	5	0	0/5	5
Slovak Republic	15	5	0	0/5
Slovenia	15	5	0/5	5
South Africa	15	5	0/5	5
Sweden	15	10	0/15	10
Switzerland	15	0	0	0/5
Tajikistan[5]	18	18	0	0/5

Thailand	10	10	0/10/15	5/8/15
Trinidad and Tobago	10	0/5	0/8	5
Tunisia	15	5	5/10	10
Turkey	15	5	10/15	10
Turkmenistan[5]	18	18	0	0/5
Ukraine[5]	18	18	0	0/5
United Arab Emirates	15	5	0	0
United Kingdom	10/15	0	0	0
United States	15	10	0/10	5/8/10
Uruguay	5	0	0/10	5/10
Uzbekistan	10	0/5	0/5	5
Venezuela	10	0	0/4.95/10	5
Vietnam	15	7/10	0/10	10

Notes:

1. Under domestic law implementing the provisions of the EU Parent-Subsidiary Directive, dividends paid to qualifying parent companies in other EU Member States are exempt from withholding tax. To qualify as a parent, a company must hold a direct participation of at least 5% or its acquisition value must be higher than EUR 20 million in the capital of the subsidiary for a continuous period of at least 1 year prior to the declaration of the dividends. If dividends are declared before the participation has been held for a year, there is no exemption from withholding tax, but the parent may apply for a refund if it meets this condition later. However, the exemption from Spanish withholding tax does not apply (i) where the parent is resident in any of the listed tax havens (within the European Union this only applies to Gibraltar) and (ii) where the ultimate parent of the company to which the dividend is paid is resident outside the European Union, i.e. where the majority of the voting rights in the EU parent company is directly or indirectly held by individuals or companies not resident in any EU Member State, unless it can be established that the constitution and operations of the parent company are based on valid economic reasons and substantial business motives. Reduced withholding tax rates on dividends (qualifying companies) are also available under the treaties with non-EU member states, subject to certain conditions and participations.
2. The withholding tax rate on Spanish-source interest is 19% on the gross amount while the following types of interest paid to non-residents are exempt: (i) interest on bank deposits (ii) interest on all types of government bonds (iii) interest on securities issued in Spain by certain international organizations, e.g. the European Investment Bank. The EU Interest and Royalties Directive precludes any taxation on interest payments to associated EU companies.
3. The withholding tax rate on Spanish-source royalties in general, including film royalties, is 24% on the gross amount. However, for EU and EEA residents the applicable rate is 19% on the gross amount. The EU Interest and Royalties Directive precludes any taxation on royalty payments to associated EU companies. Thus, royalty payments by Spanish companies are not subject to withholding tax, provided that the recipient is an associated company of the paying company and is resident in another EU Member State. Two companies are associated companies if (i) one of them holds directly at least 25% of the capital of the other or (ii) a third EU company holds directly at least 25% of the capital of the two companies. In both cases, a continuous minimum holding period of 1 year is required. This exemption will not apply where the ultimate parent of the company to which the royalty is paid is resident outside the European Union, i.e. where the majority of the voting rights in the EU parent company is directly or indirectly held by individuals or companies not resident in any EU Member State, unless it can be established that the constitution and operations of the parent company are based on valid economic reasons and substantial business motives.

4. Effective date: 6 February 2018 (other tax matters) and 1 January 2019 (income taxes).
5. Spain has agreed to honour the tax treaty concluded between Spain and the former USSR with respect to the CIS member states. The treaty is still applicable to Belarus, Kyrgyzstan, Tajikistan, Turkmenistan and the Ukraine.

SWAZILAND

MEMBER FIRM

City	Name	Contact Information
Manzini	Charmain Young	+268 2505 7079 charmain@pkf.co.sz

BASIC FACTS

Full name:	Kingdom of Swaziland
Capital:	Mbabane
Main language:	English and Siswati
Population:	1.38 million (2018 estimate)
Monetary unit:	Swazi lilangeni (SZL)
Internet domain:	.sz
Int. dialling code:	+268

KEY TAX POINTS

- Company income tax in Swaziland is a 27.5% flat rate on the taxable profit as adjusted for income tax purposes.
- Resident and non-resident companies are subject to income tax on income accrued or derived from Swaziland. Different rates apply to resident and non-resident companies.
- Currently there is no tax is payable on capital gains.
- VAT Act no. 12 of 2011 was introduced in Swaziland on 1 April 2012. VAT is chargeable on imports and the supply of goods and services in Swaziland. It is imposed at 14% on most goods and services supplied by a vendor. Certain goods and all exports are zero rated. Exempt supplies are provided for in the first schedule and zero rated supplies are provided for in the second schedule of the said VAT Act.
- There is no wealth tax, real estate tax or inheritance tax, sales tax or gift tax in Swaziland.
- Relief for double taxation is provided by means of a credit for overseas tax suffered on overseas income.
- Swaziland has entered into a limited number of double tax treaties with certain countries, including South Africa, the United Kingdom, Taiwan and Mauritius.

A. TAXES PAYABLE

COMPANY TAX

The income tax system is source-based, i.e. income from a source within or deemed to be within Swaziland will be subject to taxation. Taxes are paid in two instalments in advance based on a provisional assessment, which should be at least 90% of the prior year tax charge. The tax year is the year ending 30th June. The Swaziland Revenue Authority (SRA) has implemented an electronic system for filing and paying taxes which benefits both the tax authorities and the taxpayer. E-tax is an electronic platform through which taxpayers may submit returns as well as access tax information and forms online. This platform is a live feed into the SRA Revenue Management System (RMS) and was rolled out in 2014.

The estimate of taxable income may not be less than the taxable income assessed for the preceding year of

assessment (where an assessment has been issued not less than twenty one (21) days before the date such an estimate is made), unless the taxpayer can satisfy the Commissioner General that the taxable income for the current year will be less than that of the preceding year. Provisional tax payments are made as follows:

First payment:

This payment must be made within six months from the commencement of the year of assessment or approved financial year-end date. The estimate of taxable income may not be less than the taxable income assessed for the latest preceding year of assessment, unless the taxpayer can satisfy the Commissioner General that the taxable income for the current year will be less than that for such preceding year.

Second payment:

This payment must be made not later than the last day of the year of assessment or approved financial year end date. Where there has been an increase in the taxable income during the course of the current tax year, all taxpayers are obliged to make good for the difference realized when paying either the first or second provisional tax.

Third payment:

It must be paid on or before the due date of the income tax return. Interest at the rate of 18% per annum will be charged on any amount not paid by the date stated and in addition a penalty equal to 20% of such amount may be imposed.

TRUSTS

(1) Every trustee who makes any payment from trust income to a beneficiary who has a vested right to such income shall withhold tax at the rate of thirty-three per cent of the gross amount.

(2) The tax withheld shall be on account of the liability to tax of such beneficiary on the income derived from the trust.

(3) Every trustee who has withheld any tax shall:

(a) Within fifteen days from the date of payment remit to the Commissioner the amount of tax so withheld; and,

(b) Furnish within thirty days after the end of the year of assessment to the beneficiary to whom the payment is made a certificate, showing the amount of the payment made and the tax withheld during the year of assessment.

(4) Every trustee making any payment shall maintain a record showing in relation to each year of assessment:

(a) The payment made to each beneficiary; and,

(b) The tax withheld from such payment, and such record shall be kept for the period specified for examination by the Commissioner as and when required.

(5) The deduction of tax shall not relieve a beneficiary from the obligation to furnish a return for the assessment of the tax or any return from any other obligation imposed by the Income Tax Order of 1975 Amended.

(6) A trustee who fails to withhold any tax or having withheld such tax fails to remit such tax to the Commissioner, as required shall, in addition to any penalty for which he may be liable, be personally liable to pay the Commissioner that amount of tax as if it were tax due and payable by such person under Part VII of the Income Tax Order of 1975 as Amended.

BRANCH PROFITS TAX

Branches of non-resident Companies are subject to tax on Swaziland profits as if they were resident companies. In addition, branch profits tax of 15% is charged on the deemed repatriated income. Such branch profits tax being paid or payable to a company incorporated or registered as such in a neighbouring country (South Africa, Botswana, Lesotho, Mozambique and Namibia) and that it is neither a subsidiary nor a branch of a company incorporated or registered outside a neighbouring country, the rate of tax for which such first mentioned company shall be liable is 12.5%.

SALES TAX / VALUE ADDED TAX

There is no sales tax in Swaziland. This was replaced by Value Added Tax (VAT) introduced in Swaziland in April 2012. It is administered by the VAT Act No.12 of 2011 as well as the VAT Regulations of 2012. VAT is

tax that is charged on the consumption of goods and services in Swaziland and on the importation of goods and services into Swaziland.

Standard rated supplies:

These are taxable supplies that are neither exempt nor zero rated. VAT charged on standard rated supplies is 14%.

Exempt supplies (first schedule of the VAT Act no. 12 of 2011)

- These are goods and services that do not attract VAT at all;
- Suppliers of these goods and services cannot register for VAT purposes;
- Businesses dealing in exempt goods and services when purchasing taxable supplies have to pay VAT;
- They cannot claim the VAT they incurred from their purchases as input tax because they are not VAT registered.

Zero-rated supplies (second schedule of the VAT Act no. 12 of 2011)

- These are goods and services that attract VAT at 0%;
- Suppliers of these goods and services can register for VAT;
- Such businesses can claim the VAT they incurred from their purchases as input tax at the end of each tax period.

VAT Declaration – Payment /VAT Return

There are two applicable tax periods:

Category A - One month tax period

Businesses who make annual taxable supplies of E20 million and above, or, businesses approved to deferred import VAT.

Category B – three month tax period

Businesses that make annual taxable supplies of less than E20 million are required to submit returns at three months intervals (quarterly).The return must be accompanied by proof of payment when applicable.

SEKULULA/VAT EASY

A Memorandum of Understanding for Processing and Administration of VAT Refunds System between Swaziland Revenue Authority and South African Revenue Services for Sekulula / VAT Easy was rolled out on 1 April 2015. This is a procedure for claiming VAT paid in South Africa to pay import VAT for imports into Swaziland. It covers goods bought from an entity registered for VAT in South Africa on which VAT was charged. The provisions for regulating matters relating to VAT is for the reduction of fiscal invasion.

Qualifying Purchasers:

- Companies – registered for business in Swaziland
- Individuals – residing in Swaziland

Qualifying purchasers will submit original tax invoices to SRA to claim and offset import VAT. SARS will refund VAT paid in South Africa on movable goods imported into Swaziland only to SRA. No other VAT administrator will operate in Swaziland. There is no possibility for companies/ persons to directly claim VAT refund from SARS.

Benefits of the System:

- No additional border clearance requirements - special simplifications for non-commercial declarations;
- To improve compliance in import declarations;
- Reduced incentive for non-declaration – import VAT settled through invoice instead of cash;
- To improve traders' cash-flow position –no extra cash to settle import VAT liability in Swaziland;
- To increase government revenue;
- Reduced administrative burden.

Conditions for valid claims:

- Declaration of imported goods;
- Import goods within 90 days from date of invoice;
- Valid tax invoice and required documents to be submitted to SRA;
- Passport number of the qualifying purchaser.

Definition of a qualifying purchaser:

- Must be a non-South African resident;
- The entity must be registered for business purposes in Swaziland.

Documents required to validate the status of qualifying purchaser:

- Passport/Travel Document;
- Valid SRA Tax Identity Number (TIN) and trading licence.

THE BASIS FOR THE CLAIM SHALL BE A TAX INVOICE THAT IS FULL OR ABRIDGED AS FOLLOWS:

Full (consideration ≥ E5, 000)	Abridged (consideration < E5, 000)
The words "TAX INVOICE"	The words "TAX INVOICE"
Name, address and VAT registration number of the supplier	Name, address and VAT registration number of the supplier
Invoice number and date of issue	Invoice number and date of issue
Full and proper description of goods	Full and proper description of goods
Price of goods and VAT amount or rate	Price of goods and VAT amount or rate
State whether goods are new or used	State whether goods are new or used
Name and address of recipient	
Quantity or volume of goods supplied	
Services supplied shown separately on the invoice	

Designated Borders:

- Ngwenya Border Post;
- Matsamo Border Post;
- Sandlane Border Post;
- Mahamba Border Post;
- Lavumisa Border Post;
- Mananga Border Post.

Exclusions:

Refund claims will not be paid in respect of:

- VAT levied and paid on services rendered in South Africa;
- Claims below ZAR 250.00 (VAT incl.);
- A claim made of consolidated invoices – must be from one supplier for commercial declarations
- Goods imported through non-designated borders: Bulembu, Lundzi, Sicunusa, Gege, Nsalitje, Lomahasha and Mhlumeni;
- Goods imported by post or through the airport fall under direct exports and importers must claim from the South African airport.

Procedure – Commercial:

- Claims must be submitted with Refund Envelope;
- Businesses must designate and provide passport copy for authorized person;
- VAT on insurance, freight & other costs must be paid at time of entry, using the prepayment account or point of sale;
- Deferred accounts will not be used for "Sekululа/VAT easy" declarations;
- You must provide invoice copies to comply with other requirements, e.g. tax returns, audit.

Procedure – Motor Vehicles:

- Declare and pay VAT as per the current procedure;
- Claims to be submitted within 75 days from date of import with, proof of authorised release by SARS;
- A valid original tax invoice;
- The proof of registration in Swaziland;
- The owner's passport copy and SRA Customs Clearance Certificate;
- The manufacturer's certificate (for a new motor vehicle).

Procedure – Used Goods:

- 14 % import VAT shall be paid at the time of entry;
- The client applies through SRA for refund;
- SRA remittance form is completed and submitted with proof of payment;
- SARS will verify claims prior to payment;
- The amount refunded will be less any tax reduction on previous claims on the same transaction; (notional input tax) claimed by South African vendor from SARS;
- SRA will then remit upon refund by SARS (amount paid into client's bank account).

Roles of the parties:

SRA

- Training and sensitization of stakeholders;
- Invoice vetting to ensure validity;
- Collection of invoices and required documents for valid claims;
- Notify and collect payment from importer on non- paid invoices;
- Refund importer where claim for used goods and motor vehicles has been paid by SARS.

SARS

- Pay refunds in respect of submitted claims;
- Advise on reasons for rejections;
- Provide database for registered vendors;
- Exchange information where collusion is suspected.

IMPORTERS

- Fully declare goods imported into Swaziland;
- Submit original valid invoices and relevant supporting documents to facilitate claim;
- Pay import VAT on rejected invoices;
- Only applies to "Qualifying Purchasers";
- It applies to Swazi residents;
- It is meant only for businesses registered in Swaziland;
- The importer must have a valid SRA (TIN) and Trading license;

- VAT paid on movable goods only will be refunded;
- Goods must be imported within 90 days from invoice date through designated borders;
- Goods must be declared at the designated borders.

ADVANCE PAYMENT ON VAT

Advance payments on VAT came into effect on 1 April 2015:

a. Monthly and quarterly filers are allowed to make advance payments of the VAT due even before the end of their tax period. The return will only be submitted on or before the 20th day of the month following the end of the tax period.

b. Taxpayers must have made all VAT payments relating to that particular tax period on or before the 20th day of the month following the end of the tax period.

c. Advance payment does not absolve the taxpayer from submitting the required VAT Returns as stipulated in Section 32 of the VAT Act. Failure to submit on or before the due date shall continue to attract penalties in terms of Section 57 of the VAT Act.

d. The facility provided by this Practice note is given as an option to both “Category A” and “Category B” taxpayers. Taxpayers who are comfortable with the payment intervals as prescribed in the legislation may continue to make payments in that manner.

FRINGE BENEFITS TAX

In general, benefits provided to employees are added to their remuneration and taxed accordingly. There are, however, some exceptions, these include all other benefits in kind that an employee may enjoy at the expense of the employer, e.g. remuneration of domestic assistants by the employer on behalf of the employee (the amount of the remuneration paid to the assistants is added to the employee's salary before calculation of tax). The value of free passage by road, rail, ship, or air that are paid for an employee. Such value is not taxable if the duration for the employment contract is two years or more. If the contract is less than two years the contract should not be renewable.

STAMP DUTY

Stamp duty is levied on legal instruments relating to the sale, mortgage or lease of immovable property and the sale or mortgage of stocks and shares.

LOCAL TAXES

Employment income is taxed on a withholding tax (WHT) basis known as Pay As You Earn (PAYE) at a graduating scale of 33% per annum.

Companies – 2012 to date:

Tax Rate Date From	Tax Rate Date To	Tax rates
1 July 2012	30 June 2013	30%
1 July 2013	To Date	27.5%

Individuals – 2013 to date:

Taxable Income Exceeds	Tax Rate Date To	Tax rates
SZL 0	SZL 100,000	20%
SZL 100,001	SZL 150,000	SZL 20,000 + 25% of the excess of SZL 100,000
SZL 150,001	SZL 200,000	SZL 32,500 + 30% of the excess of SZL 150,000
SZL 200,000		SZL 47,500 + 33% of the excess of SZL 200,000

Part-time employee remuneration:

Remuneration Income Exceeds	Remuneration Does Not Exceed	Tax rates
0	8,333	20%
8,333	12,500	25%
12,500	16,666	30%
16,666	-	33%

Withholding tax for residents and non-residents:

Resident and Non-resident Tax	Rate of Tax	Due Date
Non-resident shareholders' tax (NRST) on dividends	SACU Area 12.5%. Outside SACU 15%	Within 30 days from the day on which the dividend is declared
Non-resident tax on interest	10%	Within 15 days after the date of accrual
Withholding tax on royalties and management fees	15%	Within 15 days from the date of payment.
Withholding tax on non-resident contractors	15%	Within 15 days from the date of payment.
Withholding tax on entertainers and sportsmen	15%	Within 15 days from the date of payment.
Repatriated Branch Profits	15%	Within 15 days from the date of payment.
Withholding tax on non-resident persons	15%	Within 15 days from the date of payment.

Concessionary rates of normal tax in the case of redundant or retiring individuals – 2013 to date:

Lump-sum payments in excess of SZL 60,000 made in respect of retirement or redundancy are taxed as follows:

Taxable Income Exceeds	But Does Not Exceed	Tax rates
SZL 0	SZL 200,000	25%
SZL 200,001	SZL 300,000	SZL 50,000 + 30% of the excess of SZL 200 000
SZL 300,000	-	SZL 80,000 + 33% of the excess of SZL 300 000

OTHER TAXES

These include amongst others, customs and excise duties and graded tax. The following are the rates relating to graded tax:

a) The rate for all Swazi adults in receipt of income is E18/annum and this is payable via the first PAYE remittance system.

b) The rate for an adult male person not in receipt of income is E4.20/annum.

c) Female adults not in receipt of any income are not obliged to pay Graded tax.

EXCISE DUTY

Special excise duties apply to the following:

- Alcohol;
- Tobacco products;
- Perfumes, etc.

Temporary importation

Security is provided for the payment of customs duties and other taxes due in the event that the goods are not re-exported within the required deadline. This is to ensure that goods that were imported for other than home consumption are not diverted to such consumption.

Permanent importation

Release for free circulation (The term "free circulation" is used to describe imported goods on which all import formalities have been complied with and any customs duties or other charges have been paid and not repaid in whole or in part). At point of entry - obtain data to identify the goods and apply nontariff measures (e.g. licenses):

- Perform point of entry controls - if necessary;
- Collect or secure import duties;
- Release the goods.

Transit – suspension of duties and other charges, security required.

B. DETERMINATION OF TAXABLE INCOME

CAPITAL ALLOWANCES

Wear And Tear Allowance:

Description	Tax rates
Computers software (pc's); special patterns and tooling; video cassettes	2
Bulldozers; calculators; computers (pc's); computers software; concrete transit mixers; Dictaphones; fax machines; motorized concrete mixers; patterns, tooling and dyes; textbooks; trucks (heavy duty)	3
Aircraft (light – passenger / commercial / helicopters); bicycles; compressors; debarking equipment; delivery vehicles; excavators; fork-lifts trucks; front-end loaders; graders; mobile cranes; mobile refrigeration units; motorcycles; motorized chain saws; pallets; portable concrete mixers; refrigerated milk tankers; tractors; excavators; trucks (others); track mounted cranes; water tankers	4
Battery chargers; cinema equipment; cash registers; computers (main frame); curtains; dental and doctors equipment; drilling equipment (water); engraving equipment; fire extinguishers (loose units); garden irrigation equipment (movable); hairdressers equipment; laboratory research equipment; Laundromat equipment; mobile caravans; motor mowers; musical instruments; passenger cars; photocopying equipment; portable generators; power tools (hand operated); public address systems; radio communication equipment; scales; solar energy units; staff training equipment; surveyors field equipment; tape recorders; telephone equipment; trailers; washing machines; workshop equipment; x-ray equipment.	5
Adding machines; air conditioner (movable); arc welding equipment; balers; cheque writing machines; cold drink dispensers; crop sprayers; demountable partitions; drills; electric saws; electrostatic copiers; fertilizers spreaders; fitted carpets; furniture and fittings; gantry cranes; gas cutting equipment; gas heaters; and cookers; gear shapers; grinding machines; guillotines; harvesters; heat dryers; heating equipment; incubators; ironing and pressing equipment; kitchen equipment; knitting machines; lathes; medical theatre equipment; milling machines; ovens and heating devices; ovens for heating food; perforating equipment; photographic equipment; planers; ploughs; refrigeration equipment; refrigerators; sanders; seed separators; sewing machines; shop fittings; spin dryers; spot welding equipment; television sets; video machines; decoders; typewriters; vending machines (including video game machines); water tanks	6

Burglar alarms (removable); gymnasium equipment; neon signs and advertising boards; surveyors instruments; weighbridges (movable parts)	10
Lift installation (goods); lift installations (passengers); water distillation and purification plant	12

DEPRECIATION

Wear and Tear allowances or depreciation in respect of machinery, plant, implements, utensil and articles (including vehicles and equipment) Under Section 14(1)(c):

Group	Assets Included	Rate
1	Computer hardware and software; lorries; buses; video recorders	33;33%
2	Aircraft; construction equipment (mobile) (including – bulldozers, concrete mixers, graders, road scrapers); lifts and elevators; light delivery vehicles (LDV's); motor cycle; tractors; videotapes; plant and machinery working 24 hours per day	25%
3	Casino equipment, hotel soft furnishings (including carpets); medical equipment; sound and projection equipment; televisions; trailers; plant and machinery working two shifts per day	20%
4	Furniture and fittings; legal and professional libraries; musical equipment; office equipment including (accounting machines, air conditioning plant, binds and curtaining, fans) and any depreciable asset not included in any other group, including plant and machinery working one shift per day	10%
5	Railroad cars, locomotives and railroad equipment; engines and turbines; public utility plant	5%
6	Industrial Buildings	4%

Where a taxpayer elects to claim the deduction of wear and tear allowances on a straight-line basis, such taxpayer shall obtain approval from the Commissioner of Taxes before claiming the wear and tear on straight-line basis. Requests for allowances to be granted on the "straight-line" will be considered if the following conditions in respect of the assets to which such method will be applied are satisfied:

(a) The taxpayer maintains adequate records;

(b) The straight-line basis will apply to all assets of the same class;

(c) The annual return of income contains a schedule disclosing in respect of each asset disposed of during the year of assessment:

(i) The date of acquisition and the original cost;

(ii) The income tax value as at the end of the immediately preceding tax year;

(iii) The price realised on disposal or scrapping as well as the tax value of any profit or loss.

(d) The rates of allowance granted will be such that the rate per annum reduces the value of the asset to nil at the end of its agreed estimated life;

(e) An asset written off in full shall be brought into account at a residual value of E1 for record purposes.

Where a taxpayer applies the straight-line method, the asset shall be written off in equal annual instalments over its estimated useful life. The wear and tear deduction must be reduced proportionately if the asset was acquired and commissioned during the year of assessment. Where a taxpayer has been granted permission to apply the straight-line method, the write-off periods shall be in line with the periods prescribed by the Commissioner. Taxpayers must obtain prior approval to apply a different write-off period to an asset approved, for the proposed write off period from the Commissioner of Taxes.

TRADING STOCK

(1) There shall be taken into account, in the determination of the taxable income derived by any person, during any year of assessment, from carrying on any trade (other than farming), the value of all trading stock held and not disposed of by him (hereinafter referred to as "the value of trading stock held") at the beginning and end of each year of assessment.

(2) The cost of trading stock disposed of during the year of assessment is determined by adding to the opening value of trading stock the cost of trading stock acquired during the year, and subtracting the closing value of trading stock.

(3) The value of trading stock held by any person at the beginning of any year of assessment shall be deemed to be:

(a) Where the person carried on trade on the last day of the previous year of assessment, the value of trading stock held on that date; or,

(b) Where the person commenced the trade during the year of assessment, the cost to the person of any stock acquired prior to the commencement of the trade.

(4) The value of trading stock held at the end of a year of assessment shall be deemed to be the lower of cost or market value to the person carrying on the trade.

(5) For the purposes of this subsection, the cost of any trading stock in relation to any date shall be:

(a) The cost incurred in acquiring such trading stock; and,

(b) Any further costs incurred up to such date in getting such trading stock into its then existing condition or location.

(6) Where any trading stock has been acquired by any person:

(a) For a consideration which cannot be valued; or,

(b) Otherwise than by way of a transaction at arm's length, such trading stock shall be deemed to have been acquired at a cost equal to the price which, in the opinion of the Commissioner, was the current market price of such trading stock on the date of acquisition.

(7) Where particular items of trading stock are not readily identifiable, a person may account for that trading stock on the first-in-first-out method or the average cost method but, once chosen, a stock valuation method may be changed only with the written permission of the Commissioner

DIVIDENDS

Payments to non-residents and residents:

Non-residents Tax	Rate of Tax	Due Date
Dividends for companies in Botswana, Lesotho, Namibia and South Africa	12.5%	Within 30 days from the day on which the dividend is declared
Dividends - for other countries	15%	Within 30 days from the day on which the dividend is declared

Residents Tax	Rate of Tax	Due Date
Dividends	10%	Within 15 days from the date of payment

INTEREST DEDUCTIONS

Levy of non-residents tax on interest:

If any amount of interest accrues to or in favour of:

(a) Any person, other than a company, not ordinarily resident in Swaziland;

(b) The estate of any deceased person who, at the date of his death, was not ordinarily resident in Swaziland; or,

(c) A company not registered in Swaziland; and the debtor in respect of such amount is ordinarily resident or carries on business in Swaziland, there shall be levied and paid a tax (in this Part referred to as non-residents tax on interest) equal to ten per centum of such amount.

Application of provisions:

For the purpose of this Part:

(a) If interest is payable or is credited to any person having an address outside Swaziland such interest shall, until the contrary is proved, be deemed to have accrued to any person, estate or company, as the case may be;

(b) If the debtor in respect of any amount of interest is the estate of any deceased person, such estate shall be deemed to be ordinarily resident or to be carrying on business in Swaziland, if such person at the date of his death, was ordinarily resident or was carrying on business in Swaziland;

(c) If the debtor in respect of any amount of interest is a company, such company shall be deemed to be ordinarily resident in Swaziland if it is registered, managed or controlled in Swaziland; and,

(d) Any amount accruing to any shareholder in a building society out of the profits of such society shall be deemed to be interest.

LOSSES

Tax losses can be carried forward to offset against future profits. Losses that are offset may be carried forward indefinitely. Losses cannot be carried back against profits of previous years.

FOREIGN SOURCED INCOME

Foreign tax relief is limited only to countries which have a double tax treaty (DTT) with Swaziland.

INCENTIVES

The Memorandum of Understanding (MOU) sets out terms and conditions, which shall apply in respect of the grant of a Development Approval Order (DAO) by the Minister of Finance to whichever company that has applied for the (MOU). The tax concession is granted under the DAO for a period of 10 years.

C. FOREIGN TAX RELIEF

Relief for double taxation is provided by means of a credit for overseas tax suffered on overseas income. The credit is the lower of the foreign tax paid and the Swaziland tax on the income concerned. Foreign tax relief is limited only to countries with double taxation relief. These include; Mauritius, South Africa and the United Kingdom.

D. CORPORATE GROUPS

There is no special regime for the taxation of groups of companies. Each Company is taxed as a separate entity. Losses incurred by one affiliate may not be offset against profits made by another affiliate.

E. RELATED PARTY TRANSACTIONS

Inter-company pricing between affiliated companies must be carried out on an arm's length basis or the income of both companies is adjusted for income tax purposes. Taxpayers are obliged to provide the tax authorities with documentation containing data about the activities of the taxpayer and other parties to the transaction. This includes a list of the parties to the transaction, the description of the transaction, the terms of the transaction, methods of pricing, terms and conditions of payments etc. Functions of the parties of the transaction, information about accepted risks considered by the taxpayer when concluding the transaction and so on.

F. EXCHANGE CONTROL

The currency in Swaziland is Lilangeni (SZL). There are no exchange controls in effect.

G. ASYCUDA WORLD

ASYCUDA (Automated System for Customs Data Administration) is a computerized customs management system which covers most foreign trade procedures and was rolled out as of 1 February 2016 whereby importers/exporters are required to lodge declarations with Customs electronically through ASYCUDA. Capturing of data can be done remotely or at the border post or any one of the inland offices and the airport.

Registration

Businesses that have the newly introduced Taxpayer Identity Numbers (TIN) for VAT are not required to be registered on ASYCUDA. Their TINs will be used for all Customs related transactions. Traders who have not yet been registered for TINs are required to register with ASYCUDA; the following are required on registration:

- Tax clearance certificate
- Trading licence
- Contact details including physical address

A declarant, other than the owner of the goods, must be licensed as an agent with Customs. Individuals are required to submit a copy of the national identity document and contact details which include the physical address.

Declarations may be made by:

Remote Connection (also known as the Direct Trader Input (DTI)): This allows a trader to capture a declaration at his own premises and forward hard copies to customs at his convenience. This has benefits including:-

- Entries can be lodged prior to arrival of goods at the border
- Trader can access any of his declarations passed through Customs at any time

Using the Bureau at the port of entry (border post or airport or any of the inland offices)

- • Provided (at a fee) for people who are not remotely connected
- • Mainly used by once off importers/exporters.

ASYCUDA PREPAYMENT ACCOUNTS

1. Pre-payment accounting

The prepayment facility is to be used at all SRA Customs offices where duties / taxes are not deferred but payable upon entry. Under this facility declarants need to pay first the amount of duties / taxes that are reflected on the SAD500 on presentation of their entries to SRA for processing.

2. Prepayment (Cash) Account Numbers

a. Each declarant / importer is allocated an 8-digit account number (Series 500) which is attached to their Taxpayer Identification Number (TIN). The TIN is an SRA wide number that is to be used across all SRA tax heads while the Prepayment Account Number and deposits therein is managed at and confined to the Customs office of clearance.

b. The account number must be inserted/captured in Box 48 of the SAD 500. As a security measure the account number may be validated by a secret PIN code. The security of the PIN code is the responsibility of the account holder.

3. Submission of Entries and Payment of Duties / Taxes due

a. All entries are to be submitted to Customs through the Cash Office at the port of entry concerned. Once received at the Cash Office the entry will remain always within Customs control and will not be returned to the declarant until it is assessed and released after validation of payment due.

b. No entry will be accepted without being paid for. The SRA will not accept responsibility for delays in clearance of goods arising from an insufficient balance existing in the prepayment account. No entries will be cleared until the account is restored to a credit balance covering the duties / taxes payable.

c. The payment being made will be recorded in ASYCUDA against the prepayment account declared in Box 48 of the SAD500. Where payment is made into a single account, a single receipt for the whole amount being deposited will be issued to the declarant as an acknowledgement of payment.

d. Payment may be effected by any of the methods approved by the SRA. This may be by:

- Confirmed Electronic Funds Transfer (EFT);
- Point of Sale (POS);
- Limited Cash (not more than E10,000.00 per declarant);
- Company cheque for approved clients or bank cheque (only at remote border posts).

e. A statement of the prepayment account can be produced by the account holder and Customs when required. This will detail entries cleared against the account number, any credit amounts paid in during the selected period and the account balance. Remotely connected declarants will be able to view their accounts status at any time.

4. Assessment

a. Upon assessment of a declaration, funds equal to the duties / taxes due on the entry will be automatically transferred from the prepayment account into the SRA Revenue Account. A combined assessment notice and payment receipt will be printed for each assessed entry. If the duties / taxes due are less than the balance in the prepayment account, a credit balance will remain in the account. Such balance

will be used for future imports.

b. Where there is an insufficient credit balance in the prepayment account, the entry will not be assessed. Resultantly the goods will not be released from the Customs controlled area.

c. Declarants / importers will get a combined assessment notice and receipt for each consignment declared on a separate SAD500.

- It is proof of duties / taxes paid for imported goods;
- It is proof of legitimate release by Customs; and
- It can be used to support VAT input tax credit claims (along with a copy of the SAD500 and supporting invoices etc.).

5. Benefits to trade:

Prepayment Accounts have been put in place for the following reasons:

- To reduce delays associated with the cashier issuing a receipt against each declaration;
- To ensure once a declaration is submitted SRA may be held fully responsible for the time taken to release cargo;
- Confirmation of cash received will be combined with the assessment stage of the declaration as well as the generation of the Customs receipt;
- The assessment notice / receipt shall will support VAT input credit claims.

H. PERSONAL INCOME TAX

Personal income tax is levied on resident and non-resident individuals, whether or not they are citizens of Swaziland.

Individuals – 2013 to date:

Taxable Income Exceeds	But Does Not Exceed	Tax rates
SZL 0	SZL 100,000	0 + 20% of the excess of SZL 0
SZL 100,000	SZL 150,000	SZL 20,000 + 25% of the excess of SZL 100,000
SZL 150,000	SZL 200,000	SZL 32,500 + 30% of the excess of SZL 150,000
SZL 200,000		SZL 47,500 + 33% of the excess of SZL 200,000

When applying the above rates the following should be taken into account:

- Tax payable by a natural person will be reduced by a tax rebate amount not exceeding SZL 8,200 per tax year (with a further SZL 2,700 for persons over the age of 60 years);
- The rates are applicable on total income exceeding SZL 41,000 per annum;
- The tax rebate does not apply in the case of redundant or retiring individuals.

Taxpayers who are liable to tax on business income are obliged to submit their income tax declarations on business income to the Swaziland Revenue Authority by 31st October of every year. All taxpayers must keep records of their income. They are obliged to keep records for at least five years from the year to which they relate. To avoid double taxation, Swaziland has concluded a number of double tax treaties.

Exemptions

There are a number of exemptions within each category of income which are defined in Section 12 of The Income Tax order of 1975 Amended. There shall be exempt from normal tax:

(a) The receipts and accruals of:

(i) A pension fund, a retirement annuity fund, a benefit fund or a provident fund;

(ii) Any company, society or other association of persons, whether or not registered under any law, the profits or gains of which, other than profits or gains from investments, are derived solely from transactions with or on behalf of its individual members, and the constitution of which does not admit of the distribution of its profits or gains to any persons other than the members with whom or on whose behalf the transactions took place, and does not confer upon any person any benefit other than benefits accruing to that person from transactions with or on behalf of such person, except as

regards any receipts or accruals from investments by any such company, society, or association of persons; and,

(iii) Any exempt organisation other than business income that is not related to the function constituting the basis for the existence of the organisation.

(b) The income of any person entitled to privileges under the Diplomatic Privileges Act to the extent provided in such Act;

(c) The salaries and emoluments of any person in respect of services rendered to the Government of any country other than Swaziland if that person is not ordinarily resident in Swaziland or is ordinarily resident solely for the purpose of performing such services;

(d) War pensions or gratuities;

(e) Dividends received by or accrued to or in favour of:

(i) Any person not ordinarily resident or carrying on business in Swaziland;

(ii) The estate of any deceased person who at the date of his death was not ordinarily resident or carrying on business in Swaziland, if, but for this exemption, such estate would have been liable for normal tax in respect of such dividend; and,

(iii) Any company.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	12.5/15[4]	12.5/15[4]	10	15
Individuals	12.5/15		10	15
Treaty countries:				
Mauritius	7.5	7.5	5	7.5
South Africa	15	10[1]	10	10
Taiwan	10	10	10	10
United Kingdom	15	15	-[2]	0[3]

Notes:

1. The reduced rate applies if the beneficial owner is a company which holds at least 25% of the capital of the paying company.
2. No reduction under the tax treaty, the domestic rate applies.
3. Subject to tax in the state of residence of the recipient only.
4. A final 15% withholding tax is levied on dividends distributed by resident companies to non-resident companies while the rate is reduced to 12.5% in respect of dividends paid to a company registered or incorporated in Botswana, Lesotho, Namibia or South Africa, which is not a branch of a company registered or incorporated outside these countries.

SWEDEN

MEMBER FIRM

City	Name	Contact Information
Helsingborg	Hans Otto	+46 42 189 980 hans.otto@revikonsult.se
Stockholm	Karin Rosén	+46 81 213 4102 karin.rosen@revidentia.se

BASIC FACTS

Full name:	Kingdom of Sweden
Capital:	Stockholm
Main languages:	Swedish
Population:	10.12 million (2018 estimate)
Monetary unit:	1 Swedish krona = 100 ore
Internet domain:	.se
Int. dialling code:	+46

KEY TAX POINTS

- Corporate tax is levied on the worldwide income of companies resident in Sweden and also on profits which arise from activities carried out in Sweden through a branch or an agency.
- In general, output VAT is levied on all domestic sales, but not on export or EU sales.
- Stamp duty of 4.25% is levied on real property, 1.5% if the buyer is an individual.
- Dividends received from other Swedish companies are exempt from tax if the dividends derive from business-related holdings.
- Controlled foreign corporation (CFC) legislation exists to ensure that profits originating from low tax jurisdictions are included in the controlling Swedish company's taxable income.
- Double taxation is generally relieved by providing credits for foreign tax paid. However, some older Double Taxation Conventions exempt foreign income from Swedish tax if it is taxed abroad.
- Transactions at a non-arm's length price are covered by transfer pricing rules, which allow the tax authorities to make an adjustment to impose arm's length prices where profits have been shifted to a company not subject to Swedish tax.
- There are no withholding taxes on interest, royalties and rent paid from Sweden to non-residents. Dividends paid to a non-resident shareholder are subject to a 30% withholding tax that may be reduced by Double Taxation Conventions.
- Under certain circumstances, dividends paid to a non-resident company are tax exempt provided that the receiving company has held 10% or more of the voting power in the distributing company for 12 months and the receiving company is taxed in the country where it is resident.
- Residents must pay tax on their worldwide income and capital gains. Non-residents are subject to tax only on income from sources in Sweden.
- Capital gains derived by a company are taxed as part of its normal business income although there are special rules for the disposal of shares. Gains on the disposal of shares in resident and Non-Resident companies are exempt from tax if they constitute a business-related holding. This generally applies to unquoted shares and also to quoted shares held for at least the year prior to the date of disposal and which represent at least 10% of the company's voting rights or considered necessary for the business conducted by the shareholding company or any of its affiliates.

A. TAXES PAYABLE

COMPANY TAX

Corporate tax is levied on the worldwide income of companies resident in Sweden and also on profits which arise from activities carried out in Sweden through a branch or an agency. A company is resident for tax purposes when it is registered in Sweden. Royalties received from Swedish licensees are taxable in Sweden as income from a permanent establishment situated in Sweden. Where a treaty exists, the right to tax may be waived or limited. Since 2004 Sweden has adopted Directive 2003/49/EC on a common system of taxation applicable to interest and royalty payments made between associated companies of different Member States.

In accordance with the Directive, royalty payments shall be exempt from withholding tax provided that the beneficial owner is a company or a permanent establishment in another Member State and the payor and payee are associated (one holds 25% or more of the capital of the other or a third company holds 25% or more of both companies). The corporate tax rate is 22%. The fiscal year depends on the company´s financial year. A split financial year may end on the last day of any month during the calendar year. The assessment year follows the applicable financial year and is for a twelve month period. Permission from the tax authorities is needed to change from a calendar year to a split financial year or from a split financial year to another split financial year. Tax returns are filed annually and should be submitted within six months of the end of the tax year.

BRANCH PROFITS TAX

A branch's taxable trading profits and capital gains are calculated on the same basis as for Swedish resident companies.

VALUE ADDED TAX (VAT)

In general, output VAT is levied on all domestic sales but not on export or EU sales. The general rate of VAT for goods and services in Sweden is 25% of the assessed value. Certain goods and services are exempt from tax or taxed at a lower rate. A 12% rate applies to the sale of foodstuffs, restaurant, catering and hotel accommodation.

A 6% rate applies to newspapers and periodicals, transport of passengers, cinema and concert tickets. Returns for input and output VAT need to be settled each month or quarter with the Swedish tax authorities. However, for companies with a turnover not exceeding SEK 1 million VAT may be reported in an annual VAT return.

FRINGE BENEFITS TAX

There is no specific FBT.

SOCIAL SECURITY CONTRIBUTIONS

Employers are liable to pay social security contributions relating to salaries and benefits paid to their employees. The social security fees levied for national social security is 31.42%. Employers also have to pay social security fees at a rate of 24.26% on pension costs. For individuals over 65 years the rate is 16.36% and for those born 1937 or earlier the rate is 6.15%.

LOCAL TAXES

There are no local taxes imposed on companies.

OTHER TAXES

Stamp duty of 4.25% is levied on real property and 1.5% if the buyer is an individual. A stamp duty is also levied on mortgage loans at a rate of 0.4%, 1% or 2% of the principal amount of the loan where secured on businesses, aircraft, immovable property or ships.

B. DETERMINATION OF TAXABLE INCOME

Corporate taxable income is primarily based on the financial accounts. The net profit for the year is adjusted for certain tax-related items. The taxable income of a company is determined using the accruals basis of accounting. Taxable income is based on worldwide income less allowable deductions. Generally, to be deductible, expenditure must be incurred for the purposes of the business. For flow through entities such as partnerships and limited partnerships, taxable income is determined in a similar way as for corporations. The difference is that they are not taxable persons. Hence, the income is taxed at the partner/owner level.

Companies are allowed to make provisions to a tax allocation reserve (periodiseringsfond) of up to 25% of taxable income. The provision must be dissolved (added to income) after six years at the latest.

DEPRECIATION

Short-life Items

Equipment and machinery with a value of less than SEK 22,750 or with an expected economic life of three years or less may be fully depreciated in the year of acquisition.

Machinery and equipment

(1) Depreciation of up to 30% per annum of the book value at the end of the year may be deducted.

(2) An alternative rule allows a straight-line depreciation of 20% per annum if this results in a lower book value in any year.

(3) If the taxpayer can prove that the real value of machinery and equipment is lower than that derived under both the above depreciation methods, depreciation resulting in the real value may be used instead.

Intangible assets

Intangible assets are depreciated in the same way as machinery and equipment, see above. However, it is not necessary to use the same method for all assets, i.e. machinery and equipment may be depreciated with 30% and the intangible assets with 20%.

Buildings

Depreciation is allowed on an annual straight-line basis calculated on the acquisition cost at the rates of 2% to 5%. This method is independent of the depreciation made in the financial accounts.

STOCK / INVENTORY

Stock and work in progress is valued at the lower of acquisition cost or market value on a FIFO basis. However, stock may be valued at 97% of its aggregate acquisition value, excluding real property, debt claim and securities.

CAPITAL GAINS AND LOSSES

Capital gains derived by a company are taxed as part of its normal business income although there are special rules for the disposal of shares. Gains on the disposal of shares in resident and non-resident companies are exempt from tax if they constitute a business-related holding. This generally applies to unquoted shares and also to quoted shares held for at least the year prior to the date of disposal and which represent at least 10% of the company's voting rights or considered necessary for the business conducted by the shareholding company or any of its affiliates.

DIVIDENDS

Dividends received from other Swedish companies are exempt from tax if the dividends derive from business-related holdings (using the same definition as above).

INTEREST DEDUCTIONS

Interest is normally deductible on an accruals basis rather than a paid basis as far as companies are concerned. There are no specific thin capitalisation rules but interest paid between affiliated companies must be at an arm's length rate. There are certain restrictions on tax deductions for interest payments on intra-group loans for acquisition of shares.

LOSSES

Losses can be carried forward indefinitely, provided there is continuity of ownership. Losses arising on the disposal of portfolio shares may only be offset against gains arising on the disposal of similar shares. Portfolio shares are those where the shareholder has not held 10% of the voting power in the company concerned for the requisite 12-month period.

FOREIGN SOURCE INCOME

Controlled foreign company rules apply such that some corporate shareholders of foreign legal entities with low-taxed income are taxed on their share of the income as normal Swedish business income. The rules

apply where the shareholder has a direct or indirect interest in at least 25% of the capital of voting rights in the foreign legal entity. The net income of a foreign legal entity is considered low taxed if it is not taxed at allor taxed at a rate lower than 55% of the Swedish tax rate (12.1% in 2018).

There are extensive exceptions for foreign legal entities that are domiciled in, and with income from, jurisdictions on the so-called 'white list', although certain types of income received by entities in those jurisdictions are excluded. From 1 January 2008, an exemption from these rules applies to income from a controlled foreign entity that is resident within the EEA if the shareholder can prove that the foreign entity is established in the other country for business reasons and is engaged in real economic activities.

TAX INCENTIVES

There are no particular tax incentives for companies operating in under-developed areas. However, companies acting in certain thinly populated areas will be charged reduced social security tax.

C. FOREIGN TAX RELIEF

Double taxation is generally relieved by providing credits for the foreign tax paid. However, some older Double Taxation Conventions exempt foreign income from Swedish tax if it is taxed abroad. Costs related to exempt income cannot be deducted. If international double taxation cannot be avoided by credit or exemption, the tax payer may deduct the foreign tax as a cost or carry forward any surplus credit for five years. Many Swedish Double Taxation Conventions include rules about tax sparing (matching credit). These rules can be used when investing in developing countries.

D. CORPORATE GROUPS

Consolidated tax returns cannot be filed in Sweden. However, profits may be transferred between the entities in a Swedish group of companies by group contributions. Group contributions are deductible by the contributing company and taxable income of the receiving company. The main requirements for group contributions are:

(a) The companies must be registered in the EU and taxed in Sweden and none of them must be an investment company. Due to discrimination rules, group contributions between Swedish companies are accepted even if a foreign group company holds one of the Swedish companies. Group contributions between a foreign branch in Sweden and a Swedish company are also accepted due to discrimination rules.

(b) The parent company must hold – directly or indirectly – more than 90% of the shares in the group company for the entire fiscal year. If the operation in a company starts during the fiscal year, the parent company must have held the shares from the time when the operation started.

From 1 July 2010, a Swedish resident company may deduct a group contribution paid to its subsidiary which is resident in another EU Member State, provided the parent company holds at least 90% of the shares of the foreign subsidiary and the subsidiary has been dissolved through liquidation. The deductible amount cannot, however, exceed the lower of (i) the amount of the loss of the subsidiary in its final period and (ii) the loss of the subsidiary in the previous year (i.e. the year before liquidation) calculated under the tax rules in both countries in question.

E. RELATED PARTY TRANSACTIONS

Transactions at a non-arm's length price are subject to transfer pricing rules which allow the tax authorities to make an adjustment to impose arm's length prices. Assets may be transferred between Swedish companies without any tax consequences provided that group contributions between the companies are possible. Interest paid between affiliated companies must be at an arm's length rate if group contribution rules are not applicable.

F. WITHHOLDING TAX

There are no withholding taxes on interest, royalties and rent paid from Sweden to a receiver abroad (although see the commentary in A. above regarding the deeming of royalty payments by Swedish licensees as income derived from a permanent establishment). Dividends paid to a non-resident shareholder are subject to a 30% withholding tax that may be reduced by Double Taxation Conventions.

Dividends to a company resident within the EU holding 10% or more of the voting power in the distributing company are exempt from withholding tax. Dividends to a company resident in a non-EUcountry are also

tax-exempt provided that the shares constitute fixed business assets of the receiving company which has held 10% or more of the voting power in the distributing company for 12 months and is taxed in the country where it is resident.

G. EXCHANGE CONTROL

There is no exchange control in Sweden.

H. PERSONAL TAX

Swedish residents are subject to tax on their worldwide income and capital gains. Taxable income includes all remuneration received from employers, whether in cash or in kind, such as free food, free accommodation, company cars etc. Pensions, unemployment benefits etc. are also included in the taxable income. It is permissible to deduct certain costs from the income, e.g. travelling costs between work and home up to a maximum amount set annually. A foreign national will be liable to tax if he is regarded as resident in Sweden, which will be if he has an essential connection to Sweden, is present in Sweden for a period of more than 183 days or has his principal home in Sweden during the tax year.

Individuals pay both national income tax and municipal income tax. In 2018 taxable income of less than SEK 468,700 will be subject to municipal tax only. The municipal income tax is imposed at a flat rate which varies from region to region (32.12% average, 29.98 % in Stockholm), in addition to this, a church rate of about 1% has to be paid; for an individual who is not a member of a church the rate is lower. For taxable income exceeding SEK 468,700 there is also a national income tax calculated at a rate of 20% on income up to SEK 675,700.

On taxable income exceeding this amount the rate is 25%. Taxable income is reduced by a tax allowance of between SEK 13,400 and SEK 35,100 depending on the income. Individuals over 65 year of age are entitled to a higher tax allowance. Since 2007 there is also a general tax reduction linked to income from active work.

Non-residents are subject to tax only on income from sources in Sweden. Employment income is taxed at a flat rate of 25%. Capital income is taxed separately from income from employment at a rate of 30% and is not subject to municipal income tax. Capital income is comprised of interest, gains from the sale of capital assets, gains from the sale of real estate, dividends etc. Interest expenses and capital losses can be set off against capital income. 30% of the net capital loss up to SEK 100,000 can be set off against tax on income from employment. 21% of any excess above SEK 100,000 can be utilised in this way.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Sweden has concluded approximately 100 multilateral or bilateral Double Taxation Conventions with other States. These conventions are often renegotiated which means that the withholding tax rates frequently change. A withholding tax rate in a convention where Sweden is one of the parties may also change because of a change in a convention concluded by third parties due to a most-favoured nation provision. Therefore, it is important to consult the relevant treaty to check the withholding tax rates listed in the table below.

	Dividends[1] (%)	Royalties (%)
Treaty countries:		
Albania	15/5	5
Argentina	15/10	3/5/10/15
Armenia	0/5/15	5
Australia	15	10
Austria	10/5	0/10
Bangladesh	15/10	10
Barbados	15/5	5
Belarus	10/0/5	3/5/10
Belgium	15/5	0
Bolivia	15/0	15
Bosnia and Herzegovina	15/5	0

Botswana	15	15
Brazil	25/15	15/25
Bulgaria	10	5
Canada	15/5	0/10
Chile	10/5	5/10
China	10/5	6/10
Croatia	15/5	0
Cyprus	15/5	0
Czech Republic	10/0	0/5
Denmark	15/0	0
Egypt	20/5	14
Estonia	15/5	5/10
Faroe Islands	15/0	0
Finland	15/0	0
France	15/0	0
The Gambia	15/0/5	5/12.5
Germany	15/0	0
Greece	0	5
Hungary	15/5	0
Iceland	15/0	0
India	10	10
Indonesia	15/10	10/15
Ireland	15/5	0
Israel	15/5	0/-
Italy	15/10	5
Jamaica	22.5/10	10
Japan	15/0/5	10
Kazakhstan	15/5	10
Kenya	25/15	20
Korea, Republic of	15/10	10/15
Latvia	15/5	5/10
Lithuania	15/5	5/10
Luxembourg	15/0	0
Macedonia	15/0	0
Malaysia	15/0	8
Malta	15/0	0
Mauritius	15/0	0
Mexico	15/0/5	10
Montenegro	15/5	0

Namibia	15/0/5	5/15
Netherlands	15/0	0
New Zealand	15	10
Norway	15/0	0
Pakistan	-[2]/15	10
Philippines	15/10	15
Poland	15/5	5
Portugal	10	10
Romania	10	10
Russia	15/5	0
Saudi Arabia	10/5	5/7
Serbia	15/5	0
Singapore	15/10	0
Slovak Republic	10/0	0/5
Slovenia	15/5	0
South Africa	5/15	0
Spain	15/10	10
Sri Lanka	15	10
Switzerland	15/0	0
Taiwan	10	10
Tanzania	25/15	20
Thailand	-[2]/15/20	15
Trinidad and Tobago	20/10	0/20/-
Tunisia	20/15	5/15
Turkey	20/15	10
Ukraine	10/0/5	0/10
United Kingdom	5/0	0
United States	15/0/5	0
Venezuela	10/5	7/10
Vietnam	15/5/10	5/15
Zambia	15/5	10
Zimbabwe	20/15	10

Notes:

1. The reduced rate generally applies to dividends paid to corporates with a minimum participation in the Swedish company. The level of participation varies from treaty to treaty
2. There is no reduction under the treaty – the domestic rate applies.

SWITZERLAND

City	Name	Contact Information
Geneva	Jean-Claude Roder	+41 22 301 54 40 jcr@pkfgeneva.ch
Geneva	Christophe Fischer	+41 22 301 54 40 christophe.fischer@pkfgeneva.ch
Zurich	Rilana Wolf-Bayard	+41 44 285 75 00 rilana.wolf@pkf.ch
Zurich	Anja Walter	+41 44 285 75 00 anja.walter@pkf.ch
Zurich	Margarita Baeriswyl	+41 44 285 75 00 margarita.baeriswyl@pkf.ch
Lugano	Claudio Massa	+41 91 911 11 11 claudio.massa@pkfcertifica.ch
Lugano	Gianluca Ambrogini	+41 91 911 11 11 gianluca.ambrogini@pkfcertifica.ch

BASIC FACTS

Full name:	Swiss Confederation
Capital:	Bern
Main languages:	German, French, Italian, Rhaeto-Romanic
Population:	8.53 million (2018 estimate)
Monetary unit:	Swiss Franc
Internet domain:	.ch
Int. dialling code:	+41

KEY TAX POINTS

- In Switzerland, taxes are governed by federal law and 26 different cantonal tax laws.
- Corporate income tax is payable by Swiss resident companies on corporate net profit.
- Foreign branch income of a Swiss corporation is exempt from Swiss taxation.
- Capital gains on real estate (if a part of business assets) for direct federal tax and several cantonal tax purposes are aggregated with and taxed as part of ordinary income.
- VAT is charged on the domestic delivery of goods and rendering of services and a tax on the importation of goods and services into Switzerland. The standard VAT rate is 7.7% (as of 2018). Special lower rates (2.5% or 3.7%) apply (as of 2018) to various services and goods, subject to some exemptions.
- Dividends paid from Swiss capital companies to Swiss residents and non-residents are subject to 35% withholding tax. Shareholders resident abroad may obtain relief under the appropriate double taxation treaty.
- There is no federal withholding tax on interest or royalties (some exceptions apply).
- Deemed distributions may arise to the extent that prices between related parties exceed those on at arm's length terms. Withholding tax may be applied to the deemed distributions.
- A Swiss resident individual is subject to Swiss federal, cantonal and communal taxes on his worldwide income and net wealth, with the exception of income from investments in foreign permanent establishments and real estate situated abroad. Basically, foreigners are regarded as residents from the date of registration.
- Net wealth taxes, inheritance and gift taxes are levied by most cantons, but they are not levied at federal level.

A. TAXES PAYABLE

FEDERAL AND CANTONAL TAXES AND LEVIES

Taxes are governed in Switzerland by federal law and 26 different cantonal tax laws. The cantonal tax laws were harmonised with effect from 1993. Tax declaration procedures and the determination of the taxable income in the various cantons are similar and in line with the federal law. However, the cantons do set their own tax rates. The presence of different tax legislation means that the fiscal burden on a Swiss company depends not only on the size of its income and assets but, to a considerable degree, also on the location of its registered office, its business objects and the nature of its operations. Taxation may vary significantly from one canton to another. In general, the cantonal laws are flexible and include tax privileges for special purpose companies, e.g. holding companies (it is expected that as a reaction to BEPS, Swiss privileged tax regimes will be abolished in 2019/2020).

CORPORATE TAX

Corporate income tax is payable by Swiss resident companies on corporate net profit (i.e. on the profit after taxes). Exceptions to this rule may be found in some cantons where a special tax on capital gains realised on the sale of immovable property may be levied (cf. “key tax points”). Income of Swiss resident companies from business operations, permanent establishments and immovable property situated abroad is exempt from income tax but included in calculating progressive corporate income tax rates. Each resident taxpayer has to file an annual tax return. As a rule, non-resident taxpayers have to file tax returns only if they maintain a permanent establishment or own immovable property in Switzerland including gains on the sale of such property and on income from debts secured by real estate situated in Switzerland.

Cantonal income tax rates are predominantly flat rates. Some cantons use graduated rates. The federal income tax is 8.5% (statutory tax rate applicable on taxable income after taxes, effective tax rate is 7.83%). Effective ordinary corporate tax rates on income vary significantly from one canton to another (from approximately 12% up to a maximum of approximately 24% in 2017. An annual capital tax is due at the cantonal and communal level on taxable capital which is usually at least the value of paid in share capital. The effective ordinary capital tax rates vary from 0.01% to 0.52% depending on the canton of residence. Reduced rates are usually applicable for special purpose companies.

There are a number of special purpose companies in Switzerland, i.e. domiciliary and holding companies. Domiciliary companies only have administrative activities in Switzerland and are exclusively engaged in international business. Companies qualifying for domiciliary status are completely exempt from cantonal tax on dividend income and on capital gains from qualifying participation. Other Swisssourced income is taxed at ordinary income tax rates whereas profits from trading outside are usually also subject to tax at reduced rates. Swiss federal tax does not provide for any particular relief for domiciliary companies (it is expected that as a reaction to BEPS, Swiss privileged tax regimes will be abolished in 2020).

Holding companies are exempt from cantonal and communal corporate income tax and are often also subject to capital tax at reduced rates. Holding companies may own real estate in Switzerland. However, as an exception, any income or capital gains generated from such real estate is subject to ordinary taxation. Federal income tax is levied at ordinary corporate income tax rates (it is expected that as a reaction to the BEPS Swiss privileged tax regimes will be abolished in 2020).

Corporate tax reforms (CTR III) / Tax Proposal 17 - Brief Summary

The third series of corporate tax reforms was meant to abolish the reduced taxation of holding, domiciliary and mixed companies. This taxation is no longer in line with international standards. To prevent a loss of competitiveness for Switzerland, internationally accepted tax relief measures were to be introduced. In doing so, the focus was on the promotion of innovations. The Confederation also wanted to support the in profit tax reductions envisaged by the cantons.

A referendum was held on the reform. Opponents expected significant losses of tax receipts. They feared that the people would be required to pay for these losses. The reform was rejected by 59.1% of the voters and the cantons on 12 February 2017. The Federal Council started the consultation process on 6 September 2017 by releasing its draft suggestion for the Tax Proposal 17 as a reaction to the rejected CTR III. This suggestion is based on the parameters published in June 2017 by the Confederation and is also strongly influenced by CTR III – but in a slimmed-down version. The duration of the consultation procedure is three months. The Federal Council shall submit its dispatch to the Parliament in Spring 2018. Consequently, entry into force of the new legislation is expected no earlier than 2020.

CAPITAL GAINS TAX

Capital gains on real estate (if a part of "business assets") for direct federal tax and several cantonal tax purposes are aggregated with and taxed as part of ordinary income. In other cantons, recaptured depreciation is taxed with ordinary income, while the realised increase in value is subject to a special real estate gains tax. The capital gains on real estate which is a part of "non-business assets" of an individual is always subject to a special real estate gains tax.

Capital gains realised on the sale of investments are (partially) tax exempt, provided:

(1) The sales price exceeds the (historical) acquisition costs of the investment;

(2) The securities sold amount to at least 10% of the sold company's share capital or entitle the purchaser to at least 10% of the profit or reserves of the sold company;

(3) The investment was held for a period of at least one year.

BRANCH PROFITS TAX

Foreign branch income of a Swiss corporation is exempt from Swiss taxation. Swiss branches of foreign companies are assessed on the profit and capital attributable to the branch. For income tax purposes branches of foreign companies are treated basically the same way as local corporations. Some cantons apply special rules to Swiss finance branches of foreign companies. The finance branches are subject to reduced income tax rates (a reduced tax basis applies due to special deemed interest deductions) and usually also to reduced annual capital tax rates (it is expected that as a reaction to BEPS, Swiss privileged tax regimes will be abolished in 2020).

VALUE ADDED TAX (VAT)

VAT is charged on the domestic delivery of goods and rendering of services and a tax on the importation of goods and services into Switzerland. The standard VAT rate is 7.7% as from 2018. Special lower rates (2.5% or 3.7%) apply for various services and goods as from 2018. In addition, various exemptions exist.

LOCAL TAXES

The municipalities levy income taxes, mostly in the form of annually determined surcharges on the cantonal taxes. The tax rates may differ from one community to another.

PROPERTY TAXES

Some cantons levy a tax just on the holding of real estate. The tax rates and how this tax is calculated vary from canton to canton.

CHURCH TAX

Almost all cantons levy a church tax for registered members of one of the respective official religious affiliations. The determination of the religious affiliation is part of a registration process with the municipal authorities. Individuals without religious denomination or members of other than the official Swiss churches (e.g. Muslims, Jews, Anglo-Saxon church members) are not subject to cantonal church tax.

SOCIAL SECURITY

If an individual is subject to the Swiss social security the following social security contributions are payable on gross salaries:

Insurance	Contribution rate		Cap (CHF)
	Employer (%)	Employee (%)	
Old age, survivors' and disability insurance	5.125	5.125	No cap
Unemployment insurance	1.1	1.1	148,200
Supplementary unemployment insurance	0.5	0.5	Above 148,200
Family Compensation Fund	1 to 3	0	No cap

Occupational accident insurance	0.17 to 13.5	0	148,200
Non-occupational accident insurance	0	1 to 4	148,200
Occupational pension scheme	Depending on pension plan, employer specific	Depending on pension plan, employer specific	
Medical insurance		Depending on coverage, private insurance	

All social security taxes (except for the medical insurance) are the employer's responsibility. The employer must withhold and remit the total deduction and deducts the employee's share from his gross pay. If the individual is self-employed, they basically have to cover the employer's and the employee's share, however different contribution rates may be applicable.

ISSUANCE STAMP DUTY TAX

The issuance and increase of the nominal capital of the following securities are generally subject to issuance Stamp Duty tax:

	Rate (%)
Shares of Swiss corporations	1*
Quotas of Swiss private limited companies	1*
Shares in Swiss co-operative societies	1*

* Nil % up to a paid-in capital of CHF 1,000,000.

Further, capital contributions made by shareholders and credited to reserves (capital surplus) are subject to 1% issuances Stamp Duty tax. Since 1 March 2012 issuance Stamp Duty tax is no longer due on the issuance of debentures and money market papers.

SECURITIES TRANSFER STAMP DUTY TAX

The transfer of taxable deeds (securities, debentures) is generally subject to securities transfer Stamp Duty tax if a Swiss securities dealer is involved. The tax rate is 0.15% for Swiss taxable deeds and 0.3% for foreign taxable deeds. Various exemptions exist. Except from Swiss banks and brokers, capital companies with taxable deeds of more than CHF 10 million in their balance sheet qualify as a Swiss securities dealer with regard to Stamp Duty law.

B. DETERMINATION OF TAXABLE INCOME

The starting point for determining taxable income of corporate entities is the net income reported as per the statutory accounts. This means all types of income, including capital gains, are part of the taxable income. The reported profit may be adjusted for tax purposes by adding back e.g. expenses that are not commercially justified such as excessive depreciation and provisions, hidden profit distributions and costs in connection with the purchase or improvement of fixed assets.

DEPRECIATION

Depreciation of tangible and intangible assets is allowed where 'commercially justified' and recorded in the books. For tax purposes, both the straight-line and the declining balance methods may be used. The use of one method should be constant over the years and should only be changed if absolutely necessary. Safe haven rates have been published by the federal tax authorities, which are considered commercially justified.

STOCK / INVENTORY

Inventories must be carried at the lower of cost or market value. Cost is generally determined using the FIFO or average method. As a concession, a reserve against stock contingencies may be set up in the books. If this reserve does not exceed one-third of the lower of cost or market value of the inventory at the balance sheet date, it will be admitted by all tax authorities without enquiry.

CAPITAL GAINS AND LOSSES

See discussion above. As a rule, capital gains realised by corporations are not taxed separately but are added to any other income in the year of realisation and taxed at ordinary tax rates. Exceptions may apply to capital gains realised on the disposal of immovable property. The sale of an investment of at least 20%

in another company's share capital by a Swiss company to a foreign or Swiss group company may, under certain circumstances, be made at either book value (tax-exempt restructuring) or fair market value. The sale of an investment of less than 20% in another company's share capital to a foreign affiliated entity or to a Swiss company regardless of the investment may only be completed at fair market value.

Capital gains realised by a foreign shareholder on the sale of a Swiss subsidiary company are not subject to Swiss taxation, except for the sale of Swiss real estate companies, which would be considered as a direct sale of the Swiss properties owned by such companies.

DIVIDENDS

Dividends received are classified as business income but federal law and all cantonal laws allow a relief of taxes payable if the shareholding company owns more than 10% of the share capital or is entitled to at least 10% of the profit or reserves of the dividend distributing company or if the investment has a fair market value of more than CHF 1 million (qualifying investment). If the recipient of a dividend is a holding company (it is expected that as a reaction to BEPS, Swiss privileged tax regimes will be abolished in 2020), dividend income is exempt from corporate income taxes at cantonal and communal level. Dividends paid from Swiss capital companies to Swiss residents and non-residents are subject to 35% Swiss withholding tax. Shareholders resident in Switzerland may apply for the notification procedure under certain circumstances or can reclaim the withholding tax. Shareholders resident abroad may obtain relief under the appropriate double taxation treaty or the tax savings agreement between Switzerland and the EU.

INTEREST DEDUCTIONS

A company may generally deduct all interest paid or accrued during a business year, although loan arrangements between related parties must be made on an arm's length basis. If the funds raised by interest bearing loans are loaned-on to affiliates, an interest spread of one-quarter to one-half per cent is basically required for the Swiss company if lending and on-lending are made in the same currency. Safe haven rates are published annually by the Swiss Federal Tax Administration for loans from and to affiliates.

Thin capitalisation rules apply to reduce the deduction available where the interest relates to monies borrowed from related parties. The Swiss Federal Tax Administration has issued thin capitalisation guidelines in a Circular Letter ("Kreisschreiben"). In general, any interest paid on loans from related parties that are classified as hidden equity are treated as hidden profit distributions, i.e. may be added back to taxable income and be subject to withholding tax. The excessive portion of the loan, reclassified as equity, may be subject to capital tax.

LOSSES

A limited loss carry forward mechanism is available (for seven years) for federal and cantonal income taxes (there is an unlimited use of loss carry forward in certain recapitalisation scenarios "Sanierung"). Swiss tax law provides neither for loss carry back nor for the consolidation of profitable and unprofitable group companies.

FOREIGN SOURCED INCOME

Switzerland has no controlled foreign company legislation and a foreign company may be treated as a conduit only in instances where it is used for tax avoidance purposes. All income reported by a Swiss company is, in principle, subject to Swiss federal, cantonal and communal taxes (exception see e.g. domiciliary companies).

INCENTIVES

Tax incentives are granted on a case-by-case basis and their extent and duration largely depend on the size of the investment and the importance attributed to the economic development of the canton or region concerned by the cantonal and federal governments. Such an incentive may be either relief or exemption from income and annual capital tax for up to ten years. Provisions for future expenses relating to research and development payable to third parties are tax deductible up to a maximum of 10% of the net profit, with a ceiling of CHF 1 million.

Under certain conditions, companies are allowed to set up a tax privileged 'recession reserve' up to an amount of 20% of the company's annual gross salaries paid. The amounts are deductible for federal, cantonal and communal tax purposes. Accelerated write-down on fixed asset investments is granted in certain cantons.

A wide variety of non-tax incentives are granted by these regions, such as cash grants, participation in project costs, partial or entire assumption of interest expenses on loans required for realisation of the project, subsidies for training personnel etc.

C. FOREIGN TAX RELIEF

Double tax relief is granted by means of tax exemption of foreign branch and real property income and by the deduction of any non-recoverable foreign withholding taxes. Based on most double taxation agreements, a credit against Swiss income taxes is granted for the unrelieved portion of foreign withholding taxes on dividends, interest and royalties or similar fees but not for underlying income taxes on dividends received from subsidiaries.

The tax credit is granted for taxes derived from treaty countries under which Switzerland has committed itself to such a tax credit. Foreign taxes of these countries are creditable only if they are irrecoverable and actually paid or, in respect of treaties that provide for a tax-sparing credit, if they are deemed to be paid.

D. CORPORATE GROUPS

Each entity in Switzerland is subject to taxes independent from the corporate group and tax returns have to be filed for each Swiss subsidiary and branch. Revenue and capital losses cannot be transferred within a corporate group.

E. RELATED PARTY TRANSACTIONS

Intra-group transactions are not challenged by the tax authorities if they are made on an arm's length basis. There are neither provisions in tax laws nor any administrative practices that would challenge a transaction solely on the grounds of being made between related parties. However, intra-group transactions, where the consideration paid for goods or services is higher than what an independent third party would be willing to pay or the consideration for goods or services sold is less than what an independent third party would require, may be deemed as hidden profit distributions and be adjusted for determining taxable income. Hidden profit distributions are, in addition, subject to withholding tax in the same way as dividends.

Payments to foreign affiliates in respect of management fees, research and development, general and administrative expenses are deductible, if made on an arm's length basis. They should, however, be specific and identifiable as a commercially justified charge to the Swiss entity.

F. WITHHOLDING TAX

The company must withhold a tax of 35% and remit this amount to the tax authorities on all cash dividends and dividends in kind, including bonus shares and surplus liquidation proceeds. As per 1 January 2011 reserves that have been paid in directly by shareholders can be distributed withholding tax-free. This tax is in general levied at source. However, it can be applied through the notification procedure under certain circumstances. Most treaties provide for a reduction of the normal 35% rate. Withholding tax on interest is levied at a rate of 35% but only on bonds, bond-like loans and deposits accepted by Swiss banks from non-bank clients. No withholding tax is levied on inter-company loans. There is no withholding tax on royalties.

G. EXCHANGE CONTROL

There are, at present, no currency restrictions on inward investments, and the Swiss franc is freely convertible into any other currency. Bank accounts may be maintained in local or foreign currencies either in or outside Switzerland without restriction. There is no distinction between resident and Non-Resident accounts. If the Swiss accounts are kept in a currency other than Swiss francs (i.e. in a functional currency), exchange gains or losses from the conversion of the functional currency accounts to CHF accounts are no longer taxable or tax deductible since the issuance of a respective federal court law decision in October 2009.

H. PERSONAL TAX

A Swiss resident individual is subject to Swiss federal, cantonal and communal taxes on his worldwide income and net wealth, with the exception of income from investments in foreign permanent establishments and real estate situated abroad. Basically, foreigners are regarded as resident from date of registration (usually within one week of arrival where the individual intends to stay permanently in Switzerland). The cantons levy a wage source tax on salaries paid by domestic employers to expatriates. The tax is deducted monthly from the expatriate's gross income, including any benefits in kind, based on the cantonal tax table.

Individuals' resident abroad and drawing income from or owning net assets in the form of a permanent establishment or real estate in Switzerland are subject to Swiss taxes thereon at the rates that would apply

to their worldwide taxable income or net assets. The tax liability is, however, limited to their Swiss taxable income and net assets. Income tax is payable on assessable income less allowable deductions. The assessable income must include, in gross income, all compensation received as salary, living and housing allowances, dividends and interests on financial assets, and the fair market value of any benefits in kind. If an individualswiss tax payer owns more than 10% of a company, dividends are subject to special tax reductions depending on each cantonal law. The tax rates of direct federal tax on income and all cantonal taxes on income and net wealth are on a progressive basis. The federal tax rates apply separately to single and married taxpayers. These rates are valid as per 1 January 2018. The married taxpayers' rate also applies to registered couples of the same sex living together and to widowed, separated and divorced or single persons living with children who are minors and studying at their expense. The tax rates for unmarried taxpayers are as follows:

If taxable Income is between (CHF)	Tax on lower amount is (CHF)	Tax on excess for each further CHF 100 (CHF)
0 – 14,500	–	0
14,501 - 31,599	–	0.77
31,600 - 41,399	131.65	0.88
41,400 - 55,199	217.90	2.64
55,200 - 72,499	582.20	2.97
72,500 - 78,099	1,096.00	5.94
78,100 - 103,599	1,428.60	6.60
103,600 - 134,599	3,111.60	8.80
134,600 - 175,999	5,839.60	11.00
176,000 - 755,199	10,393.60	13.20
755,200 or above	86,848.00	11.50

Taxable income exceeding CHF 755,200 is subject to a flat rate of 11.50%.

The tax rate for married taxpayers is as follows:

If taxable Income is between (CHF)	Tax on lower amount is (CHF)	Tax on excess for each further CHF 100 (CHF)
0 – 28,300	–	0
28,301 – 50,899	–	1
50,900 – 58,399	226	2
58,400 – 75,299	376	3
75,300 – 90,299	883	4
90,300 – 103,399	1.483	5
103,400 – 114,699	2,138	6
114,700 – 124,199	2,816	7
124,200 – 131,699	3,481	8
131,700 – 137,299	4,081	9
137,300 – 141,199	4,585	10
141,200 – 143,099	4,975	11
143,100 – 144,999	5,184	12
145,000 – 895,799	5,412	13
895,800 or above	103,016	11.5

Taxable income exceeding CHF 895,900 is subject to a flat rate of CHF 11.50%.

In addition, cantonal and municipal taxes are payable which are considerably higher. The tax rates are dependent on the canton in which the individual is resident. There are also net wealth taxes, inheritance and gift taxes levied by most cantons (with exception of the Canton of Schwyz).

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

The standard rate of Swiss withholding tax is 35%. Relief, when granted, is generally by way of refund. The table below stipulates the remaining tax for the recipient for each type of income. The information contained therein is valid as per 1 January 2018. On 1 July 2005 the agreement on the taxation of savings income between Switzerland and the EU came into effect. A limited company with a direct participation of 25% or more which is held longer than two years can file a request for the application of the declaration procedure. In this case, a 0% rate results. Switzerland started transferring a retention tax on the interest income of EU tax payers to the EU member states every year from July 2008 onwards. Switzerland and the EU signed an agreement regarding the automatic exchange of information in tax matters in May 2015 which adopts the global standard set by the OECD. It entered into force on 1 January 2017, with the result that financial institutions in Switzerland and the EU member states collect account information on non-tax residents. This account information will be exchanged for the first time in the autumn of 2018. Therefore, the protocol of amendment permanently replaced the previous taxation of savings agreement in 2017.

	Dividends Portfolio[1] (%)	Substantial Holdings[1] (%)	Interest (%)
Resident corporations and individuals	0	0	0
Non-resident corporations and individuals			
Non-treaty countries:	35	35	35
Treaty countries:			
Albania	15	5	5
Algeria	15	5	10
Argentina	10	10	12
Armenia	10/15	5	0/10
Azerbaijan	10/15	5	5/10
Australia	15	0/5/15	10
Austria	15	0	0
Belarus	13/15	5	5/10
Belgium	15	10	0/10
Bangladesh	15	10	5/10
Bulgaria	5/10	0	0/10
Canada	15	5	0/10
Chile	15	15	0/4/15
China	10/15	5/10	10
Colombia	0/15	0	1/5/10
Croatia	12/15	5	5
Czech Republic	15	0	0
Denmark	15	0	0
Ecuador	15	15	0/10
Egypt	10/15	5	15
Estonia	10	0	0

Finland	10	0	0
France	15	0/15	0
Georgia	5/10	0	0
Germany	5/30	0	0
Ghana	8/15	5	8/10
Greece	15	5	7
Hungary	0/15	0	0
Iceland	15	0	0
India	0/10	0/10	10
Indonesia	15	10	10
Iran	0/15	5	0/3/10
Ireland, Republic of	0	0	0
Israel	15	5/10	0/5/10
Italy	15	15	12.5
Ivory Coast	10/15	10/15	0/5/10/15
Jamaica	15	10	0/5/10
Japan	10	5	0/10
Kazakhstan	15	0/5	0/10
Korea, Republic of	15	5	0/5/10
Kyrgyzstan	10/15	5	5
Kuwait	15	15	0/10
Latvia	10/15	0/5	0/10
Liechtenstein	–	–	0/–[2]
Lithuania	15	0	0/10
Luxembourg	15	0/5	0
Macedonia	10/15	5	0/10
Malaysia	15	5	10
Malta	0/15	0/15	0
Mexico	10/15	0	0/5/10
Moldova	6/15	5	0/10
Mongolia	15	5	0/10
Montenegro	9/15	5	9/10
Morocco	15	7	10
Netherlands	15	0	0
New Zealand	15	15	0/10
Norway	15	0	0
Pakistan	0/10/20	10	10
Philippines	15	10	10
Poland	15	0	0/5

Portugal	15	0/5	0/10
Qatar	5/10/15	5/10/15	0
Romania	5	0	0/5
Russia	15	5	0
Serbia	15	5	10
Singapore	0/15	5	0/5/10
Slovak Republic	15	0	0/5
Slovenia	15	0	0/5
South Africa	15	5	5
Spain	15	0	0
Sri Lanka	10/15	10	5/10
Sweden	15	0	0
Tajikistan	0/12/15	0/5	0/10
Thailand	10/15	10	0/10/15
Trinidad and Tobago	10	5/10	10
Tunisia	5/10	5/10	5/10
Turkey	15	5	0/5/10
Ukraine	5/15	5	0/10/15
United Kingdom	15	0	0
United States	15	5	0
Uruguay	7/15	5	3/5/10/12
Uzbekistan	10/15	5	0/5
Venezuela	0/10	0	0/5
Vietnam	15	7/10	0/5/10

NOTES:

1. The rates necessary to constitute a substantial holding vary on a country by country basis. Reference should therefore be made to the individual treaties.
2. The zero rate applies to loans secured on immovable property. The domestic rate applies in all other cases.

TAIWAN

MEMBER FIRM

City	Name	Contact Information
Taipei	Wisdom Lee	+886 2 8792 2628 wl@pkf.com.tw

BASIC FACTS

Full name:	Republic of China
Capital:	Taipei
Main languages:	Mandarin Chinese (official), Min Nan Chinese (Taiwanese)

Population:	23.68 million (2018 estimate)
Monetary unit:	New Taiwan Dollar (NTD)
Internet domain:	.tw
Int. dialling code:	+886

KEY TAX POINTS

- Domestic entities are taxed on a worldwide basis, while other entities pay tax only on income sourced in Taiwan. Where a non-resident company has Taiwan-sourced income but no place of business or agent in Taiwan, the company's income is taxed at source under the withholding tax regime.
- Taiwan taxes all profit-seeking enterprises operating in Taiwan with total taxable income over NTD 120,001 at 20% effective 1 January 2018 (2017: 17%) (but the tax may not exceed 50% of the portion of taxable income over NTD 120,000).
- All gains and losses on the disposal of capital assets are taxable as current year income or deductible as expenses with the exception of marketable securities and futures.
- VAT at 5% is known as the 'business tax' and applies to business entities in all industries under the VAT system. Export sales and export-related services, however, are subject to a zero tax rate. Financial institutions are subject to business turnover tax. Professional practitioners are not subject to VAT or business turnover tax for service revenue earned.
- There are no local income taxes.
- Foreign tax suffered on overseas income is creditable against Taiwanese tax subject to a limit of Taiwanese tax payable on such income. Any unused tax credits may not be carried back or forward to other years.
- Domestic corporations paying certain types of income are required to withhold tax between 5% and 21%.
- Individuals are only subject to income tax on Taiwan source income with income derived from foreign sources being exempt from income tax. Residents, both Taiwanese and foreign nationals, pay tax on net consolidated income calculated as the total income received from all Taiwan sources less exemptions and deductions.
- If the amount of regular income tax for a company or an individual is less than the amount of basic tax, the total tax payable is the amount of the basic tax.

A. TAXES PAYABLE

BUSINESS INCOME TAX

Taiwan taxes all profit-seeking enterprises operating in Taiwan. Domestic entities are taxed on a worldwide basis, while other entities pay tax only on income sourced in Taiwan. Where a non-resident company has Taiwan-sourced income but no place of business or agent in Taiwan, the company's income is taxed at source under the withholding tax regime. Domestic entities include companies that are incorporated under Taiwan Company Law. A domestic company is incorporated when it is duly registered with the central competent authority and issued with an approval letter on its registration. Income tax rates for profit-seeking enterprises are as follows:

- Less than NTD 120,000: 0%
- NTD 120,001 and over: 20%, effective 1 January 2018 (2017: 17%) (but the tax may not exceed 50% of the portion of taxable income over NTD 120,000).

TAX ON INTEREST

Interest received by a resident profit-seeking enterprise is taxable as non-operating income and 10% creditable withholding tax is imposed.

Tax on interest received by a non-resident profit-seeking enterprise is withheld according to the following rules:

(1) For interest from the portion of the pecuniary amount realized by short-term commercial papers at their maturity in excess of the selling price at their initial issuance, 15% of the payment is withheld.

(2) For interest distributed derived from beneficiary securities or asset-backed securities issued in accordance with the Financial Asset Securitization Act or the Real Estate Securitization Act, 15% of the distribution is withheld.

(3) For interest on government bonds, corporate bonds or financial bonds, 15% of the payment is withheld.

(4) For interest derived from repo (RP/RS) trade whereby a taxpayer purchases securities or short-term commercial papers as described above in paragraphs 1 to 3 which shall be the net amount of the sale price at their maturity in excess of the original purchase price, 15% of the payment is withheld.

TAX ON RETAINED EARNINGS

Tax on retained profits

Retained profits attract an additional 10% income tax. Profits that are earned in a year but not distributed by 31 December of the following year are subject to 10% (5% effective 1 January 2018) advance tax which can be claimed as a credit against the final tax liability of both resident and non-resident shareholders.

Tax imputation system

Individual resident shareholders receiving dividends from a Taiwanese company are entitled to an imputed credit for the income tax paid by the company. For corporate shareholders, the dividends received are not considered taxable income. However, the tax credits shall be included in the balance of its shareholder-imputed credit account (ICA) and will be imputed to the shareholders for future dividend distributions. Imputed tax credits do not apply to non-resident shareholders. However, if dividends received by non-resident shareholders contain any income subject to 10% surcharged income tax on retained earnings, then half of the surcharged income tax may offset the withholding income tax of such dividends.

Effective 1 January 2018, the imputation system is abolished to simplify the income tax system.

CAPITAL GAINS TAX

All gains and losses on the disposal of capital assets are taxable as current year income or deductible as expenses with the exception of marketable securities and futures.

Securities Transactions

The levy of tax on gains derived from the sale of marketable securities was suspended. However, gains from marketable security transactions shall be subject to Income Basic Tax, please see 'Alternative minimum tax' below.

Futures Transactions

The levy of tax on gains from transactions of futures under Statute for Futures Transaction Tax was suspended. However, gains from futures transactions shall be subject to Income Basic Tax, please see 'Alternative minimum tax' below.

Land and Buildings Transactions

Effective from 1 January 2016, gains or losses on the disposal of land and buildings of resident companies are taxable as current year income or deductible as expenses. However, for non-resident companies, gains on disposal of land and buildings shall be subject to income tax which shall be computed separately at a rate of 35% or 45% in accordance with the period held by the seller before the transaction occurred.

BRANCH PROFITS TAX

A foreign company's branch or any other permanent establishment in Taiwan is subject to income tax only on its income from Taiwanese sources. If the foreign enterprise has neither a branch nor a business agent in Taiwan, it is subject to withholding tax on its Taiwanese source income. The repatriation of profits by Taiwanese branches of foreign enterprises is not taxable. It is proposed, but not yet put into practice, that a branch profits tax be imposed on the repatriation of profits by the Taiwanese branch of foreign enterprises so that a branch does not have a tax-preferable treatment over a subsidiary.

ANTI-TAX-AVOIDANCE CLAUSE

Anti-tax-avoidance rules were put into the Income Tax Act in 2016 as follows:

For any profit-seeking enterprise and its related parties directly or indirectly holding up to 50% of shares or capital of a foreign affiliated enterprise registered in a low-tax burden country or jurisdiction, or having a significant influence on such a foreign affiliated enterprise, the surplus earnings of the foreign affiliated enterprise shall be recognized as the profit-seeking enterprise's investment income which is calculated

according to the ratio and holding period of the shares or capital, and such investment income shall be included in taxable income of the current year.

Any foreign profit-seeking enterprise established according to foreign law but with a place of effective management in Taiwan shall be deemed as a profit-seeking enterprise having its head office within the territory of Taiwan, and shall be subject to profit-seeking enterprise income tax in accordance with the Income Tax Act and other relevant laws.

The effective date of the above clauses has not yet been announced by the government.

VALUE ADDED TAX (VAT)

VAT at 5% is known as the business tax and applies to business entities in all industries under the VAT system. Export sales and export-related services, however, are subject to a zero tax rate. Financial institutions are subject to business turnover tax. Professional practitioners are not subject to VAT or business turnover tax for service revenue earned. Currently, the tax rate that applies to banks, insurance companies, trust and investment companies, securities traders, futures traders, bills finance companies and pawnshops is 2% (except for reinsurance premium income, for which the rate is 1%).

A 5% tax rate shall apply to banking and insurance enterprises for their sales amounts which are connected with banking and insurance business, but the sales amounts from reinsurance premiums shall be taxed at 1%. A 2% tax rate shall apply to the enterprises for their sales amounts which are connected with investment trusts, securities, futures, commercial paper and pawnshops. Profit-seeking enterprises (e.g. manufacturers, wholesalers and retailers) are collectors of VAT and are required to pay the net VAT, being taxes collected from sales less taxes paid on purchases and business expenses, to their district tax offices and file returns. Zero ratings and exemptions exist for some items.

FRINGE BENEFITS TAX

Although there is no separate FBT, perquisites or other benefits supplementing normal wages and salaries are included in the computation of employment income and are taxable as such. Minor exceptions do exist. See ‘Personal tax’ below.

LOCAL INCOME TAXES

There are no local income taxes.

OTHER TAXES

Other taxes are summarized as below.

CUSTOMS DUTY AND TRADE PROMOTION SERVICE FEE

Customs Duty on taxable imported goods is based on the value of the goods including transport and insurance costs or on the quantity imported with different rates depending on the category of the goods. There are no harbour duties but a ‘Trade Promotion Service Fee’ is payable at rate of 0.0425% or less based on the value of goods, and a ‘Commercial Port Dues’ is payable based on the length of containers or the weight of goods.

COMMODITY TAX

Commodity Tax (Excise Duty) is imposed on certain designated commodities whether manufactured locally or imported. Commodity Tax on taxable commodities is based on the value or quantities of commodities manufactured or imported depending on the category of commodities.

STAMP TAX

Stamp Tax is imposed on business transaction documents, property titles, permits and the like. The following are exempt from stamp duty: all types of instruments used by offshore banking branches, documents executed abroad, receipts for the delivery of goods and certain other transactions. Subject to stamp tax are the following documents: receipts for cash, contracts or deeds for purchase or sale of chattels, contracts or deeds for undertaking jobs and contracts or deeds for sale, exchange, donation or division of real property.

SECURITIES TRANSACTION TAX

The rate is 0.3% for a transaction in shares or share certificates embodying the right of shares issued by a company limited by shares and 0.1% for corporate bonds or any securities which have been duly approved by the government. Bonds issued by governments are exempt from securities transaction tax. The securities

transaction tax levied on corporate bonds and finance bonds are exempted from levy from 1 January 2010 to 31 December 2026.

FUTURES TRANSACTION TAX

The tax rate for transactions in option contracts or option contracts on futures is not less than 0.1% and not more than 0.6%. The tax rate for transactions in stock index futures contracts, interest rate futures contracts and other futures contracts varies from 0.0000125% to 0.06%.

LAND TAX

Three types of land tax are imposed: rural land tax, land value tax, and land value increment tax.

(1) Rural Land Tax: Applicable to rural or urban land used for agricultural production. The Rural Land Tax has not been levied since 1987.

(2) Land Value Tax: All land having value is subject to land value tax with a flat rate of 1% applicable to land for industrial use. For residential land meeting certain requirements for self-use, the flat rate is 0.2%. For land reserved for public buildings, the rate is 0.6% if the land is used for buildings during the reserved period. Land used for other purposes is subject to a progressive rate of tax ranging from 1% to 5.5%.

(3) Land Value Increment Tax: The sale of land gives rise to tax imposed on the increase in the assessed value since the previous sale or transfer. Rates vary from 20% to 40% on a progressive scale except for:

   (a) Self-use residential land under certain requirements is taxed at 10%

   (b) Transfers by inheritance, government approved sales of industrial land and sales followed by replacement purchases in certain circumstances are exempt.

For land that has been owned for a period of over 20 years, its land increment tax on the portion exceeding 20% shall be reduced by 20% to 40%.

DEED TAX

Deed Tax is imposed on the transfer of real estate at tax rates varying from 2% to 6%. Deed Tax is not imposed on the land where Land Value Increment Tax is imposed.

BUILDING TAX

Building Tax is levied annually on the assessed value of buildings and improvements at the following rates: 3% to 5% for commercial space, professional offices and private hospitals; 1.5% to 2.5% for premises of non-profit organisations; and 1.2% to 3.6% for residential buildings.

SPECIFICALLY SELECTED GOODS AND SERVICES TAX

Specifically selected goods and services tax is imposed on the sale, manufacture, and import of specifically selected goods or the sale of specifically selected services within the territory of Taiwan. Specifically selected goods and services include:

(1) Buildings and land which has been held for a period of no more than two years.

(2) Passenger cars with nine seats or fewer and a selling price or taxable value of not less than NTD 3 million.

(3) Yachts which have a length of not less than 30.48 meters.

(4) Airplanes, helicopters, or ultra-light vehicles with a selling price or taxable value of not less than NTD 3 million.

(5) Turtle shells, hawksbill, coral, ivory, furs, and their products: any of the aforesaid items that has a selling price or taxable value of not less than NTD 500,000.

(6) Any item of furniture with a selling price or taxable value of not less than NTD 500,000.

(7) Membership rights with a selling price of not less than NTD 500,000, except when in the nature of a refundable deposit.

The tax rate is 10%. However, 15% tax will be levied if the holding period of buildings and land is no more than one year.

Effective from 1 January 2016, specifically selected goods and services tax ceased to apply on buildings and land which has been held for a period of no more than two years.

B. DETERMINATION OF TAXABLE INCOME

In arriving at taxable income, certain expenses are allowed against total income. Expenses relating to the earning of business income are generally deductible to the extent that they are ordinary and necessary business expenses. The expenditure must be incurred in the course of operating a business or subsidiary. Certain foreign enterprises are permitted to calculate their taxable income as a percentage of their net income rather than claiming deductions for expenses. A foreign enterprise engaged in certain sectors (e.g. international transport, construction contracting, technical services, equipment leasing), regardless of whether it has a branch or a business agent in Taiwan, may apply to the Tax Authorities to consider a percentage of its gross business income as taxable. This percentage is 10% for an international transport business and 15% for all other businesses.

The following adjustments are required when calculating taxable income.

DEDUCTIBLE TAXES

All taxes with the exception of income tax and taxes relating to capital acquisitions (e.g. taxes on the purchase of land) are deductible. However, the deduction is only available in the year the taxes are paid or accrued. Fines or penalties under Taiwanese law are not deductible.

DEPRECIATION

The following methods are acceptable to the Tax Authorities: straight-line, declining-balance, sum-ofyear's-digits, production quantity and machine/working hour methods. In specified circumstances, revaluation of fixed assets so as to increase claims for depreciation is allowable. Property with a useful life of less than two years or a value of less than NTD 80,000 is fully deductible in the year the purchase occurs. There is a depreciation limit of NTD 2.5 million on passenger cars.

STOCK / INVENTORY

Inventory may be valued at cost or the lower of cost or net realized value. Cost may be determined using the specific identification, first-in first-out, moving average, weighted average, or other methods approved by competent authority. Uniformity between book and tax reporting is not required.

DIVIDENDS

A domestic company which owns shares in another domestic company is, regardless of the percentage of ownership, exempt from business income tax on the dividends from another domestic company.

A domestic company is taxable on dividends received from foreign companies although a unilateral foreign tax credit is generally available subject to the requirement of reciprocal treatment by that foreign country and limited to the lesser of foreign tax paid or the tax which would otherwise have been payable in Taiwan.

INTEREST DEDUCTIONS

Interest payable on loans necessary for business operations is deductible in the period it is actually incurred. Interest on borrowings from individuals or firms other than financial institutions over the standard rate prescribed by tax offices will be disallowed to the extent of the excess.

Thin capitalisation

The excess interest expenditure on the debts owed directly or indirectly by an enterprise to a related party shall not be considered as expenses or losses if the proportion of related party debt-to-equity of the enterprise exceeds the specified ratio of 3:1.

LOSSES

The carry forward of losses is limited to ten years, while loss carry back is prohibited. In the case of loss carry forwards, these are only available to companies which keep a complete set of accounting records and which file blue returns or returns certified by a CPA.

FOREIGN SOURCE INCOME

Foreign income of Taiwanese corporations is taxable in Taiwan with double taxation being relieved by way of foreign tax credits.

TAX INCENTIVES

Based on the Statute of Industrial Innovation, a company may select one of the following incentives for crediting the company's total expenditure on R&D against its business income tax payable. However, this credit shall not exceed 30% of the business income tax payable by the company in that year.

- Up to 15% of the R&D expenses may be credited against the business income tax payable by it in the current year.
- Up to 10% of the R&D expenses may be credited against the business income tax payable by it within three years from the year the R&D expenses incurred.

Based on the Act for the Development of Biotech and New Pharmaceutical Industry, be effective until 31 December 2021, biotech and new pharmaceutical companies are entitled to a deduction from their business income tax liability when undertaking R&D on new drugs and high-risk medical devices, as well as the training of personnel. The deduction is limited to 35% of the total amount invested in R&D and personnel training and may be credited against the business income tax within five years from the year the tax liability is incurred. The total amount of investment credited against the payable corporate income tax in each year shall not exceed 50% of the amount of business income tax payable in a year. However, this restriction shall not apply to the amount to be offset in the last year of the aforesaid fiveyear period.

Furthermore, investors who invest in biotechnology and new pharmaceutical companies and hold the shares for more than three years are entitled to a deduction from the business income tax payable for a period of five years starting from the year the tax liability is incurred, up to 20% of the acquisition cost of the shares.

The Act for Promotion of Private Participation in Infrastructure Projects provides tax incentives and government support for a private company investing in government-approved infrastructure projects. The tax incentives include:

- A company may enjoy a five-year tax exemption on business profits derived from governmentapproved infrastructure projects.
- Corporate shareholders holding registered stock issued by a private company in governmentapproved infrastructure projects for at least four years can offset the shareholder investment tax credit against their business income tax liability. The tax credit is 20% of the cost of the shares.
- A private company investing in government-approved infrastructure or transportation construction projects may credit 5% to 20% of qualified expenditure incurred against its business income tax liability within five years starting from the year the expenditure is incurred.

Under the Offshore Banking Act, domestic and foreign banks can conduct an offshore banking business exempt from income tax, business tax, stamp duties, and withholding tax on interest.

ALTERNATIVE MINIMUM TAX

According to the Income Basic Tax (IBT) Act, if the amount of regular income tax for a company or an individual is greater than or equal to the amount of basic tax, the income tax shall be calculated in accordance with the Income Tax Act and if the amount of regular income tax is less than the amount of basic tax, the total tax payable is the amount of the basic tax. According to the Act, capital gains derived from marketable securities and futures and some other income exempted from regular income tax by incentives shall be included in the basic income of the company and subject to IBT.

C. FOREIGN TAX RELIEF

Foreign tax suffered on overseas income is creditable against Taiwanese tax subject to a limit of the Taiwanese tax payable on such income. Any unused tax credits may not be carried back or forward to other years.

D. CORPORATE GROUPS

Generally, group taxation is not permitted except for meeting the requirements of consolidated tax returns in Business Mergers and Acquisitions Act.

E. RELATED PARTY TRANSACTIONS

Royalties, interest and service fees paid to foreign (and Taiwanese) affiliates require adequate supporting transaction vouchers and documents to be deductible. Such payments are subject to withholding tax. Transactions between related parties are subject to Transfer Pricing Guidelines and contemporaneous documentation is required on an annual basis.

F. WITHHOLDING TAX

Domestic corporations paying certain types of income are required to withhold as follows:

Recipient	Salaries %	Dividends %	Interest %	Royalties/ rentals %	Professional fees/ commissions %
Resident corporations	--	–	10	10	10
Resident individuals	5[2]	–	10[1]	10	10
Non-resident corporations	--	20 (21[4])	15/20[3]	20	20
Non-resident individuals	18	20 (21[4])	15/20[3]	20	20

NOTES

3. 1. For interest on short-term marketable securities, the final withholding tax rate is 10%.
4. 2. Withholding in accordance with withholding schedule or a flat rate of 5%.
5. 3. See “Tax on Interest” above.
6. 4. Effective from 1 January 2018, the withholding tax rate is 21%.

For non-resident individuals, effective from 1 January 2016, the final withholding tax rate for gains from disposal of land and buildings is 45% or 35% in accordance with the period held by the seller before the transaction occurred.

G. EXCHANGE CONTROL

At present there is no limit on genuine trade-related remittances whether inward or outward. For nontrade-related remittances, the long standing controls were relaxed from 1997. Business entities can remit up to USD 50,000,000 (or the equivalent) into or out of Taiwan each year without advance approval from the Central Bank. The limit for individuals remains unchanged at USD 5,000,000 per year. Each remittance in excess of USD 1,000,000 for a corporate or USD 500,000 for an individual requires supporting documentation.

H. PERSONAL TAX

Individuals are only subject to income tax on Taiwan source income with income derived from foreign sources being exempt from income tax. Residents, both Taiwanese and foreign nationals, pay tax on net consolidated income calculated as the total income received from all Taiwan sources less exemptions and deductions.

Non-residents who stay in Taiwan for no more than 90 days within a calendar year are taxed on their gross income under the withholding tax system without allowance for deductions and exemptions. A non-resident staying in Taiwan over 90 days but less than 183 days within a calendar year who has no Taiwanese source income other than salaries from local employers is not required to file an income tax return if 18% tax on local salaries is withheld. In practice, however, a non-resident may prefer to file an annual tax return voluntarily, without allowance for deductions and exemptions, in order to keep a clean tax record in Taiwan.

Residence is determined on the basis of whether a person is domiciled in Taiwan and lives in Taiwan on a regular basis. An individual will also be considered to reside in Taiwan when, although not domiciled in Taiwan, they reside in Taiwan for 183 days or longer within a calendar tax year. The types of compensation deemed to be taxable income include:

- Cost of living allowance;
- Expatriation premium;
- Relocation allowance;
- Education for dependent children;
- Life insurance premiums exceeding NTD 2,000 per month paid by the employer on the employee's behalf.

Tax-exempt income includes:

- Qualifying professional expatriates’ housing provided by the employer may be tax-exempt;
- Meals allowance of up to NTD 2,400 per month;
- Overtime pay for up to 46 hours per month;
- Travel expenses to allow a qualifying professional expatriate employee to return to their home country.

DEDUCTIONS

A taxpayer may select either the 'standard deduction' or 'itemised deductions' and may, in addition thereto, declare 'special deductions'.

Standard deduction: For 2017, NTD 90,000 for a single taxpayer; NTD 180,000 for a taxpayer and his/her spouse. For 2018, NTD 120,000 for a single taxpayer; NTD 240,000 for a taxpayer and his/her spouse.

Itemised deductions, subject to certain limitations, include:

- Charitable contributions;
- Insurance premiums up to NTD 24,000 per insured person for life or labour insurance;
- Medical and childbirth expenses;
- Disaster losses incurred due to force majeure, if not otherwise covered by insurance;
- Mortgage interest incurred on self-use residential dwelling up to NTD 300,000 per income tax return per year;
- Rent for housing up to NTD 120,000 per income tax return per year. However, no deduction shall be made for taxpayers who have filed the aforesaid mortgage interest on the same tax return.

Special deductions, subject to certain limitations, include:

- Losses from disposal of properties other than land, buildings and securities, not to exceed total gains from disposal of properties in the same taxable year;
- Salary or wage earner's special deduction up to NTD 128,000 per salary or wage earner in 2017 (NTD 200,000 in 2018);
- Interest income exclusion up to NTD 270,000 per income tax return;
- Deduction for the disabled up to NTD 128,000 per disabled person in 2017;
- Deduction for higher education of children up to NTD 25,000 per person;
- Deduction for qualified pre-school children up to NTD 25,000 per child in 2017 (NTD 200,000 in 2018).

EXEMPTIONS

Remuneration for services rendered in Taiwan received from an employer outside Taiwan (with no charge back to a Taiwan entity) by an employee who is a non-resident will be exempt from tax provided the employee stays in Taiwan for no more than 90 days. Remuneration for services rendered in Taiwan received from an employer outside Taiwan is also exempt if received by non-resident directors, managerial officers and technicians of an approved FIA entity who are sent to Taiwan for no more than 183 days in a tax year to undertake preparatory work such as investment planning, plant construction or market surveys.

PERSONAL EXEMPTION

The personal exemption is NTD 88,000. The exemption amount for taxpayers and spouses that are at least 70 years old is increased by 50%.

TAX RATE

The tax brackets and rates of resident individual income tax for 2018 are as follows:

Net taxable income (NTD)	Rates (%)
1 – 540,000	5
540,001 – 1,210,000	12
1,210,001 – 2,420,000	20
2,420,001 – 4,530,000	30
4,530,001 and above	40

DIVIDEND INCOME TAX

With effect from 1 January 2018, if an individual receives dividends or surpluses from domestic companies, co-operatives and other legal persons then 8.5% of the total amount of dividends and surpluses may be deducted from the consolidated income tax of the current year. However, the threshold amount of annual

deduction of each reporting household is capped at NTD 80,000. Alternatively, the taxpayer may choose to calculate the amount of tax payable separately at the tax rate of 28%.

CAPITAL GAINS TAX

Effective from 1 January 2016, if an individual derives gains from disposal of land and buildings, such gains shall be subject to income tax, the tax payable shall be computed separately at a rate of 10% to 45% in accordance with the period held by seller before the transaction occurred.

ALTERNATIVE MINIMUM TAX

According to the Income Basic Tax (IBT) Act, the basic tax for individuals is calculated in a similar manner as for companies with items added back to calculate the relevant income, including the following:

- Income derived from overseas sources excluded from gross consolidated income;
- Non-cash donations or contributions deducted from gross consolidated income;
- Insurance payments received by the beneficiary of a life insurance policy or annuity in which the beneficiary and the proposer are not the same person and the life insurance policy and annuities are contracted after this Act coming into force;
- Gains derived from transactions of beneficiary certificates of privately-placed securities investment trust funds;
- The amount of income or deduction which is entitled to reduction, exemption or deduction from the consolidated income tax as may be provided by laws which may be promulgated after the implementation of this Act and thereafter announced by the Ministry of Finance.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

The following withholding tax rates are applicable to Taiwanese-source dividends, interest and royalties paid to non-residents where the income is not connected with a permanent establishment in Taiwan.

	Dividends (%)	Interest (%)	Royalties (%)
Non-treaty countries:	21[16]	15/20	20
Treaty countries:			
Australia	10/15[3]	10	12.5
Austria	10	10	10
Belgium	10	10	10
Canada	10/15[4]	10	10
Denmark	10	10	10
France	10	10	10
Gambia	10	10	10
Germany	10/15[5]	10/15[10]	10
Hungary	10	10	10
India	12.5	10	10
Indonesia	10	10	10
Israel	10	7/10[11]	10
Italy	10	10	10
Japan	10	10	10
Kiribati	10	10	10
Luxembourg	10/15[6]	10/15[12]	10
Macedonia (FYR)	10	10	10
Malaysia	12.5	10	10

Netherlands	10	10	10
New Zealand	15	10	10
Paraguay	5	10	10
Poland	10	10	3/10[15]
Senegal	10	15	12.5
Singapore	40[1]	_[2]	15
Slovak Republic	10	10	5/10[15]
South Africa	5/15[7]	10	10
Swaziland	10	10	10
Sweden	10	10	10
Switzerland	10/15[8]	0/10[13]	10
Thailand	5/10[9]	10/15[14]	10
United Kingdom	10	10	10
Vietnam	15	10	15

NOTES

1. The treaty limits the aggregate of the corporate income tax and the tax on the dividends to 40% of that part of the taxable income out of which the dividends are declared.
2. The treaty is silent so the domestic rate applies. See Section F above.
3. The 10% rate applies if the dividends are paid to a company (other than a partnership) which holds directly at least 25% of the capital of the dividend-paying company.
4. The 10% rate applies if the beneficial owner is a company that holds directly or indirectly at least 20% of the capital of the dividend-paying company.
5. The 15% rate applies to dividends distributed by a real estate investment company that is tax-exempt regarding all or parts of its profits or that can deduct the distributions in determining its profits.
6. The 15% rate applies if the beneficial owner is a collective investment vehicle established in Luxembourg and treated as a body corporate for tax purposes in Luxembourg.
7. The 5% rate applies if the beneficial owner directly holds at least 10% of the capital of the dividend-paying company.
8. The 10% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 20% of the capital of the dividend-paying company.
9. The 5% rate applies if the beneficial owner directly holds at least 25% of the capital of the dividend-paying company.
10. The 15% rate applies if the interest is the distributed income of a real estate investment trust or a real estate asset trust that is tax-exempt regarding all or parts of its profits or that can deduct the distributions in determining its profits.
11. The 7% rate applies to interest paid on any loan of whatever kind granted by a bank of the other territory. The 10% rate applies in all other cases.
12. The 15% rate applies if the beneficial owner of the interest is a collective investment vehicle established in Luxembourg and treated as a body corporate for tax purposes in Luxembourg.
13. The 0% rate applies to interest paid (i) in connection with the sale on credit of any industrial, commercial or scientific equipment (ii) in connection with the sale on credit of any merchandise or service by one enterprise to another enterprise (iii) on loans made between banks or (iv) to the other territory or to a subdivision or local authority thereof, or to the central bank of that other territory.
14. The 10% rate applies to interest received by any financial institution (including an insurance company).
15. The lower rate applies to royalties paid for the use of, or the right to use, industrial, commercial or scientific equipment.
16. Effective from 1 January 2018, the withholding tax rate is 21% (2017: 20%).

TANZANIA

MEMBER FIRM

City	Name	Contact Information
Dar es Salaam	Mustansir Gulamhussein	+255 22 2152501/3/4 mgulamhussein@tz.pkfea.com

BASIC FACTS

Full name:	United Republic of Tanzania
Capital:	Dodoma
Main languages:	Swahili, English
Population:	58.77 million (2018 estimate)
Monetary unit:	Tanzanian Shilling (TZS)
Internet domain:	.tz
Int. dialling code:	+255

KEY TAX POINTS

- Corporate tax is payable by Tanzanian companies on their worldwide taxable income at the rate of 30%.
- Value Added Tax is generally charged at the standard rate of 18% on any supply of goods or services in mainland Tanzania.
- The maximum employment tax rate is 30%.
- There are several sources of income that are subject to withholding taxes, generally at rates from 2% to 15%.

A. TAXES PAYABLE

CORPORATE TAX

A company is resident in Tanzania if it is incorporated, formed or established in Tanzania or has its place of effective management (day-to-day management) in Tanzania. Subject to certain limited exemptions, Tanzanian resident companies and close corporations (companies) are taxed on their worldwide income. Furthermore, and again subject to certain exemptions, the international 'antiavoidance' practice of taxing income earned by Controlled Foreign Companies (CFC) applies to Tanzania residents. Corporate tax is payable by Tanzanian companies on their worldwide taxable income at the rate of 30%. The tax is payable by both public and private companies as well as close corporations.

Effective 1 July 2017, companies with a newly established plant for assembling motor vehicles, tractors, fishing boats or out boats engine and having a performance agreement with the government are taxed at 10% for 5 consecutive years from the year of commencement of production

The income tax payable by a corporation with perpetual unrelieved loss for three consecutive years of income shall be taxed at the rate of 0.3% of turnover. However this shall not apply to a corporation conducting an agricultural business or engaged in the provision of health or education.

Bonds issued by the East African Development Bank are tax exempt. The Minister of Finance and Planning shall not grant tax exemption/remission on income/payment derived from Government projects financed by Non-Concessional loans. For Individuals, where the turnover exceeds TZS 20,000,000 the taxpayer is obliged to prepare audited financial statements in respect of his/her business. If the company has sales of TZS 20,000,000 or less it will be taxed as follows:

Presumptive Individual Income Tax		
Annual Turnover	**Tax Payable (incomplete accounting records)**	**Tax Payable (complete accounting records)**
TZS 0 – TZS 4,000,000	NIL	NIL
TZS 4,000,000 – TZS 7,500,000	TZS 150,000	3% of the annual turnover in excess of TZS 4,000,000
TZS 7,500,000 – TZS 11,500,000	TZS 318,000	TZS 135,000 plus 3.8% of the turnover in excess of TZS 7,500,000
TZS 11,500,000 – TZS 16,000,000	TZS. 546,000	TZS 285,000 plus 4.5% of the turnover in excess of TZS 11,500,000
TZS 16,000,000 – TZS 20,000,000	TZS. 862,000	TZS 487,000 plus 5.3% of the turnover in excess of TZS 16,000,000

TAXATION OF INSURANCE

General insurance business should be treated separately from the life insurance business for tax purposes.

General insurance business shall include;

- Any other amounts;
- Premiums derived during the year of income by the person as insurer, including as re-insurer, in conducting the business; and
- Proceeds derived during the year of income by the person under any contract of re-insurance in respect of proceeds; and

The following are deducted, together with any other amounts deductible;

- Proceeds incurred during the year of income by the person as insurer, including as re-insurer, in conducting the business; and
- Premium incurred during the year of income by the person under any contract of re-insurance.

Life insurance business shall include;

- Any other amount to be included;
- Premium derived during the year of income by the person as insurer, including as re-insurer, in conducting the business; and
- Proceeds derived during the year of income by the person under any contract of re-insurance; and
- There shall be deducted only the expenses of managing the business's investments (including commission) that are deductible;

The following amounts shall not be deductible;

- Proceeds incurred during the year of income by the person as insurer, including as re-insurer, in conducting the business; and
- Premium incurred during the year of income by the person under any contract of re-insurance.

TAXATION OF TRUSTS

A trust or unit trust is liable for tax, however, it will be taxed separately from its beneficiaries and trustees. Assets owned and liabilities owed by a trust or a trustee in the capacity of trustee (other than as a bare agent) shall be treated as owned or owed by the trust and not any other person. Amounts derived and expenditure incurred by a trust or a trustee in the capacity of trustee (other than as a bare agent), shall be treated as derived or incurred by the trust and not any other person. The following distributions are exempted:

- Distributions of a resident trust or unit trust shall be exempted in the hands of the trust's beneficiaries; and
- Distributions of a non-resident trust or unit trust shall be included in calculating the income of the trust's beneficiaries.

TAXATION OF PARTNER

A partnership business is not subject to tax but partners in a partnership are taxed by using individual tax rates and their taxable income is determined by taking the partner's share of any partnership income and deducting the partner's share of any partnership loss, for a year of income of the partnership ending on the last day of or during the year of income of the partner.

CAPITAL GAINS TAX (CGT)

Gains from the disposal of investment assets such as land, building, shares and securities situated in Tanzania by non-residents are taxed at the single instalment rate of 20% regardless whether the disposal is made inside or outside Tanzania. For residents in Tanzania the same is taxed at a single instalment rate of 10%, the disposal is taxed on the net gain realized. Acquisition costs are deducted from the gross selling price. However, for companies the net gain realised shall be taxed at a corporation tax rate of 30% with the single instalment tax creditable. Nonetheless, the revenue authority's current approach on the determination of a net gain realised is the higher of the consideration and the net worth of the assets. However, disposals of the following are exempt from CGT:

- Property used as the individual's private residence for three years prior to the sale, capital gains are exempt up to TZS 15 million (USD 8,250);
- Agricultural land with value less than TZS 10 million; and
- Units in approved collective schemes.

The amendments brought in by the Finance Act 2016 effective from 1 July 2016 on change in control of an entity are as follows: change in entity ownership by more than 50% during the previous three years shall attract CGT.

BRANCH PROFITS TAX

Where a branch of a foreign company operates in Tanzania, a branch profits tax at the rate of 30% of taxable income and 10% repatriated income (branch remittance tax) applies.

DIVIDENDS TAX

Gross dividends of a resident company, controlling 25% or more of the shares, will be taxed at 5% when paid to a resident company and 10% when paid to a non-resident company. Any corporation that is listed on the Dar es Salaam stock exchange (DSE) and paying dividends to a resident or non-resident entity will be taxed at the rate of 5%. Dividends other than mentioned above will be taxed at the rate of 10% for resident or non-resident companies.

GAMING TAX

Gaming price winners will be taxed at the rate of 18% on their winnings. Gamming winnings subject to gaming tax are not liable to income tax. Effective July 2017, the Tanzania Revenue Authority has been granted a mandate to administer and collect gaming taxes in Tanzania.

VALUE ADDED TAX (VAT)

The new VAT Act, 2014 has been introduced with effect from 1 July 2015. The VAT rate remains at the rate of 18% on any supply of goods or services in mainland Tanzania where it is a taxable supply made by a taxable person in the course of, or in furtherance of, any business carried on. The new VAT Act, 2014 has complied with the VAT destination principle. It has abolished the VAT Special Relief and lead to a significant reduction of most exempted items.

VAT registration is triggered when the value of taxable supplies in a 12-month period is or is expected to exceed TZS 100 million or TZS 50 million in a 6-month period while professional service firms/consultants are subject to a compulsory registration regardless of turnover.

Ancillary transport services such as stevedoring services, lashing and securing services, cargo inspection services, preparation of customs documentation, container handling services and the storage of transported goods or goods to be transported are charged VAT at the rate of 0%.

Exporters of raw material products that include raw mineral products and raw agriculture products shall not be eligible to claim input tax used to the extent of exporting raw products for export purposes. Raw agricultural products include raw forestry products, raw aquatic products and raw fauna products. The Tanzania Government aims to boost the industrialisation process in the country by encouraging the establishment

of local factories in the country and to build up the capacity to process raw products within the country to increase job creation and value add in country.

The input tax claims restriction for exporters of raw mineral products and raw agricultural products effectively commence in July 2017 and July 2019 respectively.

A VAT registered person is required to lodge VAT returns on a monthly basis and make the payment, if any, at the same time when lodging the VAT returns. The deadline for filing and remitting VAT is on or before 20th day of the following month. Where the 20th day falls on a Saturday, Sunday or a public holiday, the VAT return shall be lodged on the first working day following a Saturday, Sunday or public holiday.

FRINGE BENEFITS TAX

Employees are taxed on the value of fringe benefits as determined in accordance with a separate schedule to the Income Tax Act (the 'fifth schedule'), which quantifies the car benefit. The other benefits include a housing benefit and loans that are provided for less than a 12-month period and do not exceed 3 months basic salary. The tax imposed on the individual is in accordance with the tax brackets and rates applicable to natural persons.

RAILWAYS DEVELOPMENT LEVY (RDL)

There is a newly introduced RDL charged at the rate of 1.5% of CIF value on importation of goods and on those goods entered for home consumption. However, the RDL shall not apply to the imported items from within member states of the East African Community.

SKILLS & DEVELOPMENT LEVY (SDL)

Skills and development levy is a tax borne by the employer at a rate of 4.5% of gross remuneration payable monthly.

However, SDL is not charged to a Government department or a public institution which is wholly financed by the Government, diplomatic missions, the United Nations and its organizations, international and other foreign institutions dealing with aid or technical assistance, charitable organizations, local government authority, farms employers whose employees are directly and solely engaged in farming and shall not include employees, who are engaged in the management of the farm or processing of farming products, registered educational institutions (private schools including nursery, primary and secondary schools; vocational, educational and training schools; universities and higher learning institutions) and religious institutions whose employees are solely employed to administer places of worship or give religious instructions or generally to administer religion.

WORKERS COMPENSATION FUND (WCF)

WCF is a contribution borne by both private and public employers. It is charged based on the total employees' monthly salary (i.e. basic salary plus all common periodic allowances). The applicable rate is 1% for private sector employers and 0.5% for public sector employers.

STAMP DUTY

Stamp Duty is levied on the acquisition of real property or rights in or to such property, on share transfer of a company and on a lease agreement located within Tanzania. The tax is computed at a rate of 1% on the fair market value of the property, but never on a value lower than the sales price.

CITY SERVICE LEVY

Companies are subject to a service levy at the rate of 0.3% of turnover net of VAT and the excise duty in respect of their activities. The levy is collected by the Local Government Authority within the area of jurisdiction of the authority.

OTHER TAXES & LEVIES

These include, amongst others, Customs, Importation and Excise Duties.

B. DETERMINATION OF TAXABLE INCOME

The taxable income of a company is determined by deducting expenditure incurred in the production of income and other allowable expenses and allowances from the company's income. How the income is determined as well as allowable expenses and allowances that a company may deduct from that income is detailed further below.

INCOME FROM A BUSINESS

"Business" includes a trade, concern in the nature of trade, manufacture, profession, vocation or isolated arrangement with a business character and a past, present or prospective business, but excludes employment. If the activities of the company are in line with the above definition of a 'business' according to the Tanzania tax laws, the company will be treated as conducting a business and its taxable income will be subject to tax at a rate of 30%. Taxable income is determined by taking business income and deducting allowable expenditure as explained below.

INCOME FROM INVESTMENT

A corporation's income from investment is its income from activities not directly related to its business. This class of income may include dividends, interest and rent which are not the core business of a corporation. Income from investments is calculated as follows: -

- From total returns on investment;
- Deduct any income which has been subject to a final withholding tax and exempt dividends;
- Deduct current expenses deductions;
- Add net capital gains (i.e. capital gains minus capital losses);
- Deduct any loss carry forward from previous year.

GENERAL PRINCIPLES OF DEDUCTIONS

The corporation is not allowed to deduct the expenses of the following nature in determining its taxable income:

- Expenditure incurred by employee or employer in the maintenance of himself or herself, his or her family or establishment, or for any other personal or domestic purpose;
- Expenditure of a capital nature that secures a benefit lasting longer than twelve months or incurred in respect of natural resource prospecting, exploration and development;
- Bribes and expenditure incurred in corruption practice;
- Fines and penalty fines and similar penalties payable to a government or a political subdivision of a government of any country for breach of any law or subsidiary legislation;
- Expenditure to the extent to which incurred by a person in deriving exempt amounts or final withholding payments.

INTEREST AND FINANCE CHARGES

Interest incurred in the production of income is a deductible expense. Where the loan or instrument in respect of which interest is incurred complies with certain requirements, such interest is deemed to be incurred on a day-to-day basis. Exempt-controlled resident entities may deduct interest but to a limit not exceeding the sum of interest equivalent to a debt-to-equity ratio of 7:3. The ITA defines an exemptcontrolled resident entity as an entity that is resident and at any time during the year of income 25% or more of the underlying ownership of the entity is held by approved retirement funds, charitable organizations, non-resident persons or associates of such entities or persons.

TRADING STOCK

All trading stock on hand at the end of the tax year must be added to income while all trading stock on hand at the beginning of the year is deducted. Trading stock is valued at the lower of cost or the net realisable value.

REPAIR AND MAINTENANCE EXPENDITURE

For the purposes of calculating a person's income for a year of income from any business, there shall be deducted all expenditure to the extent it is incurred during the year of income, by the person and in respect of the repair or maintenance of depreciable assets owned and employed by the person wholly and exclusively in the production of income from the business. No deductions are available for expenditure improving the assets but that expenditure may be included in the cost of the assets if certain requirements are met.

RESEARCH AND DEVELOPMENT EXPENDITURE

In accordance with the Income Tax Act 2004 research and development expenditure is deductible if it is incurred by a person in the process of developing the person's business and improving business products or process and includes expenditure incurred by a company for the purposes of an initial public offer and first

listing on the Dar es Salaam Stock Exchange but excludes any expenditure incurred that is otherwise included in the cost of any asset used in the use in any such process.

GIFT TO PUBLIC AND CHARITABLE INSTITUTIONS

For the purpose of calculating a person's income for a year of income from any business, there shall be deducted:

- Amounts contributed during the year of income to a charitable institution or social development project;
- Any donation made to Educational institutions;
- Amounts paid to local government authorities which are statutory obligations or government directives to support community development projects.
- The deductions available for a year of income shall not be more than 2% of the person's income from the business.

DEPRECIATION ALLOWANCE FOR DEPRECIABLE ASSETS

For the purposes of calculating a person's income for a year of income from any business, there shall be deducted in respect of depreciation of depreciable assets owned and employed by the person during the year of income wholly and exclusively in the production of the person's income from the business the allowances granted under the schedule below.

Class	Depreciable Assets	Rates
1*	Computers and data handling equipment together with peripheral devices, automobiles, buses and minibuses with a seating capacity of less than 30 passengers, goods vehicles with a load capacity of less than 7 tonnes; construction and earth-moving equipment.	37.5%
2*	Buses with a seating capacity of 30 or more passengers, heavy general purpose or specialized trucks, trailers and trailer-mounted containers; railroad cars, locomotives and equipment; vessels, barges, tugs and similar water transportation equipment; aircraft; other self-propelling vehicles; plant and machinery (including windmills, electric generators and distribution equipment) used in agriculture or manufacturing; specialized public utility plant and equipment; and machinery or other irrigation installations and equipment.	25%
3*	Office furniture, fixtures and equipment; any asset not included in another Class.	12.5%
5**	Natural resource exploration and production rights and assets referred to in subparagraph (3) in respect of natural resource prospecting, exploration and development expenditure.	20%
6**	Buildings, structures, dams, water reservoirs, fences and similar works of a permanent nature used in agriculture, livestock farming or fishing farming.	5%
7 **	Intangible assets other than those in Class 4.	Over Useful life of asset
8 **	Plant and machinery (including windmills, electric generators and distribution equipment) used in agriculture. Equipment used for prospecting and exploration of minerals or petroleum.	100%

NOTES:

* Pools of depreciable assets calculated according to diminishing value balance method.

** Pools of depreciable assets calculated according to straight line method.

Due to the amendments brought in by the Finance Act 2016 (effective from 1 July 2016) mining and oil and gas operations companies are granted depreciation allowance as follows:

(a) The whole of deprecation allowance expenditure incurred in respect of mineral or petroleum operations during a year of income shall be placed in a separate pool.

(b) The depreciation allowance shall be granted with respect to each pool at the rates provided below:

Year of Income	Depreciation Allowance
First Year	20% of expenditure
Second Year	20% of expenditure
Third Year	20% of expenditure
Fourth Year	20% of expenditure
Fifth Year	20% of expenditure

(c) The depreciation allowance granted with respect to a particular year of income shall be taken in that year and shall not be deferred to a later year(s) of income.

The restriction for capital allowance on non-commercial vehicles has increased to TZS 30 million (previously TZS 15 million).

LOSSES ON REALIZATION OF BUSINESS ASSETS AND LIABILITIES

For the purposes of calculating a person's income for a year of income from any business, there shall be deducted any loss of the person from the realization during the year of income of the following:

- A business asset of the business that is or was employed wholly and exclusively in the production of income from the business;
- A debt obligation incurred in borrowing money, where the money is or was employed or an asset purchased with the money is or was employed wholly and exclusively in the production of income from the business;
- A liability of the business other than a debt obligation incurred in borrowing money, where the liability was incurred wholly and exclusively in the production of income from the business.

LOSSES FROM A BUSINESS OR INVESTMENT

For the purposes of calculating the income of a person (other than a partnership or a foreign permanent establishment) for a year of income from a business or investment, there shall be deducted:

- Any unrelieved loss of the year of income of the corporation from any other business or investment; and,
- Any unrelieved loss of a previous year of income of the corporation from any business or investment;
- A person may deduct an unrelieved loss when computing taxable income in the case of a loss incurred in dealing with speculative transactions.

TAX LOSS

If a corporation made a loss from the corporation's business it is allowed to be deducted for three consecutive years and on the third year will be taxed at the rate of 0.3% on turnover.

INTEREST RECEIVED

Interest received (or accrued) is included in gross income. Where the loan or instrument in respect of which interest is received complies with certain requirements, such interest is deemed to accrue on a day-to-day basis.

FOREIGN SOURCED INCOME

Tanzania resident individuals and corporate entities are subject to tax in Tanzania on their worldwide income. However, this general principle may be overridden by the provisions of a double tax treaty or certain unilateral relief provisions contained in Tanzania's tax legislation. A comprehensive set of rules govern the determination of the source of income.

INCENTIVES

In Tanzania there is an enacted law called the Tanzania Investment Act 1997, the Act has set up a onestop investment centre to coordinate, encourage, promote and facilitate investment in Tanzania and to advise the Government on investment policy and related matters. The Tanzania Investment Centre (TIC) assists all investors to obtain permits, authorisation etc. required by other laws to set up and operate investments in Tanzania. There are two categories of investors; normal investors and strategic investors depending on the

value of investment. The strategic investors enjoy more incentives than normal investors. With a Tanzania Investment Centre (TIC) certificate the investor qualifies for tax exemptions on certain items. The other categories of investments that enjoy incentives include:

Some of the Export Processing Zone (EPZ) tax incentives include the following:

- Exemption from corporation tax for 10 years;
- Exemption from withholding tax on rent, dividends, interest, royalty for 10 years;
- Remission of Customs duty, Excise duty, other tax for goods used as raw materials, equipment, machinery etc. directly related to the manufacturing activities;
- Exemption from payment of all taxes and levies imposed by the local government authorities for products produced for a period of 10 years;
- Exemption from pre-shipment or destination inspection requirements;
- On site customs inspection of goods in the EPZ;
- Entitlement to an initial automatic immigration quota of up to five persons during the start-up period.

Special Economic Zone (SEZ):

SEZ provides incentives depending on the category of the investor. Some of the incentives include the following:

- Exemption from payment of taxes and duties for machinery, equipment, heavy duty vehicles, building and construction materials and any other goods of capital nature to be used for the purpose of the development of the SEZ infrastructure;
- Exemption from payment of stamp duty on any instrument executed in or outside the SEZ related to transfer, lease or hypothecation of any movable or immovable property in or situated within the special economic zone or any document, certificate, instrument, report or record related to any activity, action, operation, project, undertaking or venture in the SEZ;
- Exemption from payment of VAT on utility charges;
- Exemption from pre-shipment or destination inspection requirements;
- On site customs inspection of goods within SEZ;
- Treatment of goods destined into SEZ as transit cargo.
- Remission of customs duty, VAT and any other tax charged on raw materials and goods of capital nature related to the production in the SEZ;
- Provision of business visa at the point of entry to key technical, management and training staff for a maximum of two months; thereafter the requirements to obtain a residence permit according to the Immigration Act, 1995 shall apply.

Special Strategic Investment Status may be granted to the projects which meet the following criteria:

a) A minimum investment capital should not be less than USD 300 million or the equivalent in Tanzania Shillings;

b) Investment capital transactions should be done through registered local financial and insurance institutions;

c) It should create direct local employment of at least 1,500 with enough number of senior positions; and

d) Being capable of generating reasonable foreign exchange earnings, producing reasonable import substitute goods or supply of facilities necessary for development in the social, economic or financial sector.

C. BUSINESS LICENSE

Business license shall be issued or renewed by the local authority upon presentation of a tax clearance certificate from the revenue authority.

D. FOREIGN TAX RELIEF

A resident corporation may claim foreign tax credits in a year of income for any foreign income tax paid by a corporation to the extent to which it is paid with respect to the corporation's taxable foreign income for the

year of income. Foreign tax credits claimed shall be calculated separately for each year of income and shall not exceed the average rate of Tanzania income tax of the corporation for the year of income applied to the corporation's taxable foreign income. However a corporation may elect to relinquish a foreign tax credit available for a year of income and claim a deduction for the amount of the foreign income tax but otherwise no deduction is available for foreign income tax.

E. CHARITABLE ORGANISATIONS

A "charitable organisation" or “religious organisation” means a resident entity of a public character that satisfies the following conditions:

- Its membership shall be open to the general public who have common interests;
- The intention shall not be profit making;
- No distribution of profits generated out of its charitable business; and
- Surplus shall be re-invested solely for original charitable function;
- Relief of poverty or distress of Tanzanians by providing education, public health, water, road development.

For the purposes of calculating the income of a charitable organisation or religious organisation for any year of income from its charitable business:

(a) There shall be included, together with any other amounts required to be included under other provisions of the Income Tax Act, all gifts and donations received by the organisation; and,

(b) There shall be deducted, together with any other amounts deductible under other provisions of the Income Tax Act:

  (i) Amounts applied in pursuit of the organisation or religious organisation’s functions (referred to above) by providing reasonable benefits to resident persons or, where the expenditure on the benefits has a source in Tanzania, persons resident anywhere; and,

  (ii) 25% of the organisation or religious organisation's income from its charitable business (calculated without any deduction under subparagraph (i) above) and any investments.

F. WITHHOLDING TAXES (WHT)

There are several sources of income that are subject to withholding taxes as follows:

	Resident (%)	Non-Resident (%)
Dividends:		
- To companies controlling 25% of shares or more	5	10
- From DSE listed companies	5	5
- Other companies	10	10
Interest	10	10
Royalties	15	15
Technical and management service to mining companies	5	15
Rental:		
- Land and buildings	10	15
- Air craft lease	10	10
- Other assets	0	15
Natural resources payments	15	15
Services fees*	5	15
Payment for goods to the Government of Tanzania	2	N/A
Insurance premium	0	5
Commission on mobile money transfer	10	N/A
Annual Director’s fees (other than full time service director)	15	15

NOTES:

*

- For residents, the professional service fee (i.e. legal, accountancy, medical, theatrical performance, sports, exhibition, private security and any entertainment) will be subject to WHT, where technical service fees in relation to mining and oil and gas companies is a final tax (which includes permanent establishment for those purposes);

- For non-residents all services provided will be subject to WHT.

WHT on companies involved in construction will be based on the ratio of 3:2 for materials and service respectively.

A 5% final WHT shall be deducted when making payments for specific minerals supplied by resident small scale miners. Specific minerals include gold, metallic minerals, coloured gemstones, coal and industrial minerals (excluding salt, sand, beach sands and stone aggregates).

G. RELATED PARTY TRANSACTIONS

TRANSFER PRICING

The Income Tax (Transfer Pricing) Regulations 2014 were issued by way of a gazette notice published on 7 February 2014, and came into effect on the publication date. The regulations apply to taxpayers dealing with related parties located both inside and outside the United Republic of Tanzania. The regulations address the potential mismatch between profit allocation and distribution of risks, assets and functions across the associated enterprises. The Regulations require corporations to provide documented evidence that an arm's length amount was paid for goods (both tangible and intangible) and services between related parties.

Documentation requirement

The Transfer Pricing documentation should be prepared before filing the tax returns and should be submitted within 30 days upon request by the Commissioner.

Stiff Penalties for non-compliance

The penalties for any transfer pricing adjustment made as part of a tax audit is 100% of the unpaid tax. Failure to comply with the regulations is an offence, and upon conviction, the taxpayer is liable to imprisonment for a maximum of 6 months and/or a fine of not less than TZS 50 million or both.

Advance Pricing Arrangements

The regulations also provide that a taxpayer can request the Commissioner to enter into an Advance Pricing Arrangement ("APA"). Basically these APAs can be unilateral, bilateral and multilateral based on the taxpayer's request and determine in advance the prices of the future controlled transactions over a fixed period of time, but not exceeding five years of income.

H. EXCHANGE CONTROL

Under the Investment Act 1997, investors are guaranteed unconditional transferability (through any authorized dealer in freely convertible currency) of net profits, foreign loan services, royalties, fees and technology transfer charges, emoluments of foreign personnel and repatriation of capital, after taxes on the sale of the investment, However, all transactions in foreign currency are regulated by the Foreign Exchange Act which permits any person, resident or not, to:

- Hold any amount of foreign currency;
- Sell any amount of specified foreign currency to an authorized dealer;
- Open and maintain a foreign currency account with a bank which is an authorized dealer.

I. PERSONAL TAX

An annual budget reforms the statutory provisions each year and below is a schedule relating to the taxation of personal income commencing from 1 July 2014 to 30 June 2015:

Individual Employment Income	Tax Rates
When total income does not exceed TZS 170,000	Nil
Where total income exceeds TZS 170,000 but does not exceed TZS 360,000	9% of the amount in excess of TZS 170,000
Where total income exceeds TZS 360,000 but does not exceed TZS 540,000	TZS 17,100 plus 20% of the amount in excess of TZS 360,000
Where total income exceeds TZS. 540,000 but does not exceed TZS 720,000	TZS 53,100 plus 25% of the amount in excess of TZS 540,000
Where total income exceeds TZS 720,000	TZS 98,100 plus 30% of the amount in excess of TZS 720,000

Deductions available to salaried employees and full-time service directors are restricted to the following:

- Exempt amounts and final withholding payments;
- On-premises cafeteria services that are available on a non-discriminatory basis;
- Medical services, payment for medical services, payments for insurance for medical services or payments that are:
  - Available with respect to medical treatment of the individual, spouse of the individual and up to four of their children; and,
  - Made available by the employer (and any associate of the employer conducting a similar or related business) on a non-discriminatory basis;
- Any subsistence, travelling, entertainment or other allowance that represents solely the reimbursement to the receipt of an amount expended by him wholly and exclusively in the production of his income from his employment or services rendered;
- Benefit derived from the use of motor vehicle where the employer does not claim any deduction or relief in relation to the ownership, maintenance or operation of the vehicle;
- Benefit derived from the use of residential premises by an employee of the Government or any institution whose budget is fully or substantially out of Government budget subvention;
- Payment providing passage of the individual, spouse of the individual and up to four of their children to or from a place of employment which corresponds to the actual travelling cost where the individual is domiciled more than 20 miles from the place of employment and is recruited or engaged for employment solely in the service of the employer at the place of employment;
- Retirement contributions and retirement payments exempted under the Public Service Retirement Benefits Act, 1999;
- Payment that it is unreasonable or administratively impractical for the employer to account for or to allocate to their recipients;
- Allowance payable to an employee who offers intramural private services to patients in a public hospital;
- Housing allowance, transport allowance, responsibility allowance, extra duty allowance, overtime allowance, hardship allowance and honoraria payable to an employee or the Government or its institution whose budget is fully or substantially paid out of Government budget subvention;
- In calculating an individual's gains or profit from payment for redundancy or loss or termination of employment, any payment received in respect of a year of income which expired earlier than five years prior to the year of income in which it was received, or which the employment or services ceased, if earlier such payment shall, for the purposes of calculation of the tax payable thereon, be allocated equally between the years of income in which it is received or, if the employment or services ceased in an earlier year between such earlier year of income and the five years immediately preceding such year of income in which such payment is so received or as the case may be, such earlier year of income in which the employment or services ceased, and each such portion allocated to any such year of income shall be deemed to be income of that year of income in addition to any other income in that year of income;
- If the contract is for a specified term, the amount included in gains or profits shall not exceed the amount which would have been received in respect of the unexpired period of such contract and shall be deemed to have accrued unevenly in such unexpired period;

- If the contract is for an unspecified term and provides for compensation on the termination thereof, such compensation shall be deemed to have accrued in the period immediately following such termination at a rate equal to the rate per annum of the gains or profits from such contract received immediately prior to such termination; and,
- If the contract is for an unspecified term and does not provide for compensation on the termination thereof, any compensation paid on the termination thereof shall be deemed to have accrued in the period immediately following such termination at a rate equal to the rate per annum of the gains or profits from such contract received immediately prior to such termination, but the amount so included in gains or profits shall not exceed the amount of three years' remuneration at such rates.

J. MINERAL & PETROLEUM TAX REGIME

The Finance Act 2016 has introduced a specific Mineral & Petroleum Tax Regime for income tax purposes with the following key issues highlighted:

- Mining and oil and gas companies are taxed at the same fixed corporate tax rate of 30% of taxable income but as per the Finance Act 2016;
- Ring-Fencing rules: applicable to each separate mineral operation and each mineral right constitute a separate mineral operation (subject to special considerations relating to the interactions of the prospecting and mining licence and extension of mining licences);
- Transfer pricing: applied to ring-fenced activities of the same business person;
- Loss restrictions: offset of brought forward losses limited to 70% of current year profits, with any balance carried forward, it is applicable to mineral operations, processing, smelting and refining activities;
- Alternative minimum tax: not applicable;
- Capital allowance: 20% straight line on all assets used in mining operations; jointly holding of mineral rights: treated for tax as a partnership;
- Disclosure of subcontractors: all persons contracted and subcontracted (list names, nature of subcontracted work and duration of work). Punitive penalties will apply in case of non-compliance.

K. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)	Interest (%)	Royalties (%)	Management and technical fees (%)
Non-treaty countries	10	10	15	15
Treaty countries:				
Canada	20/25[1]	15	20	20[4]
Denmark	15[1]	12.5	20	20[4]
Finland	20[1]	15	20	20[4]
India	5[2]/10[1]	10	10	0
Italy	10[1]	15	15	15
Norway	20[1]	15	20	20[4]
South Africa	10/20[1]	10	10	15[5]
Sweden	15/25[1]	15	20	20[4]
Zambia	0[3]	0[3]	0[3]	0

Notes:

1. The 10% domestic withholding tax rate for dividends applies unless the tax treaty rate is lower, in which case the lower treaty rate applies (specifically for a substantial shareholding under the India treaty, see also note 2).
2. The 5% rate applies if the beneficial owner is a company that owns at least 25% of the shares of the paying company.

3. Dividends, interest and royalties are exempt from withholding tax in Tanzania where the recipient is a Zambian resident and the income is subject to tax in Zambia.
4. The 20% domestic withholding tax rate for management and technical fees applies unless the tax treaty rate is lower, in which case the lower treaty rate applies (i.e. specifically the case for Canada, Denmark, Finland, Norway and Sweden).
5. Tanzania levies a 15% withholding tax on technical services rendered by a South African resident company without a permanent establishment in Tanzania. The South Africa-Tanzania treaty precludes the TRA from levying this withholding tax under the general profits article. However, the TRA's view, in the absence of a specific article offering relief with regard to technical service fees is that Tanzania may levy the withholding tax. This is not in line with the OECD guidelines, which provide that the general profits article would apply in the absence of a specific article.

Tanzania has signed DTTs with the East Africa Community (Kenya, Uganda, Rwanda, & Burundi), South Korea and Zimbabwe but these have yet to be ratified.

THAILAND

MEMBER FIRM

City	Name	Contact Information
Bangkok	John Casella	+66 2 108 1591 (ext. 103) john.casella@pkf.com

BASIC FACTS

Full name:	Kingdom of Thailand
Capital:	Bangkok
Main languages:	Thai
Population:	69.15 million (2018 estimate)
Monetary unit:	Baht (THB)
Internet domain:	.th
Int. dialling code:	+66

KEY TAX POINTS

- The tax residency of a company is determined by the place where the company is located. Resident companies for tax purposes are those incorporated in Thailand. Companies incorporated outside Thailand are non-resident companies.
- A resident company is subject to Corporate Income Tax (CIT) on its worldwide income and gains. Non-resident companies are subject to CIT on their Thai sourced income and gains. The current CIT rate is 20%.
- The tax residency of an individual is determined by the period in which the individual is present in Thailand. Resident individuals are those who are present in Thailand for at least 180 days in a calendar year. Resident individuals are subject to income tax on Thai sourced income and income arising or earned overseas if remitted to Thailand in the year in which it is derived. Non-resident individuals are subject to tax on income from sources in Thailand. Personal income tax is calculated using progressive tax rates with a maximum rate of 35% for taxable income over THB 5 million.
- Thailand relies on a self-assessment system and capital gains are treated as part of assessable income.
- A 10% profit remittance tax is imposed on profits remitted out of Thailand by Thai branches of foreign companies. Such branches are not tax resident in Thailand and thus cannot access treaty benefits under Thailand's Double Tax Treaties (DTTs).
- Thailand has entered into a DTT with many countries that provide for the elimination of double taxation using credit or exemption methods. The DTTs also provide for the exchange of information between treaty partners, including under a Mutual Agreement Procedure.

- By virtue of either Thai domestic tax laws or a relevant DTT, credit relief is provided for overseas taxes against taxation in Thailand up to a maximum of the Thai tax on the overseas income concerned so as to mitigate double taxation. Offshore dividend income can be exempt from income tax if certain conditions are met under Thai domestic laws.
- To make Thailand a regional hub of investment, the Thai Government has recently introduced several preferential tax regimes to attract multinational enterprises to establish International Headquarters companies, International Trading Centers, or Treasury Centers in Thailand.
- Thai domestic tax laws do not include provisions on general anti-avoidance (such as a General Anti-Avoidance Rule), Controlled Foreign Corporations (CFCs) or thin capitalization. However, since the recent OECD initiative on Base Erosion and Profit Shifting (BEPS) the Thai Revenue Department (TRD) has paid much more attention to anti-avoidance and transfer pricing issues as evident from several legislative attempts to crack down on tax evasion and aggressive or unjustifiable tax planning.
- Value Added Tax (VAT) is payable on imports and the supply of goods and services in Thailand. A standard rate of 7% is currently being applied, although certain supplies are zero-rated or exempt. There are also other taxes such as Specific Business Tax imposed on certain transactions and Stamp Duty payable on certain types of instruments.

A. TAXES PAYABLE

CORPORATE INCOME TAX

Corporate Income Tax (CIT) is a direct tax levied on a juristic person that is established under Thai or foreign laws and carries on business in Thailand or derives certain types of income from Thailand. The term 'juristic person' (hereinafter referred to as a 'company' or collectively as 'companies') means a juristic company or partnership operating in Thailand. The term also includes any unincorporated joint venture and any trading or profit-seeking activity carried on by a foreign government or its agency or by any other juristic body incorporated under a foreign law. Resident companies are those incorporated in Thailand. They are subject to CIT on taxable net profits by considering their worldwide income for each 12-month accounting period. The ordinary fiscal year for tax submission is for the 12-month period ending 31 December. However, with the consent of the Director-General of the Thai Revenue Department (TRD), they may choose a different accounting period as their fiscal year-end for the purpose of determining taxable income.

Resident companies subject to CIT in Thailand can access Thailand's DTTs. Although Thailand is not a member of the OECD, the Commentaries on the Articles of the OECD Model Tax Convention on Income and Capital play an important role as a secondary source for interpreting Thailand's DTTs. The OECD's Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations also assist in the interpretation of Thai legislation (see Section E below).

Non-resident companies are those incorporated under foreign laws. They are treated as carrying on business in Thailand if they have a 'taxable presence' in Thailand. A taxable presence generally refers to either a fixed place through which the business is carried on (e.g., an office, a branch, or any other physical place of business) or an agent acting on behalf of the non-resident company to carry on business in Thailand (e.g., an employee, a representative, or a go-between). To this effect, the concept of a 'taxable presence' under the Thai Revenue Code (TRC) is broader than that of a 'permanent establishment' (PE) under a DTT.

Non-resident companies carrying on business in Thailand are subject to CIT on taxable net profits arising from, or in consequence of, business carried on in Thailand. The statutory CIT rate in the TRC is 30% and has been reduced to 20% since 2013. The National Legislative Assembly approved the draft of an Act to reduce the statutory CIT rate to 20%, becoming effective from accounting periods beginning on or after 1 January 2016 and there appears to be no suggestion that the statutory CIT rate will increase in the foreseeable future. Depending on the type of corporate taxpayer, CIT rates can vary and are applied at graduated rates depending on the level of taxable income starting from 0% up to 20%. CIT is payable twice a year, using Form PND50 for year-end filing and Form PND51 for mid-year filing.

Thai and foreign companies carrying on business in Thailand are required to file their annual tax return (Form PND50) within 150 days from the closing date of their fiscal accounting period. Form PND50 is submitted to the TRD together with the company's audited financial statements. Any tax payment must be submitted together with the tax return. Any companies that are subject to CIT on taxable net profits are also required to file their half-year tax return (Form PND51) within two months of mid-year. They are obliged to estimate their annual taxable net profits as well as their tax liability and pay half of the estimated tax amount within two months after the end of the first six months of each accounting period. The prepaid tax is creditable against the annual tax liability. Foundations, associations and foreign companies carrying on the business

of international transportation services are subject to CIT on gross income. The applicable CIT rates vary depending on facts and circumstances.

CAPITAL GAINS TAX

There is no separate capital gains tax in Thailand. Capital gains are treated as assessable income for tax purposes.

BRANCH PROFITS TAX

There is no specific branch profits tax in Thailand. Thai branches of foreign companies will generally only be taxed in Thailand on their taxable net profits arising from the business carried on in Thailand. The Thai branches are subject to the same CIT rate as resident companies. Branch profits are subject to a profit remittance tax of 10%, regardless of whether these branch profits are actually remitted to the foreign head office or remain inside the branch in Thailand.

VALUE ADDED TAX (VAT)

VAT is an indirect tax levied on the supply of goods and provision of services in Thailand, irrespective of where the service is used, and the import of goods into Thailand. A service performed abroad but made use of in Thailand is also deemed to be a provision of services in Thailand. Any person or entity that regularly supplies goods or provides services in Thailand and has an annual turnover exceeding THB 1.8 million is subject to VAT registration in Thailand. Suppliers of goods and services collect VAT output tax. Purchasers of goods and services pay VAT input tax. Input tax is deducted from output tax to determine the VAT liability.

Certain businesses are exempt from VAT.

A foreign supplier temporarily carrying on VAT-able business in Thailand is subject to VAT on a reverse charge basis, whereby the payer is required to self-assess any applicable VAT and remit it to the TRD. VAT is currently levied at a rate of 7% on gross receipts, although a zero rate applies to exported goods and services (that are totally used abroad). The official VAT rate is actually 10%, not 7%. However, the VAT rate was reduced to 7% in 1997 and this reduced rate has since been extended by the TRD continuously thereafter. There appears to be no suggestion that the VAT rate will increase in the foreseeable future.

SPECIFIC BUSINESS TAX (SBT)

There are some businesses that are not subject to VAT but are subject to SBT, although certain entities and activities may be exempt from SBT. The tax is imposed on gross revenue and the rate of tax differs according to the nature of the business performed as follows:

Business	Tax Base	Tax Rate (%)
Banking, finance and similar business	Interest, discounts, service fees, other fees, profits from foreign exchange	3.0
Life insurance	Interest, service fees and other fees	2.5
Pawn brokerage	Interest, fees, remuneration from selling overdue property	2.5
Real estate	Gross receipts	3.0
Factoring	Interest, discounts, service fees and other fees	3.0

Note: Local tax at the rate of 10% is imposed on top of SBT, resulting in an effective SBT rate of 3.3% on interest, for example.

STAMP DUTY

Stamp Duty is payable on most documents filed by companies with the Government agencies or entities and on official documents of the company, including: transfers of land, leases, stock transfers, debentures, mortgages, life assurance policies, annuities, Powers of Attorney, promissory notes, letters of credit, cheques, etc. Stamp Duty is levied on instruments and not on transactions or persons. For the purposes of Stamp Duty, an instrument is defined as any document chargeable with duty under the TRC. The Stamp Duty rules are contained in Chapter VI of Title II of the TRC.

Only instruments listed in the Stamp Duty Schedule are subject to Stamp Duty and the persons liable to pay said Stamp Duty are those associated with the instrument. They are, for example, the persons executing the instrument, the holders of the instrument or the beneficiary. General exemptions are available under the TRC.

Rates vary according to the class of the instrument. Non-compliance can result in a penalty or surcharge of tax. For certain categories of instruments, the liable person may pay Stamp Duty in cash instead of affixing stamps on the instruments, including: the lease of land, building, other construction or floating house (where the rental fee for the entire lease period is at least THB 1,000,000 or where registration by a Land Department Officer is required under Thai land law) and a hire-of-work service agreement for which the service fee is at least THB 1,000,000.

OTHER TAXES:

PETROLEUM INCOME TAX

Income derived from petroleum operations is subject to the Petroleum Income Tax Act. It is levied on net profit adjusted under the conditions specified by the Petroleum Income Tax Act and profit distributions outside Thailand. Petroleum income is taxed at various rates up to the maximum rate of 50%. The income tax rate is reduced to 10% of net taxable profit derived from the gross revenue on the export and import of fuel oil not less than THB 2 billion per annum into or between duty free zones.

With effect from 22 June 2017, the Petroleum Act (No. 7) B.E. 2560 and the Petroleum Income Tax Act (No. 7) B.E. 2560 have both been enacted. The amendments introduce production sharing agreements ("PSAs") and service contracts as an alternative to the granting of concessions for the exploration and production of petroleum. The new Act stipulates relevant conditions, revised benefits or rights of concessionaires, and applicable rates for remittance of royalties. Production sharing producers have been added to the list of petroleum operators governed by the Petroleum Income Tax Act and will be taxed at the rate of 20% of net profits, in which their computation of net profits includes the ability to deduct certain parent company expenditures made on behalf of the Thai subsidiary.

EXCISE TAX

Excise Tax is levied on certain types of products such as alcoholic beverages, tobacco and sugary drinks.

INHERITANCE TAX

With effect from 1 February 2016 the Inheritance Tax Act applies to individuals or juristic entities that receive a legacy from a deceased testator. Certain properties are subject to Inheritance Tax and only the value of a legacy that exceeds THB 100 million obtained from each deceased testator together either once or on several occasions is subject to Inheritance Tax at 10%. The rate is reduced to 5% if the heirs are ascendants or descendants of a deceased testator. A legacy received by the spouse of a deceased testator is exempt from Inheritance Tax.

GIFT TAX

With effect from 1 February 2016 a gift given by a living person is subject to Personal Income Tax under the TRC. Only the value of a gift exceeding the prescribed threshold is subject to Personal Income Tax at 5%, depending on the type of gifts and donor. An exemption may be granted in certain circumstances.

LOCAL TAXES:

SIGNBOARD TAX

This tax may be imposed at various rates per square meter (depending on the language) on any signs or billboards that display a name, trademark or product for the purpose of advertising or providing information on businesses.

PROPERTY TAXES

Owners of land and buildings in designated areas may be subject to either local administration tax (based on the unimproved capital value of land) or house and land tax (calculated at a percentage of actual or imputed annual rental value). Local administration tax is based on the appraised value of land as determined by the local authorities. Land that is subject to house and land tax is not subject to this tax. House and land tax covers all properties with the exception of owner occupied residences. The annual value is the official assessment of rental income that could be derived from such premises.

B. DETERMINATION OF TAXABLE INCOME

Income tax is payable by both individuals and companies on their taxable income. Taxable income is defined as assessable income less allowable deductions. For individuals, certain additional allowances can also be

deducted against the assessable income.

CIT of a company carrying on business in Thailand is calculated from the company's net profit on an accrual basis under the TRC. A company shall take into account all revenue arising from or in consequence of the business carried on in an accounting period and may deduct all expenses in accordance with the conditions prescribed by the TRC. Additional deductions on certain types of expenditure may also be allowable.

No.	Description	Tax base (THB)	Rate 2017	Rate 2018
1	Small and medium enterprise [1]	Taxable Net Profit:		
		0 - 300,000	Exempt	Exempt
		300,001 - 3,000,000	15%	15%
		> 3,000,000	20%	20%
2	Standard enterprise	Taxable Net Profit	20%	20%
3	Company listed on the Stock Exchange of Thailand (SET)	Taxable Net Profit	20%	20%
4	Foreign company engaging in international transportation	Gross Receipts	3%	3%
5	Foreign company not carrying on business in Thailand but receiving dividends from Thailand	Gross Receipts	Generally, at 10%	Generally, at 10%
6	Foreign company not carrying on business in Thailand but receiving other types of income apart from dividends from Thailand	Gross Receipts	Generally, at 15%	Generally, at 15%
7	Foreign company remitting profits out of Thailand	Amount Remitted	10%	10%
8	Profitable association and foundation	Gross Receipts		
9	Company granted tax privileges from the Board of Investment (BOI) [2]	Taxable Net Profit		
10	International Headquarters (IHQ) [3]	Taxable Net Profit		
11	International Trading Center (ITC) [4]	Taxable Net Profit		

NOTES:

1. Small and Medium Enterprise

A 'small and medium enterprise' refers to companies with paid-up capital not exceeding THB 5 million at the end of each accounting period and revenue from sales of goods and services of not more than THB 30 million in the relevant accounting period.

In addition to the paid-up capital, if the amount of revenue derived from sales of goods and services is more than THB 30 million, the company no longer qualifies for the income tax reductions as a small and medium enterprise, even if the amount of revenue falls below THB 30 million in subsequent years. The sale of goods excludes the sale of assets where the business is operated and is not in the business to buy such assets for direct sale.

2. Board of Investment activities

D*epending on the location (investment zone) and type of activity undertaken, a company may qualify for a tax exemption (tax holiday) for three to eight years on corporate profits as well as a reduction of import duty on imported machinery and materials, as well as an exclusion of income tax on dividends derived from BOI activities*.

3. International Headquarters (IHQ)

For more than a decade, the Thai government has been actively attempting to boost Thailand's profile as a regional hub for the group operations of foreign multi-nationals. Incentive rules were introduced in

2002 in the form of the Regional Operating Headquarters (ROH). The requirements of the ROH regime, however, were complex and the benefits limited. In December 2014, the IHQ regime was announced as a replacement and was enacted in May 2015. Requirements to qualify as an IHQ are less onerous than the previous ROH regime, and the incentives are more attractive.

IHQ - Conditions Required

An IHQ entity must:

- *Be incorporated in Thailand;*
- *Have paid-up capital of at least THB 10 million at the end of each accounting period;*
- *Incur annual operating expenses in Thailand of at least THB 15 million in each accounting period;*
- *Provide qualifying services to at least one associated enterprise outside Thailand.*

Qualifying services comprise managerial, technical, supporting and financial management services. An IHQ can access the tax concessions available for financial management services if it has obtained a treasury center (TC) license from the Bank of Thailand.

An IHQ must continue to monitor the conditions above as the incentives may be withdrawn for any accounting year if the conditions are not met in that year.

IHQ - Incentives

- *A registered IHQ entity is entitled to the following incentives:*
  - *An exemption from CIT on:*
  - *Income derived from international trading of goods that remain outside Thailand, or from the provision to overseas entities (associated or non-associated) of services related to such international trading;*
  - *Income derived from qualifying services provided to overseas associated entities;*
  - *Income derived from dividends and royalties from overseas associated entities;*
  - *Capital gains derived from the transfer of shares in overseas associated entities.*
- *A reduced CIT rate of 10% on:*
  - *Income derived from qualifying services provided to Thai associated entities;*
  - *Income derived from royalties from Thai associated entities.*
  - *(to the extent that they do not exceed income of the same nature from overseas associated entities).*
- *An exemption from withholding tax on:*
  - *Dividends paid to the IHQ's overseas corporate shareholders (provided the dividend is paid from income that is exempt from corporate income tax);*
  - *Interest paid to overseas lenders (provided the loan was drawn for re-lending to associated entities as part of a financial management service).*
- *An exemption from Specific Business Tax on interest income derived on loans to Thai or overseas associated entities as part of a financial management service.*
- *A flat PIT rate of 15% for expatriates working for the IHQ full-time and meeting certain conditions.*
- *Various non-tax incentives including:*
  - *An exemption from import duty on machinery used in R&D and training activities;*
  - *The ability to operate under 100% foreign ownership;*
  - *The ability to bring skilled personnel into Thailand from abroad.*

IHQ - Initial and On-Going Compliance

A formal application is required in order to establish an entity as an IHQ. A registered IHQ must then continue to isolate income and expenses that arise in providing qualifying services for the purposes of its corporate income tax returns.

IHQ - Term

IHQs are entitled to incentives for 15 accounting periods. After this period, the entity will exit the regime and regain their obligations under the standard tax and corporate legislation.

4. International Trading Center (ITC)

The ITC regime was announced at the same time as the IHQ regime and grants tax incentives to eligible companies that are engaged in the business of buying and selling goods, raw materials and parts, including providing services relating to international trade to overseas entities.

ITC - Conditions Required

An ITC entity must:

- *Be incorporated in Thailand;*
- *Have paid-up capital of at least THB 10 million at the end of each accounting period;*
- *Incur annual operating expenses in Thailand of at least THB 15 million in each accounting period. An IHQ can also apply for ITC status and receive the same tax concessions.*

ITC - Incentives

A registered ITC is entitled to the following incentives:

- *An exemption from CIT on income from buying and selling goods abroad without importing such goods into Thailand, including income from services relating to international trade provided to overseas entities and received in or from a foreign country;*
- *An exemption from withholding tax on dividends paid to the ITC's overseas corporate shareholders (provided the dividend is paid from income that is exempt from corporate income tax);*
- *A flat PIT rate of 15% for expatriates working full time for the ITC and meeting certain conditions.*

ITC - Initial and On-Going Compliance

The registration and reporting requirements are similar to those of an IHQ.

ITC - Term

ITCs are entitled to incentives for 15 accounting periods. After this period, the entity will exit the regime and regain their obligations under the standard tax and corporate legislation.

DEDUCTIBLE EXPENSES

For the purpose of calculating CIT, the following items are allowed to be deducted:

1) Ordinary and necessary expenses. However, the deductible amount of the following expenses is allowed at a special rate:

- 200% deduction of research and development expenses;
- 200% deduction of job training expenses;
- 200% deduction of expenditure on the provision of equipment for the disabled;
- 200% deduction for donations made to private schools or educational institutions;
- 200% deduction for donations made to Thai sports authorities and associations;

2) Interest, except interest on capital reserves or funds of the company;
3) Taxes paid to the Thai government except CIT and VAT;
4) Net losses carried forward from the last five accounting periods;
5) Bad debts;
6) Repairs and maintenance;
7) Donations up to 2% of net profits;
8) Provident fund contributions;
9) Entertainment expenses up to 0.3% of gross receipts but not exceeding THB 10 Million;
10) Depreciation: Special accelerated depreciation rates are available for certain asset classes. Alternatively, a company can use the rate based on the estimated life of the asset;
11) Exhibition or expo costs incurred either domestically or overseas;
12) 200% deduction for domestic employee training expenses which can include seminar room rental costs, accommodation, transportation, food and other expenses; and,

13) Full depreciation for car purchase in respect of a car rental business for the expenses incurred. Previously, a cost limit of THB 1 Million in respect of depreciation applied.

DIVIDENDS

A resident individual taxpayer who derives dividends from a Thai company has a choice of including the dividend in assessable income or suffering a final withholding tax of 10% and excluding such dividend from their assessable income. Taxpayers who choose the first option must gross up the dividend to include the 10% withholding tax deducted as well as the company tax paid on that dividend (normally 20%). A tax credit is granted for both the withholding tax and company tax deducted. Dividends received by a company listed on the Stock Exchange of Thailand are exempt from tax as are those received by any other company incorporated in Thailand holding at least 25% of the voting shares in another Thai company, without any cross shareholding either directly or indirectly, provided that the related investments have been held for a period of at least three months before and three months after the receipt of the dividends.

Where a Thai company does not qualify for the conditions specified above including the 25% voting shareholding and no cross-shareholding criteria, it will nevertheless only need to include in its assessable income an amount of 50% of a dividend received from another company incorporated in Thailand if it can maintain the three month holding periods before and after distribution of the dividend. Offshore dividend income will be exempt from Thai CIT if the Thai company owns at least 25% of shares with voting rights in the foreign entity paying dividends; the shares are held for a period of at least 6 months from the date of acquiring the shares until the date of receiving the dividends; and the dividends have been paid out of profits having been subject to tax of at least 15% in the foreign jurisdiction.

INTEREST

Interest income derived by a resident individual may, at the taxpayer's election, be excluded from the computation of income tax provided that tax at 15% is withheld at source. However, the following forms of individual's interest income are exempt from any tax:

- Interest on bonds or debentures issued by a government organization;
- Interest on saving deposits in commercial banks if the aggregate amount of interest received is not more than THB 20,000 during a taxable year.

With respect to interest expenses, there are no thin capitalization provisions that restrict deductibility.

INCOME FROM SALE OF IMMOVABLE PROPERTY

There are special rules applicable to individuals calculating the gains on sale of immovable property that may allow the taxpayer to pay final withholding tax to the Land Department in lieu of including the gain on sale as assessable income.

LOSSES

A tax loss, being the excess of allowable deductions over assessable income, can only be carried forward for a maximum number of years as follows:

- Non-BOI Company: 5 years
- BOI Promoted Company: net taxable loss incurred during the BOI promoted period can be deducted against net taxable profit after the expiration of the BOI promoted period but not more than 5 years from the expiry date of the BOI promoted period.

C. FOREIGN TAX RELIEF

For income derived from overseas foreign tax credits are allowed, subject to certain conditions, up to the amount of Thai tax that would have been payable had the income been derived in Thailand. The rules apply whether or not Thailand has a relevant DTT with the overseas country from which the income is derived.

D. CORPORATE GROUPS

Each company is taxed as a separate legal entity. Losses incurred by one affiliate may not be offset against profits made by another affiliate.

E. RELATED PARTY TRANSACTIONS

At present, Thailand has no specific transfer pricing provision under the TRC. There are, however, general provisions empowering the Thai Revenue Officer to adjust a transfer price that is deemed as not justifiable

by reference to a market price or disallowing deductibility of certain expenses for the same reason. The TRD has also issued transfer pricing guidelines for related company transactions. Albeit not legally binding, the guidelines are internal directives to the Thai Revenue Officer and generally follow the OECD's TP Guidelines. They include a definition of the term 'market price', details of the acceptable transfer pricing methods, transfer pricing documentation requirements, and details about Advance Pricing Agreements. Notably, the Thai Cabinet has approved a draft Act of the Amendment to the Revenue Code in May 2015 that includes specific transfer pricing provisions, one of which requires a taxpayer to prepare and submit transfer pricing documentation to the TRD.

F. WITHHOLDING TAX

1. Withholding Tax Rates: Payments to resident individuals

For certain categories of income, the payer of income must withhold tax at source, file the necessary return (Form PND 1, 2, or 3 as the case may be) and submit the amount of tax withheld to the District Revenue Office. The tax withheld is then credited against the tax liability of a taxpayer at the time of filing the PND return. The following are the withholding tax rates on some categories of income:

No.	Type of income	Withholding tax rate
1.	Employment income/hire of work	0 – 35% (depending on level of income and applicable allowances)
2.	Interest	15%
3.	Dividends	10%
4.	Royalties	5 – 15%
5.	Rents [1]	5%
6.	Prizes	5%
7.	Service and professional fees	3%
8.	Public entertainer remuneration	5%
9.	Advertising fees [1]	2%
10.	Capital Gains [2]	0 – 35%

Notes:

1. *Not applicable if an individual is the payer of income.*
2. *Not applicable for sales of shares on the SET.*

2. Withholding Tax rates: Payments to resident corporations and branches of foreign companies

Certain types of income paid to companies are subject to withholding tax at source. The withholding tax rates depend on the types of income and the tax status of the recipient. The payer of income is required to file the return (Form PND 53) and submit the amount of tax withheld to the District Revenue Office within seven days of the month following the month in which the payment is made. The tax withheld is credited against the final tax liability of the taxpayer. The following are the withholding tax rates on some important types of income:

No.	Type of Income	Withholding tax rate
1.	Interest	1% if paid to local companies 10% if paid to associations or foundations
2.	Dividends	10%
3.	Royalties	3% if paid to local companies 10% if paid to associations or foundations
4.	Rents	5% if paid to local companies 10% if paid to associations or foundations
5.	Prizes	5%

6.	Service and professional fees	3% if paid to local companies 10% if paid to associations or foundations
7.	Hire of work	3% if paid to a local company or registered branch of a foreign company in Thailand; 5% if paid to a foreign company that does not have a registered branch in Thailand but carries on business in Thailand
8.	Advertising fees	2% if paid to local companies

Notes:

1. *10% withholding tax on dividends does not apply if the recipient of the dividend is a listed company or is a Thai company holding at least 25% of the shares with voting rights in the company paying the dividends without any cross-shareholding, either directly or indirectly.*
2. *Government agencies are required to withhold tax at the rate of 1% on all types of income paid to Thai companies.*

3. Withholding Tax Rates - Payments to non-residents

Apart from dividends, which attract withholding tax at 10%, some other payments to a non-resident that resides in a non-DTT country (including interest, royalties, rent, management fees, consultancy payments and capital gains) would attract withholding tax at 15%. The rates of withholding tax may be reduced under applicable DTTs (see treaty and non-treaty WHT rates below).

G. EXCHANGE CONTROL

Exchange control regulations are in place to govern the importation and repatriation of funds by residents and non-residents, and the import and export of goods. Subject to certain criteria and thresholds, forms are required.

H. PERSONAL TAX

Personal Income Tax (PIT) is a direct tax levied on the taxable income of a person. A 'person' means an individual, an ordinary partnership, a non-juristic body of persons, a deceased person and an undivided estate. In general, a person liable to PIT must compute his or her tax liability, file tax returns and pay tax, if any, on a calendar year basis. Taxpayers are classified into 'resident' and 'non-resident'. A 'resident' means any person residing in Thailand for a period or periods aggregating 180 days or more in any tax (calendar) year. A resident of Thailand is liable to pay tax on income from sources in Thailand regardless of where the money is paid, as well as on the portion of income from foreign sources that is brought into Thailand in the same year that the foreign income is derived. A 'non-resident' is subject to PIT only on income from sources in Thailand.

Income chargeable to PIT is called 'assessable income'. The term covers income both in cash and in kind. Therefore, any benefits provided by an employer or other persons, such as rent-free housing or the amount of tax paid by the employer on behalf of the employee, are also treated as assessable income of the employee for the purposes of PIT if they are ascertainable in terms of money. Assessable income is divided into eight categories under the TRC. Certain PIT deductions and allowances can be offset against assessable income in order to calculate taxable income. Taxpayers shall make deductions from assessable income before the allowances are granted.

On 27 January 2017, Thailand's Revenue Code Amendment Act (No 44) BE 2560 and Royal Decree (No 629) BE 2560 were published in the Government Gazette, increasing some personal tax deductions and allowances and reducing some others from and including the 2017 tax year. PIT deductions and allowances are summarized in the tables below for 2017 going forward.

DEDUCTIONS PERMITTED FOR THE CALCULATION OF PIT

No.	Type of Income	Deductions
1.	Income from employment	50% but not exceeding THB 100,000
2.	Income from hire of work	50% but not exceeding THB 100,000
3.	Income received from copyright	50% but not exceeding THB 100,000
4.	Income in the nature of interest, dividend, capital gain	no deduction

5.	Income from letting out of property on hire:	
	– building and wharves	30%
	– agricultural land	20%
	– all other types of land	15%
	– vehicles	30%
	– any other type of property	10%
6.	Income from professional services	30% except for the medical profession where 60% is allowed
7.	Income derived from contract of work whereby the contractor provides essential materials besides tools	actual expense or 60%
8.	Income derived from business, commerce, agriculture, industry, transport, or any other activities not specified earlier	actual expense or 60% of assessable income
9.	Deduction against any category of income that is derived by a taxpayer who is 65 years or older	THB 190,000

ALLOWANCES PERMITTED FOR THE CALCULATION OF PIT

Type of Allowance	**Amount**
Personal allowance for single taxpayer	THB 60,000 for the taxpayer
Spouse allowance (legally married)	THB 60,000
Child allowance (child under 25 years old and studying at educational institution, or a minor, or an adjusted incompetent or quasi-incompetent person)	THB 30,000 each
Additional education allowance	NIL (allowance repealed)
Life insurance premium paid by taxpayer or spouse Pension insurance premium	Amount actually paid but not exceeding THB 100,000 each Maximum allowance (exemption) of THB 200,000 but not exceeding 15% of income
Health insurance premium paid for tax-payer's and spouse's parents (total income of parents shall not exceed THB 30,000)	Amount actually paid but not exceeding THB 15,000
Approved provident fund contributions, retired mutual fund, and pension insurance premium paid	Maximum allowance (exemption) of THB 500,000 but not exceeding 15% of income
Long term equity fund	Maximum allowance (exemption) of THB 500,000 but not exceeding 15% of income
Home mortgage interest	Amount actually paid but not exceeding THB 100,000
Social security contributions	Amount actually paid
Parent allowance (parents of either taxpayer and/or legal spouse over 60 years of age with income less than THB 30,000)	THB 30,000 each parent
Disability allowance (cost of caring for disabled persons)	THB 60,000
Charitable contributions	Amount actually donated but not exceeding 10% of income after standard deductions and allowances

Educational contributions	Two times the actual donation but not exceeding 10% of income after standard deductions and allowances
Purchase price of buildings with land or of apartments (under certain conditions)	20% of the amount actually paid (but not exceeding THB 3 million)

TAX RATES FOR RESIDENTS AND NON-RESIDENTS

The tax rates for resident and non-resident Individuals (2017 and subsequent years) are as follows:

Taxable income (THB)	Tax Rate (%)	Tax Amount	Accumulated Tax
0 – 150,000	Exempt	–	–
150,001 – 300,000	5	7,500	7,500
300,001 – 500,000	10	20,000	27,500
500,001 – 750,000	15	37,500	65,000
750,001 – 1,000,000	20	50,000	115,000
1,000,001 – 2,000,000	25	250,000	365,000
2,000,001 – 5,000,000	30	900,000	1,265,000
5,000,001 and over	35		

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

The schedule below is only intended to give a general outline of the rates of withholding tax applicable to interest, dividend and royalty payments under Thailand's DTAs. The DTAs should be consulted for more detailed information.

The table below sets out the lower of the relevant DTA rate and the applicable domestic rate on dividend, interest and royalty payments.

	Dividends[1] (%)	Interest[2] (%)	Royalties[3] (%)
Non-treaty countries	10	15	15
Treaty countries:			
Armenia	10	10/15	15
Australia	10	10/15	15
Austria	10	10/15	10/15
Bahrain	10	10/15	15
Bangladesh	10	10/15	5/10/15
Belarus	10	10/15	15
Belgium	10	10/15	5/15
Bulgaria	10	10/15	5/15
Canada	10	10/15	5/15
Chile	10	10/15	10/15
China	10	10/15	15
Cyprus	10	10/15	5/10/15
Czech Republic	10	10/15	5/10/15
Denmark	10	10/15	5/15
Estonia	10	10	8/10
Finland	10	10/15	15

France	10	3/10/15	5/15
Germany	10	10/15	5/15
Hong Kong	10	10/15	5/10/15
Hungary	10	10/15	15
India	10	10/15	15
Indonesia	10	10/15	15
Israel	10	10/15	5/15
Italy	10	10/15	5/15
Japan	10	10/15	15
Korea	10	10/15	5/10/15
Kuwait	10	10/15	15
Laos	10	10/15	15
Luxembourg	10	10/15	15
Malaysia	10	10/15	15
Mauritius	10	10/15	5/15
Myanmar	10	10	5/10/15
Nepal	10	10/15	15
Netherlands	10	10/15	5/15
New Zealand	10	10/15	10/15
Norway	10	10/15	5/10/15
Oman	10	10/15	15
Pakistan	10	10/15	10/15
Philippines	10	10/15	15
Poland	10	10/15	5/15
Romania	10	10/15	15
Russia	10	10	15
Seychelles	10	10/15	15
Singapore	10	10/15	15
Slovenia	10	10/15	10/15
South Africa	10	10/15	15
Spain	10	10/15	5/8/15
Sri Lanka	10	10/15	15
Sweden	10	10/15	15
Switzerland	10	10/15	5/10/15
Taiwan	5/10[4]	10/15	15
Turkey	10	10/15	15
Ukraine	10	10/15	15
United Arab Emirates	10	10/15	15
United Kingdom	10	10/15	5/15

United States	10	10/15	5/8/15
Uzbekistan	10	10/15	15
Vietnam	10	10/15	15

Notes:

1. The lower rate generally applies if certain conditions are met including having a specified minimum percentage of equity in the company paying the dividend.
2. The lower rate generally applies to interest to which a financial institution is beneficially entitled.
3. The lower rate generally applies to payments made as consideration for the right to use any copyright of literary, artistic or scientific work.
4. The 5% rate applies if the beneficial owner directly holds at least 25% of the capital of the paying company.

TRINIDAD AND TOBAGO

MEMBER FIRM

City	Name	Contact Information
Port of Spain	Renee-Lisa Philip	+1868 624 4569 rlphllip@pkf.co.tt

BASIC FACTS

Full name:	Republic of Trinidad and Tobago
Capital:	Port of Spain
Main languages:	English
Population:	1.37 million (2018 estimate)
Monetary unit:	Trinidad and Tobago Dollar (TTD)
Internet domain:	.tt
Int. dialling code:	+1868

KEY TAX POINTS

- Resident companies are liable to corporation tax on their worldwide income. Other companies are taxed on their income from sources in Trinidad and Tobago. The standard rate of corporation tax is 30%. However, this can be varied if there is a double tax treaty.
- Although the basic rate of VAT is 12.5%, some items such as exports and some basic foodstuffs are charged at the rate of 0% and some services such as real estate transactions as well as financial and insurance services are VAT exempt.
- Stamp Duty is levied on several documents, and also on transfers of commercial or residential real estate charged at rates of 0%, 2%, 5%, 7%, 7.5% and 10%.

A. CORPORATION TAX

This is a tax on business profits accruing in Trinidad & Tobago. Resident companies (those controlled from Trinidad and Tobago, wherever they are incorporated) are liable to corporation tax on their worldwide income. Other companies are taxed on their income from sources in Trinidad and Tobago. The standard rate of corporation tax is 30%. However, this can be varied if there is a double tax treaty. Trinidad & Tobago has double taxation treaties with Barbados, Guyana, Jamaica, Antigua-Barbuda, Belize, Dominica, Grenada, Montserrat, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines, Canada, Denmark, Germany, Italy, Norway, Sweden, Switzerland, the United Kingdom, the United States, Venezuela, India, France, Spain, Brazil, Luxembourg and China.

The rates of corporate income tax on the chargeable profit of companies are as follows:

	Rate (%)
Standard rate	30
Companies engaged in the liquefaction of natural gas, transmission and distribution of natural gas, the physical separation of liquids from natural gas, the manufacture of petrochemicals and the wholesale marketing and distribution of petroleum products	35
Commercial banks	35
Insurance companies – long-term insurance business	15

A credit is given against the company's corporation tax liability for any business levy paid. See section on business levy. 'Income-generating' expenses i.e. expenses that are wholly and exclusively incurred in the production of the income, are deductible when calculating taxable income. Allowable deductions include:

- Specific bad debts;
- Contributions paid to an approved pension fund for the benefit of employees;
- Lump sum payments made to an employee for past services;
- Employer contributions to national insurance;
- Management charges paid limited to 2% of total allowable expenditure (excluding management fees)
- 150% of promotional expenses incurred wholly and exclusively in creating or promoting exports to foreign markets;
- Art and culture of 100% of expenditure;
- Audit/Visual/Video Production, Fashion, and Production Company Allowances - 150% of expenditure to a maximum of TTD 3,000,000;
- Covenanted donations to charity and approved sporting bodies limited to 15% of total income;
- Employee training and re-training limited to 150% of expenditure.

Non-resident companies trading in Trinidad and Tobago through a permanent establishment are subject to a further withholding tax of 5% of their taxable profits less allowances for corporation tax paid. The tax is payable regardless of whether net profits are remitted back to head office. Trading losses may be carried forward indefinitely for relief against future profits. Trading losses cannot be utilised against the profits of earlier years.

B. INCOME TAX

Income from all sources, after allowable deductions, is taxed at a rate of 30%. Non-residents are not entitled to tax deductions. Allowable deductions include the following:

- Personal Allowance – TTD 72,000;
- Contributions to pension plans/annuities and 70% of national insurance contributions – limited to TTD 50,000;
- Alimony - 100% of contributions.
- Tertiary education expenses – limited to TTD 60,000 per year per household
- First time home ownership – limited to TTD 25,000 per year
- Capital Expenditure of approved guesthouse – 100%
- Covenanted donations to charity – limited to 15% of total income
- Venture Capital Tax Credits - limited to 25% of investment
- Travelling Expenses - limited to 2/3 of expenditure
- Solar Water Heating Equipment Tax Credit – 25% of expenditure
- Compressed Natural Gas Kit and Cylinder – 25% of expenditure
- Severance Pay – Tax exemption up to TTD 300,000
- Purchase of Government Bonds Tax Credit – limited to TTD 1,250 per year

Individuals who are resident and domiciled in Trinidad and Tobago are liable to income tax on their worldwide income. Those who are resident but not domiciled in Trinidad and Tobago are liable to income tax on their income arising in Trinidad and Tobago and on any income brought into the country from abroad. Dividends

received by resident individuals from resident companies are exempt from tax. Non-Resident individuals are taxed on their income from sources in Trinidad and Tobago.

C. BUSINESS LEVY

This tax is levied on gross sales i.e. all income received in the ordinary course of business activities, before allowing any deductions for business expenses. The rate of the Business Levy is 0.6% of the gross sales/ receipts. The Business Levy is not payable in the first three years after a company is first registered.

D. CAPITAL GAINS TAX

There is no capital gains tax on disposal of an asset after twelve months of acquisition.

E. NATIONAL INSURANCE

Employees and employers must pay national insurance. Contributions are calculated based on established wage classes. The maximum employee contribution is TTD 7,181.20 per year. The employer pays twice that of the employee.

F. HEALTH SURCHARGE

The employee's contribution is approximately TTD 429 per year. Employers do not contribute.

G. VALUE ADDED TAX (VAT)

This tax is levied on the selling price of goods and services and on the value of goods imported into Trinidad and Tobago. Businesses must register for VAT if their annual sales exceed TTD 500,000. Although the basic rate of VAT is 12.5%, some items such as exports and basic foodstuffs are charged at the rate of 0% and some services such as real estate transactions as well as financial and insurance services are VAT exempt. Businesses, other than those making exempt supplies, can recover the excess of VAT paid on purchases over VAT received on sales.

H. GREEN FUND LEVY

This tax is levied on gross sales i.e. all income received in the ordinary course of business activities, before allowing any deductions for business expenses. The rate of the Green Fund Levy is 0.3% of the gross sales/ receipts.

I. TREATY AND NON-TREATY WITHHOLDING RATES

	Dividends (%)			
	Individuals, companies (%)	**Qualifying companies (%)**	**Interest (%)**	**Royalties (%)**
Domestic rates				
Companies	10	5	15	15
Individuals	10	n/a	15	15
Treaty countries:				
Brazil	15	10[1]	15	15
Canada	15	5[2]	0/10	10
China	10	5[3]	10	10
Denmark	20	10[4]	15	15
France	15	10[5]	0/10	10
Germany	20	10[6]	0/10/15	10
India	10	10	10	10
Italy	20	10[6]	10	5
Luxembourg	10	5[7]	0/7.5/10	10

Norway	20	10[4]	15	15
Spain	10	0/5[8]	0/8	5
Sweden	20	10[1]	10/15	20
Switzerland	20	10[9]	10	10
United Kingdom	20	10[4]	10	10
United States	25	10[10]	15	15
Venezuela	10	5[3]	15	10
CARICOM	0	0	15	15

Notes:

1. The 10% rate applies if the beneficial owner is a company which holds directly or indirectly at least 25% of the capital of the dividend-paying company.
2. The 5% rate applies if the beneficial owner is a company which controls directly or indirectly at least 10% of the voting power in the dividend-paying company.
3. The 5% rate applies if the beneficial owner is a company which holds directly or indirectly at least 25% of the capital of the dividend-paying company.
4. The 10% rate applies if the recipient is a company which controls directly or indirectly at least 25% of the voting power of the dividend-paying company.
5. The 10% rate applies if the beneficial owner is a company (other than a partnership) which holds directly or indirectly at least 10% of the capital of the dividend-paying company.
6. The 10% rate applies if the recipient is a company (excluding partnerships) which owns directly at least 25% of the capital of the dividend-paying company.
7. The 5% rate applies if the beneficial owner is a company which holds directly at least 10% of the capital of the dividend-paying company.
8. The 0% rate applies if the beneficial owner is a company which holds directly at least 50% of the capital of the dividend-paying company. The 5% rate applies if the beneficial owner is a company which holds directly at least 25% of the capital of the dividend-paying company.
9. The 10% rate applies if the recipient is a company which controls directly or indirectly at least 10% of the voting power of the dividend-paying company.
10. The 10% rate applies if:
    i. During the part of the paying corporation's taxable year which precedes the date of payment of the dividend and during the whole of its prior taxable year (if any), at least 10% of the outstanding shares of the voting stock of the paying corporation was owned by the recipient corporation; and
    ii. Not more than 25% of the gross income of the paying corporation for such prior taxable year (if any) consisted of interest and dividends (other than interest derived in the conduct of a banking, insurance, or financing business or dividends and interest received from subsidiary corporations having 50% or more of the outstanding shares of their voting stock owned by the paying corporation at the time such dividends or interest is received).

TUNISIA

MEMBER FIRM

City	Name	Contact Information
Tunis	Lassaad Marouani	+216 718 89 835 l.marwani@pkf.tn

BASIC FACTS

Full name:	Tunisian Republic
Capital:	Tunis
Main languages:	Arabic
Population:	11.64 million (2018 estimate)
Monetary unit:	Tunisian Dinar (TND)
Internet domain:	.tn
Int. dialling code:	+216

KEY TAX POINTS

- Companies are generally liable to corporate income tax at the rate of 25%; incentive tax rate of 15% if the company shares are offered on the stock exchange market. Small companies are taxed at 20% if turnover is less than TND 1 million in commerce and industry or TND 500,000 in services (2018 Finance Law).
- VAT is charged at 7% (IT services, hotels and restaurant activities, and equipment), 13% (raw materials, craft industry products, medical activities and canned food) or 19% (operations related to services and goods not subject to another rate). VAT rates were increased by 1% as a result of the 2018 Finance Law.
- Inherited property and gifts are subject to tax at rates varying from 2.5% to 35%, depending on the closeness of relation.
- For certain categories of income, the payer of income has to withhold tax at source, file a tax return and submit the amount of tax withheld to the Treasury.

A. TAXES PAYABLE

COMPANY TAX

Companies, partnerships and cooperatives are liable to corporate income tax on their profits stemming from any business they carry on in Tunisia and also lottery gains since 2016. Foreign companies not carrying on business in Tunisia but deriving certain types of income from Tunisia are subject to company tax.

Tax rates: Companies are liable to corporate income tax at the rate of 25% (it was reduced from 30% to 25% since 2014). However, a number of companies and legal entities such as companies operating in handicraft activities, agriculture and fishing are taxable at the rate of 10%. This tax rate is also applicable to profits made on export activities from 2015. Other companies operating in sectors of banks, insurance, production and services linked to petroleum, telecommunications are subject to a rate of 35% on their income. Commercial distribution activities like large retail companies, companies exploiting a foreign brand and car dealers will be taxed at 35% as from 1 January 2019 (instead of 25%).

Small companies are taxed at 20% if turnover is less than TND 1 million in commerce and industry or TND 500,000 in services (2018 Finance Law).

Exporting companies are liable to income tax at 10% since 2014, after an exemption period. Individuals are taxed on one third of revenues of exportation.

Minimum tax liability: A corporation has to pay a minimum tax liability of 0.2% of the total gross turnover with a minimum amount, due even in the absence of turnover of TND 300 for companies taxable at the rate of the 10%. For those taxable at the rate of 25% or 35%, the minimum amount is TND 500.

Legal entities liable to company tax and individuals liable to personal income tax carrying on a trade business are subjected to three tax instalments each representing 30% of the total levy calculated on income and profits of the previous year.

Tax instalments should be paid by the 28th June, September and December following the balance sheet date.

Exceptional contribution: Banks and insurance companies have to pay 5% on taxable income of 2018 with a minimum of TND 5,000 and 4% on taxable income of 2019 with the same minimum. Income tax for 2018 will effectively be increased for all individuals and companies by 1%.

CAPITAL GAINS TAX

For non-resident legal entities, gains derived from the disposal of buildings established in Tunisia or related rights are subject to corporate income tax. A capital gain is the difference between the sale price (or the quoted price on the Tunis stock exchange) and the cost price or purchase price. These entities are liable

for withholding tax at a rate of 25% on the capital gain. For closed-end investment companies and credit institutions, capital gains related to securities are deductible from taxable income.

For both residents and non-residents, interest is subject to a 20% withholding tax (or a more favourable rate if a double tax treaty applies). For a non-resident, the amount withheld is offset against ordinary income tax on this income.

From 1 January 2011, the following are exempt from capital gains tax for the sale of securities:

- The capital gain derived from the sale of shares listed on the Tunis Stock Exchange acquired or subscribed before 1 January 2011 and the sale of shares in a transaction introductory to the Tunis Stock Exchange are deductible from taxable income.
- The capital gain derived from the sale of shares listed on the Tunis Stock Exchange acquired or subscribed as from 1 January 2011 is also deductible from taxable income when the transfer takes place after the expiry of the year following the year of acquisition or subscription with a maximum of TND 10,000 per year. Otherwise the gain described above shall be subject to income tax at 10% with a maximum of 2.5% of the sales price (for individuals) or to income tax at 25% with a maximum of 5% of the sales price (for companies).
- Corporation tax is payable by non-resident legal persons not established in Tunisia at a rate of surplus value cited above. The capital gain subject to tax on companies is equal, in this case, to the difference between the sale price (or the quoted price in stock exchange of Tunis) and the purchase price of stocks, shares or units or the subscription price and from transfer operations performed during the year preceding the tax after deduction of capital loss from the operations in question.

VALUE-ADDED TAX

VAT is an indirect tax, in that the tax is collected from someone who does not bear the entire cost of the tax. All economic activities conducted in Tunisia, including industrial and handicraft activities, liberal or commercial professions, are subject to VAT. Exports by definition are consumed abroad and are usually not subject to VAT and any VAT charged under such circumstances is usually refundable. This avoids downward pressure on exports and, ultimately, export-derived income or revenue.

VAT charged by a VAT-registered business and paid by its customers is known as 'output VAT' (that is, VAT on its output supplies). VAT that is paid by a business to other businesses on the supplies that it receives is known as 'input VAT' (that is, VAT on its input supplies). A business is generally able to recover input VAT to the extent that the input VAT is attributable to (i.e. used to make) its taxable outputs. Input VAT is recovered by setting it off against the output VAT for which the business is required to account to the Tunisian government or, if there is an excess, by claiming a reimbursement from the Tunisian government.

Four different VAT rates apply in Tunisia (VAT rates were increased by 1% as a result of the 2018 Finance Law):

- 7%: information technology services, hotels and restaurant activities and equipment;
- 13%: raw materials, craft industry products, medical activities, and canned food;
- 19%: operations related to services and goods not subject to another rate;
- 29%: luxury articles.

According to article 18 of the Tunisian VAT code, a sales invoice issued by a VAT-registered business should contain certain mandatory information including client name, address and fiscal register, date of the transaction, price of the goods or services sold, VAT rate and amount.

FRINGE BENEFITS TAX

Fringe benefits are considered to be a part of the salary paid to an employee and are therefore subject to social security and income taxes. Taxable fringe benefits are evaluated on the basis of their market value.

LOCAL TAXES

The tax on the rental value is a municipal tax on buildings or plants. The owner of the property is liable for collection of the tax. The tax base is the gross rental value determined in accordance with a general census carried out every three to five years by the local authorities. The rate is fixed per local authority which may be divided into two zones, urban and suburban (where the rate is lower). The land tax on undeveloped land is owed by occupiers, owners or persons benefiting from the land.

OTHER TAXES AND LEVIES

SOCIAL SECURITY TAXES

The social security rates are 9.18% on behalf of the employee, 16.57% on behalf of the employer and 0.5% for employer's compensation on behalf of the employer.

REAL ESTATE TAX

The purchase of real estate is subject to the following:

- A registration duty of 5% on the purchase price increased by VAT;
- A stamp duty of TND 25 per sheet of contract;
- A real estate property Conservation Duty of 1% on the purchase price increased by VAT;
- A registration will be increased by 1% of the purchase price for non-registration of the property purchased;
- A supplementary charge of 3% in cases where the owner has failed to declare the value of his property;
- A supplementary charge of 2% when the purchase price exceeds TND 500,000 and 4% if it exceeds TND 1,000,000, except for professional buildings or acquisition by incentive companies.

Any real estate buyer who is an individual or a corporate entity subject to a regular accounting system must withhold tax on the real estate purchase price. This tax is 2.5% on the purchase price increased by VAT (15% for a non-resident). The buyer shall pay 5, 10 or 15% on the capital gain on real estate.

EXCISE TAX

This is a federal tax on specific goods and services either imported or manufactured in Tunisia. It is levied on a variety of items such as cigarettes, tobacco, alcoholic beverages, cosmetics, perfume and private cars. Excise tax is levied on the sale price or customs value for imported goods, the rates of which were increased effective 1 January 2018 by the Finance Law. According to the Tunisian Excise Tax Code, several rates apply to different goods. A joint list is available in the code, setting different rates.

GIFTS, WEALTH, ESTATE AND/OR INHERITANCE TAX

Inherited property and gifts are subject to tax at the following rates:

- Direct line relatives (children, spouses, parents, etc.): 2.5%;
- Brothers and sisters: 5%;
- Collateral line relatives: 25%;
- Relatives beyond the fourth degree: 35%;
- Unrelated individuals: 35%.

VOCATIONAL TRAINING TAX

This is payable monthly at the rate of 2% of the total gross wages. A special rate of 1% is applicable to the manufacturing sector.

TAX FOR PROMOTING EMPLOYEES' ACCOMMODATION

Employers have to pay a tax at the rate of 1% of total gross salaries to promote the employee's accommodation. Farmers are exempt from this tax.

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B. DETERMINATION OF TAXABLE INCOME

Taxable income is determined on the basis of regular accounting results. When there are discrepancies between fiscal rules and accounting principles, adjustments are made to the accounting results.

Profits are generally considered gross revenue less production, salary and wages and rental expenses. Generally, all expenses generated by the conduct of business are deductible if they are incurred in gaining or producing assessable income and not paid in cash for amounts exceeding TND 5,000.

Taxable income also includes capital gains, except for capital gains stemming from the disposal of securities listed on the Tunisian Stock Exchange (TSE) and capital gains from an initial public offering on the TSE.

DEPRECIATION

Fixed assets owned by the company are normally written off over their normal useful life. For tax purposes, the straight-line method is normally adopted. Assets of a lower value than TND 200 may be fully written off during their first year. Companies may choose the declining-balance method to calculate depreciation on hardware, agriculture equipment and newly purchased manufacturing equipment (from 1 January 1999). From 1 January 2008, a company is eligible to use the declining balance method to compute depreciation on manufacturing equipment financed by leasing.

STOCK / INVENTORY

For the determination of net income, inventories must be valued at their cost price. If market value or realisable value is lower at the end of the year, the company must set up reserves for depreciation of inventories, which are deductible within the limit of 30% of taxable income.

DIVIDENDS

Collected dividends that are distributed by Tunisian companies are tax-exempt in the hands of resident companies. Non-residents companies and individuals are subject to withholding tax at 10% since 2018 (25% if resident in a tax haven). The non-capitalised earnings, amounts given to partners or shareholders and attendance fees given to members of the board of directors are assimilated to a dividend payment. Gains from stock option exercises: in Tunisia, stock options are recognised only in the following sectors of activities:

- Software engineering;
- Software services;
- Telecommunications and new technologies sectors;
- Listed companies.

When the plan is recognised by Tunisian Law to be a stock option, the gain is not subject to taxation. This advantage is granted under the double condition that:

- At the date the stock option is granted, the employee does not hold more than 10% of the subscribed share capital; and,
- The shares are not sold during a period of three years starting from 1 January of the subsequent year in which the option is exercised.

When Tunisian law does not recognise the stock option plan, the exercise gain made by the employee (difference between the exercise price and the fair market value of the shares at the date of exercise) will be subject to income tax.

INTEREST DEDUCTION

Interest from foreign currency deposits or from convertible Dinar is deductible from taxable income. The interests on loans granted, or left at the disposal of the Tunisian company by partners or shareholders, are fully deductible from the taxable income of shareholders or partners, under the following conditions:

- The interest rate does not exceed 8%;
- The amounts do not exceed 50% of the capital which should be fully paid up.

A limitation of interest rates is not applicable when the partner or shareholder who benefits from the interest is a bank, in which case interest is deductible from the taxable base to the limit applicable on the market.

LOSSES

The deficit recorded during a business year which resulted from a regular accounting record in compliance with corporate accounting legislation is deducted successively from the results of the following business years up until and including the fourth year. For any profit business year, the deduction of deficits and depreciation is carried out according to the following order:

(a) Reportable deficits;

(b) The depreciation of the concerned business year;

(c) Deferred depreciation in deficit periods.

During a business year when the profit is not sufficient to carry out the total deduction of the deficit and depreciation, the remaining part is added back successively to the results of the subsequent business years up until and including the fourth year.

FOREIGN SOURCED INCOME

According to the Tunisian tax legislation, foreign-sourced revenues realised by individuals and which were subject to tax payment in the country of origin are not taxed. Non-resident legal entities are taxable on their Tunisian source income and on the gain from the disposal of buildings and the disposal of shares in real estate companies. The taxable capital gain is the difference between the sale price and the purchase cost.

Relief from foreign taxes in Tunisia depends on the double tax treaty, if any, concluded by Tunisia.

INCENTIVES

Tunisian tax legislation has established a certain number of incentives for investment and creation of projects in certain sectors of activity, either by Tunisian or foreign promoters being resident or Non-Resident or in partnership according to the overall development strategy. These are mainly aimed at accelerating growth rate and job creation within activities related to fields determined in Article One of the new 2016 Investment Incentives Code.

Various tax incentives are available for total exporting companies. From 1 January 2015 the exporting activity income is taxable at the rate of 10% with a minimum of 0.1% of gross turnover, after an exemption period.

Major incentives are available for investments made by enterprises settled in areas that need development (regional development zones). Income stemming from investments carried out in these areas is fully deductible from the taxable income during the first ten years of activity but, for subsequent business years, income tax is at 10%.

As part of the promotion of small and medium-sized enterprises, the 2018 Finance law has introduced management measures to support businesses created as from 1 January 2018. It concerns new investments announced in 2018 and 2019 for which an exemption of income tax is granted for 4 years.

C. FOREIGN TAX RELIEF

Relief from foreign taxes in Tunisia depends on whether a double tax treaty has been concluded by Tunisia.

D. CORPORATE GROUPS

When a Tunisian company holds 75% or more of the shares of one or more Tunisian companies, the group may choose to be taxed as a single entity. Hence, the subsidiaries are treated as branches of the parent company and corporate tax is payable only by the parent company. To benefit from the results integrating scheme, the parent company must make the commitment to list its shares on the stock market before the end of the year. Under this system, the profits and losses of all controlled branches, subsidiaries and partnerships in Tunisia and abroad are consolidated.

E. WITHHOLDING TAX

For certain categories of income, the payer of income has to withhold tax at source, file a tax return and submit the amount of tax withheld to the Treasury. In all cases, purchases exceeding TND 1,000 (VAT included) are subject to withholding tax at 1.5%.

Different rates of withholding taxes apply:

- 2.5% for study fees not subject to real system of VAT, real state selling price;
- 10% on dividends distributed to resident or non-resident individuals and companies;
- 5% for fees subject to real system of VAT or hotel leases;
- 15% on fees, commissions or leases;
- 20% on capital gains or fees of directors;
- 25% on capital gains derived by non-residents located in tax free areas.

F. PERSONAL TAX

With respect to the international taxation agreements, personal income tax is a direct tax levied on income of an individual exceeding TND 5,000 per year. Taxpayers are classified into residents and Non-Residents. According to Tunisian laws, three criteria are used to indicate that an individual has a habitual residence in Tunisia:

(1) Main residence of the person is in Tunisia;

(2) Principal place of residence (period equal to, or more than, 183 days during a civil year) is in Tunisia;

(3) Civil servant or state employee carrying out his/her duty in a foreign country, where they are not subject to personal income tax on global income.

A non-resident is subject to tax only on personal income from Tunisian sources. Income chargeable to personal income tax is called assessable income and is divided into seven categories:

(1) Income from commerce and industry;

(2) Income from non-trading professions;

(3) Income from agriculture and fishing activities;

(4) Wages, salaries, pensions and life annuities;

(5) Land income;

(6) Income in the nature of dividends and interests resulting from the detention of securities and bonds;

(7) Income from any other activity not specified above.

For each category of income, certain deductions and allowances are granted in calculating taxable income. A taxpayer shall keep the books in compliance with the accounting legislation in order to benefit from these deductions. In general, a person liable to personal income tax has to compute his tax liability, file a tax return and pay tax, if any, accordingly on a calendar year basis. Married couples file tax returns as separate individuals. The income of children is reported on the tax return of the head of the family. A spouse can report income of the children on his/her tax return under certain circumstances.

Income tax rates (effective 1 January 2018):

Amount (TND)	Rate	Effective Tax Rate of the Upper Limit
0 to 5,000	0%	0%
5,001 to 20,000	27%	19.50%
20,001 to 30,000	29%	22.33%
30,001 to 50,000	33%	26.20%
over 50,000	36%	

For trading and non-trading activities in accordance with the revenue code, a minimum tax liability is due of 0.1% of the total gross turnover or receipts, except for turnover or receipts from export activities, with a minimum amount of TND 200 (and TND 100 due in the absence of turnover).

G. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)			
	Individuals, companies (%)	Qualifying companies (%)	Interest (%)	Royalties (%)
Non-treaty countries				
Companies	5/25[36]	5/25[36]	0/5/20/25[37]	0/15/25[38]
Individuals	5/25	--	0/20/25	15/25
Treaty countries:				
Algeria	_8	_8	_8	_9
Austria	20	10[1]	10	10/15[23]
Belgium	15	5[2]	0/5/10[12]	11
Burkina Faso	8	8	5	5
Canada	15	15	15	0/15/20[24]
China	8	8	10	5/10[25]
Czech Republic	15	10[3]	12	5/15[26]

Cameroon	12	12	15	15
Denmark	15	15	12	15
Egypt	10	10	10	15
Ethiopia	5	5	10	5
France	–10	–10	12	5/10/15/20[27]
Germany	15	10[4]	10	10/15[28]
Greece	10	10	15	12
Hungary	12	10[3]	12	12
Indonesia	12	12	0/12[13]	15
Iran	10	10	10	8
Italy	15	15	12	5/12/16[29]
Ivory Coast	10	10	10	10
Jordan	–[11]	–[11]	–[11]	–[11]
Korea	15	15	0/12[14]	15
Kuwait	10	0[5]/10	2.5/10[15]	5
Lebanon	5	5	5	5
Libya	–[8]	–[8]	–[8]	–[9]
Luxembourg	10	10	7.5/10[16]	12
Mali	5	0[3]	5	10
Malta	10	10	0/12[17]	12
Mauritania	–[8]	–[8]	–[8]	–[9]
Mauritius	0	0	2.5	2.5
Morocco	–[8]	–[8]	–[8]	–[9]
Netherlands	20	0[2]	0/7.5/10[18]	7.5/11[30]
Norway	20	20	12	5/15/20[31]
Oman	0	0	10	5
Pakistan	10	10	13	10
Poland	10	5[1]	12	12
Portugal	15	15	15	10
Qatar	0	0	–	5
Romania	12	12	10	12
Saudi Arabia	5	5	2.5/5	5
Senegal	–[8]	–[8]	–[8]	–[9]
Serbia	10	10	10	10
Slovak Republic	15	10[3]	12	5/15[32]
South Africa	10	10	5/12[19]	10/12[33]
Spain	15	5[6]	5/10[20]	10
Sudan	5	0	10	5
Sweden	20	15[3]	12	5/15[34]

Switzerland	10	10	10	10
Syria	0	0	10	18
Turkey	15	12[3]	10	10
United Arab Emirates	0	0	5/10	7.5
United Kingdom	20	12[7]	10/12[21]	15
United States	20	14[3]	15	10/15[35]
Vietnam	10	10	10	10
Yemen	0	0	0/10[22]	7.5

Notes:

1. The reduced rate applies if the recipient of the dividends is a company (other than a partnership) which holds directly at least 25% of the capital of the paying company.
2. The reduced rate applies if the beneficial owner is a company which holds directly at least 10% of the capital of the paying company.
3. The reduced rate applies if the beneficial owner is a company which holds directly at least 25% of the capital of the paying company.
4. The reduced rate applies if the recipient is a company which directly controls at least 25% of the capital of the paying company.
5. The 0% rate applies if the recipient is the Government of Kuwait, a public enterprise or any other entity of that State.
6. The reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 50% of the capital of the paying company.
7. The reduced rate applies if the beneficial owner is a company which controls directly at least 25% of the voting power in the paying company.
8. No withholding tax limitation on dividends and interest under the tax treaty.
9. No tax levied in the source country. Royalties subject to tax in the residence country only.
10. No withholding tax limitation on dividends under the tax treaty.
11. No withholding tax limitation on dividends, interest and royalties under the tax treaty.
12. The 5% rate applies to interest from loans, not represented by bearer securities, granted by banking enterprises to an enterprise. The 0% rate applies to interest on a loan or credit made, guaranteed or insured by a Contracting State or by a political subdivision, local authority or the central bank of that State, or by an entity that is primarily financed through public funds.
13. The 0% rate applies if interest is (i) beneficially derived by the Government including a political subdivision or a local authority thereof or the central bank (ii) paid by the Government or a political subdivision or by the local authority thereof, when the maturity of this interest-generating loan is at least 7 years.
14. The 0% rate applies if interest is (i) beneficially derived by the Government including a political subdivision or a local authority thereof or the central bank (ii) beneficially derived by a resident of a Contracting State that is a bank or similar financial institution with respect to an obligation having a maturity of at least 7 years or (iii) paid by the Tunisian Government to a Korean resident with respect to loans made to the Tunisian Government or a political subdivision or local authority thereof.
15. The 2.5% rate applies to interest paid in respect of bank loans. The 10% rate applies in all other cases.
16. The 7.5% rate applies to interest, provided that the loan on which the interest is paid is guaranteed or financed by the other State or by a financial institution which is a resident of that other state and that the loan is granted for a minimum period of 5 years. The 10% rate applies in all other cases.
17. The 0% rate applies to interest derived by the Government or a local authority thereof.
18. The 7.5% rate applies as long as the interest received by a Tunisian resident is not subject to Dutch withholding tax and as long as the Netherlands have not changed their taxation law on that point. The 0% rate applies to interest paid to the Government and the Central Bank, subject to certain conditions.
19. The 5% rate applies to interest paid in respect of bank loans. The 12% rate applies in all other cases.

20. The 5% rate applies to interest derived from loans outstanding for more than 7 years. The competent authorities of the Contracting States shall by mutual agreement settle the mode of application of this limitation.
21. The 10% rate applies if the beneficial owner of the interest is a bank or other financial institution.
22. The 0% rate applies to interest paid directly to a Contracting State, one of its political subdivisions or local authorities or the Central Bank.
23. The 10% rate applies to royalties paid for the use or the right to use any copyright of literary, artistic or scientific works, but not including cinematograph and television films.
24. The 20% rate applies to patent royalties and royalties for the use or the right to use trademarks, motion picture films and films or videotapes for use in connection with television, or for the use of, or the right to use, industrial, commercial, scientific or harbour equipment. The 0% rate applies to copyright royalties and other like payments in respect of the production or reproduction of any literary, dramatic, musical or artistic work (but not including royalties in respect of motion picture films and films or videotapes for use in connection with television) arising in Tunisia and subject to tax in Canada. The 15% rate applies in all other cases.
25. The 10% rate applies to royalties paid for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematography films, or films or tapes for radio or television broadcasting, any patent, [trade] mark, design or model, plan, secret formula or process, or for the use of, or the right to use, industrial, commercial or scientific experience. The 5% rate applies to royalties paid for technical or economic studies or for technical assistance.
26. The 15% rate applies to payments of any kind received as a consideration for the use of, or the right to use, any patent, trade mark, design or model, plan, secret formula or process, for the use of, or the right to use industrial, commercial or scientific equipment and for information concerning industrial, commercial or scientific experience as well as for technical or economic studies, or for technical services rendered in the other Contracting State. The 5% rate applies to payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films and films or recordings for radio and television.
27. The 5% rate applies to royalties for the use of, or the right to use, any copyright of literary, artistic, or scientific work. The 15% rate applies to royalties for the use of, or the right to use, patents, trademarks, designs or models, plans, secret formulae, or processes, information in respect of industrial, commercial, or scientific experience and economical and technical studies. The 20% rate applies to royalties for the use of, or the right to use, agricultural, industrial, commercial, scientific equipment, or port facilities and licences, trademarks, cinematographic films, and films for TV broadcasting. However, payments made to public entities for the use of cinematographic films or the broadcasting on radio and TV are exempt from WHT. However, since the 20% treaty rate is higher than the 15% domestic rate, the latter will be applied.
28. The 10% rate applies to royalties paid for the use or the right to use any copyright of literary, artistic or scientific works, but not including cinematograph and television films, and for information concerning agricultural, industrial, commercial or scientific experience and of payments for economic and technical studies. The 15% rate applies to royalties paid for the granting of licences to use patents, designs and models, plans, secret formulae or processes, trademarks and for the hire of cinematograph and television films.
29. The 16% rate applies to royalties relating to a trade mark, to cinematograph and television films, to industrial, commercial or scientific equipment. The 5% rate applies to royalties relating to royalties on literary, artistic or scientific work. The 12% rate applies in all other cases.
30. The 7.5% rate applies as long as the royalties received by a Tunisian resident is not subject to Dutch withholding tax and as long as the Netherlands have not changed their taxation law on that point.
31. The 5% rate applies to royalties for the use of, or the right to use, any copyright of literary, artistic, or scientific work, except cinematographic films and films for TV broadcasting. The 15% rate applies to royalties for the use of, or the right to use, patents, trademarks, designs or models, plans, secret formulae, or processes, information in respect of industrial, commercial, or scientific experience and economical and technical studies. The 20% rate applies to royalties for the use of, or the right to use, agricultural, industrial, commercial, scientific equipment, or port facilities, and the use of, or the right to use, trademarks and cinematographic films and films for TV broadcasting. However, since the 20% treaty rate is higher than the 15% domestic rate, the latter will be applied.
32. The 15% rate applies to payments of any kind received as a consideration for the use of, or the right to use, any patent, trade mark, design or model, plan, secret formula or process, for the use of, or the right

to use industrial, commercial or scientific equipment and for information concerning industrial, commercial or scientific experience as well as for technical or economic studies, or for technical services rendered in the other Contracting State. The 5% rate applies to payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films and films or recordings for radio and television.

33. The 10% rate applies to royalties for the use of, or the right to use, any copyright of literary, artistic, or scientific work, including cinematographic films and films, tapes, or discs for radio or television broadcasting, patents, trademarks, designs or models, plans, secret formulae, or processes, and information in respect of industrial, commercial, or scientific experience. The 12% rate applies to royalties for technical services, such as technical and economic studies and technical assistance and other services of a technical or consultancy nature.
34. The 5% rate applies to royalties for the use of, or the right to use, copyrights of literary, artistic or scientific work, not including motion picture films and television recordings. The 15% rate applies in all other cases (including technical and economic studies).
35. The 15% rate applies to royalties for copyright of literary, artistic, or scientific work, including cinematographic films and films, tapes or discs for radio or television broadcasting, patents, trademarks, designs or models, plans, secret formulae, or processes, information in respect of industrial, commercial, or scientific experience and profits from any ownership, depending from the productivity, the use, or the alienation of that ownership. The 10% rate applies to royalties for the use of, or the right to use, industrial, commercial, or scientific equipment other than vessels and aircraft used for international transport, and technical studies paid from public funds or political subdivisions or local authorities or technical assistance for the use of the ownership of the aforementioned rights, in case the technical assistance is realised in the source state.
36. The withholding tax on dividends is 25% if the non-resident recipient is based in a tax haven jurisdiction.
37. Interest paid by Tunisia resident persons to non-resident companies is subject to a final 20% withholding tax unless a lower treaty rate applies. A reduced 5% final withholding tax rate applies to interest paid to Non-Resident banks. An increased 25% withholding tax rate applies if the non-resident recipient is based in a tax haven jurisdiction. Interest paid by Tunisia resident persons or by the government from deposits or securities issued in foreign currency or in convertible dinars is tax-exempt.
38. Royalties paid by Tunisia resident persons to non-resident companies are subject to a final 15% withholding tax unless a lower treaty rate applies. An increased 25% withholding tax rate applies if the non-resident recipient is based in a tax haven jurisdiction. Royalties paid by holders of an oil exploration and development licence in respect of technical assistance or studies performed by the parent company are tax-exempt.

TURKEY

MEMBER FIRM

City	Name	Contact Information
Istanbul	Kadir Sayıcı	+90 212 426 00 93 k.sayici@pkfistanbul.com
Izmir	Selman Uysal	+90 232 466 01 22 selmanuysal@pkfizmir.com

BASIC FACTS

Full name:	Republic of Turkey
Capital:	Ankara
Main languages:	Turkish
Population:	81.75 million (2018 estimate)
Monetary unit:	Turkish Lira (TRY)

Internet domain:	.tr
Int. dialling code:	+90

KEY TAX POINTS

- Corporations in Turkey can be regarded as either limited or full taxpayers. Full taxpayers are liable for tax on their worldwide income. Limited taxpayers are subject to tax on income derived in Turkey.
- A foreign corporation is regarded as a limited taxpayer in Turkey, and is taxable on its Turkishsourced income only.
- Capital gains are normally regarded as part of ordinary corporate income.
- VAT is levied on all goods and services supplied within the scope of commercial, industrial, agricultural and independent professional activities and on the importation of goods and services.
- Dividends received from Turkish resident companies and paid to individual resident persons or Non-Residents are subject to 15% withholding tax.
- Interest paid for business purposes in an operational period may be deducted but must be capitalised if it relates to the acquisition of a fixed asset. Financial expenses for the first year only are added to the cost.
- Controlled foreign company (CFC) rules exist in Turkey. They apply where a resident company has at least a 50% interest in a non-resident company subject to certain other conditions as well.
- Transfer pricing rules apply to resident companies with transactions with related parties, whether resident or not in Turkey.
- Individuals resident in Turkey are liable for income tax on their worldwide income, but non-resident individuals are liable for income tax only on income earned in Turkey.

A. TAXES PAYABLE

COMPANY TAX

Corporations in Turkey can be regarded as either limited or full taxpayers. Full taxpayers are liable for tax on their worldwide income. Limited taxpayers are subject to tax on income derived in Turkey. Corporations are regarded as full taxpayers if their statutory head office or actual business centre is located in Turkey as stated in the articles of association. Thus, foreign-owned subsidiaries wholly established in Turkey are regarded as unlimited taxpayers whereas foreign branches are treated as limited taxpayers.

A foreign corporation is regarded as a limited taxpayer in Turkey and is taxable on its Turkish-sourced income only. In accordance with Regulation No. 7061 (gazetted on 5 December 2017), the corporate tax rate for the years 2018-2020 has been increased from 20% to 22%. The increased rate will apply to earnings to be included in the corporate income tax returns to be submitted after 1 January 2018.

The tax year is the calendar year although a special permit can be obtained from the Ministry of Finance for a different fiscal period. Returns are due by the fourth month (until 25 April) from the fiscal year-end. Corporation tax is normally payable until the end of the 4th month. The taxpayer also has to pay a quarterly advance tax throughout the accounting period which is credited against the tax liability of the same period to be calculated in the return for that tax year.

CAPITAL GAINS TAX

Capital gains are normally regarded as part of ordinary corporate income. Capital gains derived from the sale of shares in a local company by either a foreign company or a local company are, in principle, taxable. Taxation of capital gains derived from the sale of shares between non-residents (individuals or corporations) differs according to the legal status of the company whose shares are held. The existence of a double tax treaty between the country of residence of the non-resident shareholder and Turkey may generally result in capital gains tax being avoided in Turkey subject to the condition that the holding period exceeds one year.

In general, this is also true for capital gains arising from the sale of a shareholding in a limited company. Tax resident companies are eligible for the participation exemption scheme in respect of certain shareholdings. Under this scheme, 50% of the gains derived from the sale of shares in subsidiaries are exempt from 5 December 2017. Two conditions must be met:

- The shares must have been held for two years prior to the disposal; and,
- The amount of the gain must be kept in a special reserve account for at least five years.

The sale revenue must be collected by the end of the second calendar year following the year of sale.

BRANCH PROFITS TAX

There is no specific branch profits tax in Turkey. Permanent establishments of foreign companies are taxed on the profits earned in Turkey at the standard rate of 20%. However, a 15% branch remittance tax also applies when the profits are remitted to the head office. If they are not remitted, no branch remittance tax applies. Branch remittance tax might be reduced under the scope of a double tax treaty.

VALUE ADDED TAX (VAT)

VAT is levied on all goods and services supplied within the scope of commercial, industrial, agricultural and self-employment income and on the importation of goods and services. The supply of all goods and services is subject to VAT unless exempt. The standard rate is 18%. Currently, there are also various rates ranging from 1% to 18%. VAT is levied on a monthly basis. Returns have to be filed on or before the 24th day of the next month and the tax has to be paid by the 26th.

SPECIAL CONSUMPTION TAX

Special consumption tax was introduced on 12 June 2002 in order to simplify the Turkish tax system. When special consumption tax came into force, the high level VAT taxes were decreased to a maximum of 18%. The Council of Ministers Decision No. 2015/8353 published in the Official Gazette and on the website of the Revenue Administration became effective on 1 January 2016. It renders the increased rates and fixed amounts of special consumption taxes applicable to certain types of goods (i.e. tobacco products, alcoholic drinks, mobile phones and all non-electric cars with an engine over 1,600 cc).

Special consumption tax is realised during importation or at the end of production at rates ranging from 0.5% to 145% and is set as relative or fixed. There are four different types of main product groups that are listed under the special consumption tax law. The lists and the related product groups are classified as follows:

1. Petroleum and solvent products;
2. Vehicles (Transportation vehicles are included, tractors are excluded);
3. Tobacco products and alcoholic / non-alcoholic beverages;
4. White goods, electrical home products, luxury goods.

LOCAL TAXES

There are general municipal taxes and real estate taxes on building and land.

B. DETERMINATION OF TAXABLE INCOME

Basically, corporate income is calculated as the difference in the value of the net assets on the last day and the first day of the calendar year. Assets which are added or withdrawn during this period should either be subtracted from or added to the resulting difference. Deductible and non-deductible expenses and tax-exempt corporate income also affect the calculation of taxable income.

DEPRECIATION

The taxpayer may choose either the ordinary or the declining-balance depreciation method. A taxpayer who initially chooses the declining balance method for an asset may switch to the straight-line method but the tax payer who starts using the straight-line method is not permitted to switch to the declining balance method. Depreciation rates to be applied tor fixed assets are determined and announced by the Ministry of Finance through communiques based on the asset's useful life. The maximum depreciation rate is 50%.

STOCK / INVENTORY

Inventory is valued at cost using the FIFO or weighted average method.

CAPITAL GAINS AND LOSSES

Capital gains and losses of resident companies constitute regular business income.

DIVIDENDS

Dividends distributed by resident companies to other resident companies are not subject to withholding tax. Such dividends are also exempt from corporate income tax (participation exemption) at the level of the receiving company.

Dividends distributed to non-resident companies are subject to a final 15% withholding tax, unless a double tax treaty provides for a lower rate. The taxable base is the gross amount of the dividend.

INTEREST DEDUCTIONS

Interest paid for business purposes in an operational period may be deducted but must be capitalised in the first year if it relates to the acquisition of a fixed asset. It is optional in the following years.

Thin capitalization

Interest and similar payments deemed paid or calculated on the basis of hidden equity capital are nondeductible whereby hidden equity capital refers to loans which:

- Are taken directly or indirectly from shareholders or persons related to the shareholders;
- Are used in the conduct of business; and
- Exceed, at any time in a taxable period, 3 times the borrowing company's equity (i.e. the maximum debt-to-equity ratio is 3:1 for financing by related persons.

Interest and other items paid, with the exception of realized exchange rate differences, on loans taken from shareholders and persons related to shareholders in excess of the 3:1 debt-to-equity ratio are treated as hidden profit distributions for tax purposes. At the level of non-residents, such hidden profit distributions are deemed to be profits remitted to the head office and corresponding adjustments are made for previous taxes of both parties.

LOSSES

Net operating losses can be carried forward for five years. The loss must be covered by the first available year's income. There is no indexation of carry-forward losses. Losses may only be carried back in the case of liquidation.

FOREIGN SOURCED INCOME

Resident companies are subject to taxation on their worldwide income.

INCENTIVES

The "Decision on Government Supports in Investments" has been finalised through the Council of Ministers Decision No. 2012/3305 published in the Official Gazette dated 19 June 2012 and the "Communique on the Implementation of the Decision on Government Supports in Investments" No. 2012/1. The new incentive system can be categorised under four main headings:

- General incentive applications;
- Regional incentive applications;
- Incentivising large scale investments;
- Incentivising strategic investments.

The "Reduced Corporate Tax" application is arranged under article 32A of the Corporate Tax Law No. 5520 and was enforced by the "Law on the Amendment of Certain Laws" No. 5838, which was published in the Official Gazette on 28 February 2009. Reduced corporate taxes have been introduced to encourage new investments and further investment in existing projects.

Under article 32A, income arising from qualifying investments with an incentive certificate are subject to corporate tax at reduced rates. The tax savings are capped by a specified investment subsidy limit. The rate of tax applicable to such projects is calculated by dividing the investment contribution limit by the total investment made. This is illustrated in the tables below.

For example, if an investment is made in region I of TRY 200 million in 2017 under the regional investment application, the said investment is subject to corporation tax at 50% of the normal rate up to (%20x%50) and an investment subsidy limit of 15% of the investment amount (i.e. TRY 30 million). There is no time limit on the application of the reduced tax rate although it is not available in certain periods where there is no tax base due to loss deduction, exempted gains and other deductions. The reduced rate applies until the investment contribution limit has been reached.

Regions	Regional Investment Applications		Large Scale Investments	
	Investment Contribution rate (%)	The corporate tax or income tax reduction rate (%)	Investment Contribution rate (%)	The corporate tax or income tax reduction rate (%)
I	15	50	25	50
II	20	55	30	55
III	25	60	35	60
IV	30	70	40	70
V	40	80	50	80
VI	50	90	60	90

* For the expenses made in 2016, the above investment contribution rates will be increased by 15 points.

Rates for 2018:

Regions	Regional Investment Applications		Large Scale Investments	
	Investment Contribution rate (%)	The corporate tax or income tax reduction rate (%)	Investment Contribution rate (%)	The corporate tax or income tax reduction rate (%)
I	15	50	25	50
II	20	55	30	55
III	25	60	35	60
IV	30	70	40	70
V	40	80	50	80
VI	50	90	60	90

* For the expenses made in 2017, the above investment contribution rates will be increased by 15 points.

The corporate tax and income tax reduction rate will be applied 100% in all regions.

The tax reduction rate and investment contribution rate applicable in all regions for specified strategic investments are 90% and 50% respectively.

WAGE TAX / SOCIAL SECURITY CONTRIBUTIONS

Social insurance premiums are calculated on the basis of monthly wages and are paid jointly by the worker and the employer at the following rates:

BRANCHES	EMPLOYEE (%)	EMPLOYER (%)	TOTAL (%)
Short Term Social Security Branches including occupational accidents and diseases (varies according to the job)	-	2	2
Disability, old age, death	9	11	20
General Health Insurance	5	7.5	12.5
Total	14	20.5	34.5
Unemployment Insurance	1	2	3

The above rates are applied to the gross total of salaries, wages and bonuses up to a current monthly maximum of TRY 15,221.40 from 1 January to 31 December 2018. The premiums are paid each month to the Social Insurance Institution at the place where the worker is employed before the 30th day of the subsequent month.

THE NEW TURKISH COMMERCIAL CODE

The New Turkish Commercial Code, which was accepted by the Turkish Parliament on 13 January 2011 and took effect on 1 July 2012, requires financial reports to be prepared in compliance with the TFRS. The Council of Ministers can determine which companies are subject to independent audit. Financial statements of corporations and conglomerates subject to independent audit shall be audited by an independent auditor according to the Turkish Audit Standards issued by the Turkish Public Oversight, Accounting and Auditing Standards Authority, which is compliant with International Auditing Standards.

Financial statements of companies subject to independent audit must be organised according to Turkish Accounting Standards in accordance with international financial reporting standards or General Communique on Accounting System Application. Other companies' financial statements must be organised according to Tax procedural Law. The Companies which will be subject to independent audit pursuant to the Turkish Commercial Code (No.6102) have been re-determined. The companies meeting at least two of the following criterion shall be subject to independent audit;

a) Total asset size of TRY 40 million or more;

b) Annual net sales revenue of TRYL 80 million or more;

c) Minimum of 200 employees or more.

To determine whether or not the abovementioned conditions have been satisfied the financial statements of 2016 and 2017 and the average number of employees for 2016 and 2017 will be considered.

C. FOREIGN TAX RELIEF

Double taxation of resident companies is unilaterally relieved by an ordinary tax credit. Foreign taxes may be offset against corporate income tax up to the amount of the Turkish tax attributable to the foreign income. The limitation is calculated on an overall basis. The foreign tax that cannot be credited in the relevant taxable period because of this limitation may be carried forward for 3 taxable periods. Where foreign-source income qualifies for exemption, a unilateral relief is granted by way of the full exemption method.

D. CORPORATE GROUPS

Group consolidation for tax purposes is not available.

E. RELATED PARTY TRANSACTIONS

From 1 January 2006, transfer pricing rules apply to resident companies with transactions with related parties, whether resident or not in Turkey.

if a transaction between a company and a related person is performed under prices determined contrary to the arm's length principle, the said transaction is fully or partially considered to be a hidden profit distribution. Relevant transactions include production or construction, the sale/purchase of goods, services, salary payments, leasing and loan transactions. At the level of non-residents such hidden profit distributions are deemed to be profits remitted to the head office and corresponding adjustments are made for previous taxes of both parties.

However, transfer pricing rules are not applied to domestic transactions between related companies unless a treasury loss occurs, i.e. the total tax burden arising from a transaction effected between related parties. As long as profits are taxed in the hands of one or more related parties (i.e. there is no treasury loss), transfer pricing legislation is not applied.

When a transaction is performed with a resident of a low-tax jurisdiction, it is always deemed to be performed with a related party. As from 9 August 2016, when it is determined through a direct or indirect connection that the person is considered to be a related person, the application of hidden profit distribution provisions requires a minimum 10% of partnership or voting rights. For the calculation of the ratio, related persons are considered on an aggregate basis.

Prescribed arm's length pricing methods in the law are those described in the OECD transfer pricing guidelines, including:

- Comparable uncontrolled price method;
- Cost-plus method;
- Resale price method;
- Operational profit method.

Alternatively, companies can also use alternative methods if these are considered more appropriate.

Controlled Foreign Companies (CFC)

Controlled foreign company (CFC) rules exist in Turkey. They apply where a resident company has at least a 50% interest in a non-resident company and the following conditions apply:

- 25% or more of the gross revenue of the foreign subsidiary must be composed of passive income;
- The CFC must be subject to an effective income tax rate of less than 10% on its commercial profit in its home country;
- Gross revenue of the CFC must exceed the equivalent of TRY 100,000 in a foreign currency in the related period.

F. WITHHOLDING TAXES

The following are liable to withholding taxes when paid to a non-resident entity:

Type of Income	Rate
Contract Progress Income	3%
Profit Shares/dividends	15%
Leasing	1%
Wages and services fees	15-35%
Professional services in general	20%
Petroleum exploration services	5%
Rentals	20%
Deposit interest	15%
Bills and bonds	0 - 10%
Income from sales of securities	15%
Sum derived from sale or transfer of copyrights patents and trademarks	20%
Royalties	20%

Withholding taxes on dividends, interest and royalties may be reduced under the terms of the various double tax treaties with Turkey.

G. EXCHANGE CONTROL

The flow of capital in and out of Turkey is regulated by Decrees to protect the value of the Turkish currency.

H. PERSONAL TAX

Individuals resident in Turkey are liable for income tax on their worldwide income but non-resident individuals are liable for income tax only on income earned in Turkey. Turkish nationals are deemed to be tax resident unless they have evidence of residence abroad. Foreigners are regarded as resident if they stay in Turkey without interruption for more than six months in a calendar year, other than for reasons of imprisonment or assignments for specific and temporary projects. Income tax is charged on a trade or business, employment, professional services, dividends and interest, agriculture and rentals.

The general rule is that taxpayers must remit the amount of tax due in two equal payments. Taxpayers carrying on business or professional activities must make quarterly income tax payments during the tax year. The following income tax rates for 2018 are applicable to income other than employment income:

Taxable Income Amount (TRY)	Tax on lower amount (TRY)	Rate on Excess (%)
0 – 14,800	0	15
14,801 – 34,000	2,220	20
34,001 – 80,000	6,060	27
Over 80,000	18,480	35

The following income tax rates for 2018 are applicable to employment income:

Taxable Income Amount (TRY)	Tax on lower amount (TRY)	Rate on Excess (%)
0 – 14,800	0	15
14,801 – 34,000	2,220	20
34,001 – 120,000	6,060	27
Over 120,000	29,280	35

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends[2] (%)			
	Individuals, companies (%)	Qualifying companies (%)	Interest (%)	Royalties (%)
Domestic rates				
Companies	15	15	0/1/3/5/7/10/15	20
Individuals	15	--	0/3/7/10/15	20
Treaty countries:				
Albania	15	5	10	10
Algeria	12	12	10	10
Australia	15	5	10	10
Austria	15	5	10/15	10
Azerbaijan	12	12	10	10
Bahrain	15	10	10	10
Bangladesh	10	10	10	10
Belarus	15	10	10	10
Belgium	10/20	10/15	15	10
Bosnia and Herzegovina	15	5	10	10
Brazil	15	10	15	10/15
Bulgaria	15	10	10	10
Canada	20	15	15	10
China	10	10	10	10
Croatia	10	10	10	10
Czech Republic	10	10	10	10
Denmark	20	15	15	10
Egypt	15	5	10	10
Estonia	10	10	10	5/10
Ethiopia	10	10	10	10
Finland	15	5	5/10/15	10
France	20	15	15	10
Georgia	10	10	10	10
Germany	15	5	10	10
Greece	15	15	12	10

Hungary	15	10	10	10
India	15	15	10/15	15
Indonesia	15	10	10	10
Iran	20	15	10	10
Ireland	10	5/10	10/15	10
Israel	10	10	10	10
Italy	15	15	15	10
Japan	15	10	10/15	10
Jordan	15	10	10	12
Kazakhstan	10	10	10	10
Korea (South)	20	15	10/15	10
Kosovo	15	5	10	10
Kuwait	10	10	10	10
Kyrgyzstan	10	10	10	10
Latvia	10	10	10	5/10
Lebanon	15	10	10	10
Lithuania	10	10	10	5/10
Luxembourg	20	10	10/15	10
Macedonia (FYR)	10	5	10	10
Malaysia	15	10	15	10
Malta	15	10	10	10
Mexico	15	5	10/15	10
Moldova	15	10	10	10
Mongolia	10	10	10	10
Montenegro	15	5	10	10
Morocco	10	7	10	10
Netherlands	20	15	10/15	10
New Zealand	15	5	10/15	10
Norway	15	5	5/10/15	10
Oman	15	10	10	10
Pakistan	15	10	10	10
Philippines	15	10	10	10/15
Poland	15	10	10	10
Portugal	15	5	10/15	10
Qatar	15	10	10	10
Romania	15	15	10	10
Russia	10	10	10	10
Saudi Arabia	10	5	10	10
Serbia	15	5	10	10

Singapore	15	10	7.5/10	10
Slovak Republic	10	5	10	10
Slovenia	10	10	10	10
South Africa	15	10	10	10
Spain	15	5	10/15	10
Sudan	10	10	10	10
Sweden	20	15	15	10
Switzerland	15	5	5/10	10
Syria	10	10	10	10/15
Tajikistan	10	10	10	10
Thailand	15	10	10/15	15
Tunisia	15	12	10	10
Turkmenistan	10	10	10	10
Ukraine	15	10	10	10
United Arab Emirates	12	10	10	10
United Kingdom	20	15	15	10
United States	20	15	10/15	5/10
Uzbekistan	10	10	10	10
Vietnam	15	5/10	10	10
Yemen	10	10	10	10

UGANDA

MEMBER FIRM

City	Name	Contact Information
Kampala	Charles Oguttu	+256 312 305800 coguttu@ug.pkfea.com

BASIC FACTS

Full name:	Republic of Uganda
Capital:	Kampala
Main languages:	English, Swahili, Luganda
Population:	44 million (2018 estimate)
Monetary unit:	Ugandan Shilling (UGX)
Internet domain:	.ug
Int. dialling code:	+256

KEY TAX POINTS

- Resident companies are taxable on their worldwide income and gains whereas non-residents are subject to tax on income sourced in Uganda.
- The standard rate of corporate income tax applicable to resident and non-resident companies is 30%, although special rates apply to small businesses and mining companies.

- Capital gains and losses only arise in respect of non-depreciable assets owned by a business. Gains are added to and taxed along with ordinary income.
- A tax at 15% is charged on repatriated profits of overseas companies with branches in Uganda.
- VAT is charged at a standard rate of 18% but some supplies are zero rated or exempt.
- Dividends are generally subject to withholding tax where paid to residents or non-residents at a rate of 15% (or 10% where the payer is listed on the Ugandan Stock Exchange).
- Other payments for goods and services are subject to withholding tax with different rates in some cases depending on whether the recipient is resident in Uganda.
- Income tax is levied on the worldwide income of resident individuals (a foreign tax credit is granted for foreign sourced income not exceeding the appropriate Uganda income tax payable) and on the income of non-resident individuals sourced from Uganda.
- A Tax Procedure Code Act, assented on 19 October 2014, came into force with effect from 1 July 2016, to provide a code to regulate the procedures for administration, to harmonize and to consolidate tax procedures.

A. TAXES PAYABLE

COMPANY TAX

Resident companies are taxable on their worldwide income and gains whereas non-residents are taxed on income sourced in Uganda. Uganda-sourced income is clearly defined for purposes of the Income Tax Act.

The tax rates applicable to residents and non-residents are as follows:

- For companies (other than mining companies) and retirement funds – 30%;
- For mining companies – calculated according to the following formula:
    - 70 - 1500/X where X is the number of percentage points represented by the ratio of the chargeable income to the gross revenue of the company.
    - If the rate of tax calculated above exceeds 45%, then the rate of tax shall be 45% and, if the rate of tax calculated above is less than 25%, then the rate of tax shall be 25%.

Special rates of tax apply to income from small businesses (i.e. those businesses where the income does not exceed UGX 150m per year). These presumptive tax rates fall in defined bands/ranges of gross income.

The fiscal year in Uganda runs from 1 July to 30 June. Companies must file a return of income each year by 31 December following the end of the tax year. A different accounting period (referred to as substituted year) can be opted for by seeking permission from the revenue authorities. In such cases, return of income should be filed within six months of applicable year end.

CAPITAL GAINS TAX

Capital gains are added to the income from all other sources and taxed at the rate applicable to that person.

BRANCH PROFITS TAX

Non-resident companies are subject to Ugandan corporate income tax in respect of profits earned from branches in Uganda. In addition, the branch is taxed on the repatriated income at the rate of 15%.

RENTAL INCOME TAX

Effective July 2014, rental income, expenditure and losses generated by a taxable individual or company is required to be declared in a rental income tax return separate from the usual business income tax return.

VALUE ADDED TAX (VAT)

VAT is payable on:

- Every taxable supply in Uganda made by a taxable person;
- Every import of goods other than an exempt import;
- The supply of any imported services by any person.

A taxable supply is defined as ‘a supply of goods or services, other than an exempt supply, made by a taxable person for consideration as part of his business activities’. A taxable person is a person who is required to be registered under the statute. Persons who are required to be registered are those who:

- During any period of three calendar months make taxable supplies, the value of which exclusive of any tax exceeds one quarter of the annual registration threshold;
- Have reasonable grounds to expect that in any period of three calendar months will make taxable supplies, the total value of which will exceed one-quarter of the annual registration threshold;
- The annual registration threshold is, at present, UGX 150m.

RATES OF TAX (VAT)

There are three categories of supplies for VAT purposes: exempt, zero-rated and standard rated. The standard rate is 18%. Some types of supplies are zero rated or exempt.

FRINGE BENEFITS TAX

This is not applicable in Uganda but benefits to employees are valued as per rules of valuation under the Income Tax Act 1997 and added to the employment income to determine the tax.

LOCAL TAXES

Local service tax is levied by local authorities on resident individuals (with a few exceptions) who are above the age of 18 and are in gainful employment with effect from 1 July 2008. Local Hotel Tax was also introduced with effect from 1 July 2008, collected and remitted to the local authority monthly based on the tax bands.

OTHER TAXES

Excise, import and custom duties are applicable on several items either on ad valorem basis or at specific rates.

B. DETERMINATION OF TAXABLE INCOME

CAPITAL ALLOWANCES

The Industrial building deduction is 5% on straight-line basis. Effective July 2014, initial allowance deduction on eligible items (50% off the cost base of the property is allowed on eligible property put into service for the first time outside a radius of 50 km. from the boundaries of Kampala) and industrial buildings (20%) was re-enacted. The mining allowance is 100% of capital expenditure incurred in searching for, discovering and testing or winning access to deposits of minerals in Uganda. Start-up costs for a business or expenditure incurred in the initial public offering at the stock market are allowed at a rate of 25% on a straight-line basis. Horticulture business allowance is 20% on straight-line basis of the capital expenditure incurred in the acquisition or establishment of a horticultural plant or the construction of a greenhouse.

DEPRECIATION

Depreciation is allowable on written-down value basis (reducing balance method) at the following rates:

No.	Details	Rate
1.	Computers and data handling equipment	40%
2.	Automobiles, buses and minibuses with a seating capacity of less than 30 passengers, goods vehicles with a load capacity of less than 7 tonnes, construction and earth-moving equipment	35%
3	Buses with a seating capacity of 30 or more passengers, goods vehicles designed to carry or pull loads of 7 tonnes or more; specialised trucks, tractors, trailers and trailermounted containers, plant and machinery used in farming, manufacturing or mining operations	30%
4	Railroad cars, locomotives and equipment, vessels, barges, tugs and similar water transportation equipment, aircraft, specialised public utility plant, equipment and machinery, office furniture, fixtures and equipment, any depreciable asset not included in another group.	20%

STOCK/INVENTORY

A deduction is allowed for the cost of trading stock disposed of during a year of income. The closing value of trading stock is the lower of cost or market value of trading stock on hand at the end of the year.

CAPITAL GAINS AND LOSSES

Capital gains or losses are taxable only if the asset on which the gain or loss arises is owned by a business and is a non-depreciable asset. This is determined by subtracting the cost base of the asset from the consideration received on sale of the asset. Cost base of the asset is the original cost to the taxpayer as increased by any expenditure incurred to alter or improve the asset which has not been allowed as a deduction. In case of immovable property purchased prior to 31 March 1998, the taxpayer may substitute the market value of the property as on 31 March 1998 for the original cost of the asset. Capital gains and losses are added or subtracted from the other income of the taxpayer for that year of income and not taxed separately.

DIVIDENDS

Dividends are subject to 15% withholding tax except dividends paid by companies listed on the stock exchange to resident individuals which is 10%. Effective July 2013, dividends have been expanded to include issue of bonus shares. However, the shares are only taxable upon disposal.

INTEREST DEDUCTIONS

Allowable in full except where a foreign-controlled resident company which is not a financial institution has a foreign debt-to-equity ratio in excess of 1:5 at any time during a year of income. A deduction is disallowed for the interest paid by the company during the year on that part of the debt which exceeds the 1:5 ratio. The restriction does not apply where debt amount does not exceed the arm's length debt amount.

LOSSES

Assessed losses are allowed to be carried forward and allowed as a deduction in determining the taxpayer's chargeable income in the following year of income. These are allowed to be carried forward indefinitely.

FOREIGN SOURCED INCOME

The gross income of a resident person includes income derived from all geographic sources and the gross income of a non-resident includes only income derived from sources in Uganda.

INCENTIVES FOR HOLDERS OF FREE ZONE DEVELOPERS LICENCES

Industrial zones for the production of exports are being set up and investors located in these zones will be entitled to a 10-year tax holiday on exportation of finished consumer and capital goods; duty exemption on raw materials, plant and machinery and other inputs; stamp duty exemption; and no export tax on goods exported.

C. FOREIGN TAX RELIEF

A resident taxpayer is entitled to a credit for any foreign income tax paid by the taxpayer in respect of foreign-sourced income included in the gross income of the taxpayer, but shall not exceed the Uganda income tax payable on such foreign-sourced income.

D. RELATED PARTY TRANSACTIONS

In order to regulate transactions between related parties, Transfer Pricing Regulations have been introduced with effect from 1 July 2011. The regulations shall apply to a "controlled transaction" where a taxpayer, who is a party to the transaction, is located in or outside Uganda. The regulations expressly require that a taxpayer who has transactions with related non-resident or resident entities must prepare transfer pricing documentation. This documentation, for a year of income, must be in place prior to the due date of filing the income tax return for that year. Related party transactions are also governed by section 90 of the Income Tax Act which provides that the commissioner may distribute or apportion incomes, deductions or credits between taxpayers who are associates. A penalty of UGX 50 million is levied where a taxpayer fails to provide records in respect of transfer pricing within 30 days upon request by the Commissioner.

E. WITHHOLDING TAX

Withholding tax is a final tax on:

- Interest paid by a financial institution to a resident individual;
- Interest paid to any person on treasury bills by the Bank of Uganda;
- Dividends paid to a resident individual.

RATES OF WITHHOLDING TAX

Description	Resident	Non-resident
Management fees and royalties	6%	15%
Consultancy, agency fees, etc	6%	15%
Professional fees	6%	15%
Dividends[1]	15% or 10%	15%
Interest[2]	15%	15%
Sports persons and public entertainers	Nil	15%
Re-insurance premiums	Nil	10%

Notes:

1 It does not apply where the dividend income is exempt from tax in the hands of a shareholder.

2 It does not apply to residents where: (i) interest is paid to a natural person; and (ii) interest other than interest from government securities paid to a financial institution.

The 6% withholding tax does not apply to taxpayers whom the Commissioner has exempted from withholding tax. Interest on deposit auction funds issued by Bank of Uganda is taxable at 20%. Withholding tax at 10% is applicable on purchase of an asset by a resident person from a non-resident. Interest payment on government securities to non-residents is subject to tax at 20%. Besides the above, withholding tax is also applicable and charged on import of goods at the rate of 6%. In case of local transactions of goods and services, 6% withholding tax is applicable where the payer is the Government, a Government body or a company/person designated by the Minister.

The rate of withholding on payments to non-residents is reduced in some cases under the provisions of double taxation agreements entered into with a small number of overseas territories (see Section I below).

From July 2014, a person who makes payments for winnings of sports betting or pool betting shall withhold tax on the gross amount of the payment at of 15%. From July 2014, a resident person who makes a payment of premium for reinsurance services to a non-resident person shall withhold tax on the gross amount of the payment at a rate of 15%. This does not apply to reinsurance services provided by a few specified reinsurers.

F. EXCHANGE CONTROL

There are no restrictions on foreign currency flows in and out of the country. Realised exchange gains and losses are taxable/allowable in the year of realisation. The only specific requirement is to notify the Commissioner of Uganda Revenue Authority in writing of the existence of such transactions that give rise to foreign exchange movements. This applies if it concerns foreign currency debt.

G. PERSONAL TAX

Income tax is levied on the worldwide income of resident individuals and on the income of non-resident individuals from sources in Uganda. An individual will be regarded as resident in Uganda if he or she:

- Has a permanent home in Uganda;
- Is present in Uganda for a period of, or periods amounting in aggregate to 183 days or more in any 12-month period that commences or ends during the year of income;
- Is present in Uganda during the year of income and in each of the two preceding years of income for periods averaging more than 122 days in each year of income;
- • Is an employee or official of the government of Uganda posted abroad during the year of income.

The income tax rates applicable to resident individuals are as follows:

Chargeable income (UGX)	Rate of tax
Not exceeding UGX 2,820,000 (235,000 pm)	Nil
Exceeding UGX 2,820,000 (235,000 pm) but not exceeding UGX 4,020,000 (335,000 pm)	10% of the amount by which chargeable income exceeds UGX 2,820,000 (235,000 pm)

Exceeding UGX 4,020,000 (335,000 pm) but not exceeding UGX 4,920,000 (410,000 pm)	UGX 120,000 (10,000 pm) plus 20% of the amount by which chargeable income exceeds UGX 4,020,000 (335,000 pm)
Exceeding UGX 4,920,000 (410,000 pm)	a) UGX 300,000 (25,000 pm) plus 30% of the amount by which chargeable income exceeds UGX 4,920,00 (410,000 pm); and b) Where the chargeable income of an individual exceeds UGX 120,000,000 (10,000,000 pm) an additional 10% charged on the amount by which chargeable income exceeds UGX 120,000,000 (10,000,000 pm)

The income tax rates applicable to non-resident individuals are:

Chargeable income (UGX)	**Rate of tax**
Not exceeding UGX 4,020,000 (335,000 pm)	10%
Exceeding UGX 4,020,000 (335,000 pm) but not exceeding UGX 4,920,000 (410,000 pm)	UGX 402,000 plus 20% of the amount by which chargeable income exceeds UGX 335,000.
Exceeding UGX 4,920,000 (410,000 pm)	a) UGX 582,000 (48,500 pm) plus 30% of the amount by which chargeable income exceeds UGX 4,920,000 (410,000 pm); and b) Where the chargeable income of an individual exceeds UGX 120,000,000 (10,000,000 pm) an additional 10% charged on the amount by which chargeable income exceeds UGX 120,000,000 (10,000,000 pm)

Where a taxpayer's income consists exclusively of employment income derived from a single employer and from which tax has been withheld, no tax return needs to be filed. Small businesses with income not exceeding UGX 150 million per year run by resident individuals do not need to file a return.

H. TREATY RATES OF WITHHOLDING TAX

Country	**Dividends**		**Interest (%)**	**Royalties (%)**	**Technical / Management Fees (%)**
	Individuals / Companies (%)	**Qualifying Companies (%)**			
Denmark	15	10[1]	10	10	10
India	10	10	10	10	10
Italy	15	15	15	10	10
Mauritius	10	10	10	10	10
Netherlands	15	0/5[2]	10	10	10
Norway	15	10[1]	10	10	10
South Africa	15	10[1]	10	10	10
United Kingdom	15	15	15	15	15

Notes:

1. The reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the paying company.
2. The 0% rate applies if the beneficial owner of the dividends is a company the capital of which is wholly

or partly divided into shares and which is a resident of the Netherlands and holds directly at least 50% of the capital of the company paying the dividends with respect to investments - including expansion of (current) investments - made after the entry into force of the treaty. The 5% rate applies if the beneficial owner of the dividends is a company which is a resident of the Netherlands, the capital of which is wholly or partly divided into shares and that holds directly less than 50% of the capital of the company paying the dividends.

UKRAINE

MEMBER FIRM

City	Name	Contact Information
Kiev	Sviatoslav Biloblovskiy	+38 044 501 25 31 pkf@pkf.kiev.ua

BASIC FACTS

Full name:	Ukraine
Capital:	Kiev
Main languages:	Ukrainian
Population:	44.04 million (2018 estimate)
Monetary unit:	Ukrainian Hryvnia (UAH)
Internet domain:	.ua
Int. dialling code:	+380

KEY TAX POINTS

- The Tax Code determines taxable profits as net profits before tax as per accounting records, either Ukrainian statutory or International Financial Reporting Standards (IFRS), and adjusted for 'tax differences'. Companies with total revenue from all types of business activities not exceeding UAH 20 million are allowed to define taxable profits without taking 'tax differences' into consideration.
- Companies generally pay corporate profit tax at a flat rate of 18%. Reduced rates of 0% or 3% apply to qualified insurance activities.
- Value Added Tax is currently levied at a rate of 20% of the taxable value of domestic supplies, imported goods and auxiliary services. The rate on exported goods and auxiliary services is 0%. The VAT rate on supply of medicines and medical devices on the list approved by the Cabinet of Ministers of Ukraine is 7%. Ukrainian tax residents are subject to Personal Income Tax (PIT) on their worldwide income, whereas non-residents are only subject to taxation on the Ukrainian-sourced portion of their income. The tax rate varies from 5 to 30% of the tax base. It depends on the type and amount of income. The most common applicable rate for PIT is 18%.
- All types of income subject to PIT are also subject to military duty. The rate of this duty is 1.5% of the taxable income.
- When paying wages (or similar payments) the source of payment needs to accrue and transfer unified social contribution tax (USC) to the Budget. In 2018 the rate is set at a standard 22% while a reduced rate may apply for some categories of individuals.
- Legal entities and individuals (including non-residents) are the payors of property tax. The tax rate is based on the size of the property and set as a percentage (not exceeding 3%) of the minimum statutory wage determined at 1st January of the reporting year.

A. TAXES PAYABLE

COMPANY TAX

The tax that companies pay is known as corporate profit tax (CPT). Currently, this tax is calculated at a flat rate of 18%. For insurance activities, there is an additional tax, which is 3% on the amount of insurance

contracts from the tax object. This tax is the difference that reduces the profit before tax of the insurer. The rate of this tax for the contracts with term life insurance, a voluntary health insurance and insurance contracts within the non-state pension is 0%.

Special rates apply to certain types of businesses.

The reporting period for entities with income for the previous year exceeding UAH 20 million is defined as a quarter. For other taxpayers it is a year.

Restrictions apply for transactions between related parties and transactions with non-residents from “low-tax” jurisdictions. Transactions between such parties with an amount exceeding UAH 10 million (VAT not included) are considered as ‘controlled’. At the same time the total taxable income of the entity should exceed UAH 150 million.

The taxable base for such transaction should be comparable to the taxable base of similar transactions performed by non-related parties (transfer pricing rules are based on the OECD approach).

CAPITAL GAINS TAX

There is no separate capital gains tax. Capital gains are treated as ordinary income.

BRANCH PROFITS TAX

There is no special profits tax on branches of foreign companies in Ukraine.

VALUE ADDED TAX (VAT)

VAT is levied on the sale of most merchandise and services and on imported goods and services.

According to the Tax Code, the taxable base for VAT is defined as the contractual value of the goods or services supplied. At the same time, the base for taxation of supplies of goods/services cannot be less than the purchase price of goods/services. The tax base of operations of supplying manufactured goods/services cannot go below normal prices and the base of taxation of supplies of fixed assets cannot be less than the book value according to accounting, established at the beginning of the reporting (tax) period during which such operations are carried out.

VAT is currently levied at a rate of 20% of the taxable value of domestic supplies, imported goods and auxiliary services. The VAT rate on exported goods and auxiliary services is 0%. The rate on supply of medicines and medical devices on the list approved by the Cabinet of Ministers of Ukraine is 7%. Ukrainian VAT legislation for the taxation of services applies the concept of "place of supply”. In general, services rendered within the Customs territory of Ukraine are taxed at the general VAT rate, regardless of whether they are rendered to residents or non-residents. However, there are certain exceptions to this rule. According to the Tax Code, certain transactions are exempt from VAT and are not subject to VAT.

If entities meet certain criteria, they may be subject to mandatory registration as VAT payers. One such criterion is the volume of taxable supplies of goods/services during the previous 12-month period, with the taxable threshold set at UAH 1,000,000. However, if an entity's volume of taxable supplies in this period was less than UAH 1,000,000, then it can opt to register voluntarily. There is no mechanism for a non-resident to register for VAT purposes without a PE in Ukraine. Accordingly, any Ukrainian VAT incurred by a non-resident is non-recoverable.

If an entity imports goods to Ukraine in taxable quantities, it is obliged to pay VAT during the Customs clearance process without the need to register as a VAT payer.

In addition to taxable entities, the Tax Code of Ukraine defines the concept of a tax agent (individual responsible for accruing and withholding VAT) and states that, when non-residents provide services that are qualified as taxable supplies in Ukraine, VAT should be accrued and remitted to the budget by the Ukrainian customer.

For VAT accounting purposes, the so-called "first event" rule is normally used. According to this rule, output and input VAT on domestic sales are assessed on the first of the following events: the date on which goods/services are supplied/received or the date on which payment is received/paid.

In general, the tax period for VAT purposes is a calendar month. Entities liable to pay VAT must therefore submit tax returns and remit VAT on a monthly basis.

Electronic VAT administration

A special electronic administration system, which includes VAT accounts for all VAT payers in the State Treasury, is used for settlement of VAT to the budget. Both input VAT and output VAT should be reflected in

this system. For these purposes, VAT accounting documents (VAT invoices) are issued electronically and are subject to mandatory registration with the tax authorities.

The aim of this system is to make VAT input of the customers (i.e. VAT payers) guaranteed by payment of VAT liabilities by the suppliers. VAT input on domestic purchases can be recognized by the taxpayer only if the supplier issued a duly registered VAT invoice. In order to register a VAT invoice, the supplier should have sufficient balance in the electronic VAT administration system. Otherwise, it may be required to transfer cash to the VAT account (i.e. to prepay their VAT liabilities).

Effective 1 July 2017, a special procedure for temporary suspension of VAT invoice registration by the tax authorities entered into force. This procedure allows the tax authorities to suspend registering VAT invoices that match certain risk criteria. As from 1 January 2018, registration of VAT invoices and adjustments to the registered invoices is suspended until the Cabinet of Ministers establishes the relevant Regulation on Suspension of VAT Invoices and Adjustments to VAT Invoices.

VAT recovery and refunds

Generally, VAT incurred by a registered entity on the purchase and/or importation of goods and services used for the purpose of its own business (except for VAT incurred in relation to exempt supply) may be recovered by way of a credit against output VAT. If the VAT credit exceeds VAT output, a VAT refund is available in the form of a cash payment.

FRINGE BENEFITS TAX (FBT)

There is no separate fringe benefits tax. Both residents and non-residents are subject

to Personal Income Tax on fringe benefits (treated as a payment-in-kind). The value of the benefits form part of the taxable employment income of individuals by grossing up for Personal Income Tax (PIT).

SOCIAL SECURITY CONTRIBUTIONS

Employers are liable to pay Unified Social Security Contributions (USC) relating to salaries and benefits paid to their employees.

Employers are liable to pay Unified Social Security Contributions relating to salaries and benefits paid to their employees.

The base for the USC is capped at fifteen minimum monthly salaries and is equal to UAH 55,845 from 1 January 2018 to 31 December 2018. The minimum mandatory amount of USC per month is UAH 819. The rates applicable up to this threshold are as follows:

Type	Unified Social Security Contribution Rate	
	Employer's Contribution	Employee's Contribution
Enterprises and PEs using hired labour force (labour contracts)	22%	0%
Employers paying remuneration under civil law contracts	22%	0%
PEs registered as taxpayers under the simplified tax system	22%	
Individuals engaged in independent professional activities	22%	

There is a special reduced rate of USC at a rate of 8.41% for payments to individuals with physical disabilities.

LOCAL TAXES

There are a number of taxes at the local level, including property tax, parking duties, unified tax, and tourism duties. In general, local taxes (except unified tax) and duties do not have a significant impact on a taxpayer's tax position.

OTHER TAXES

LAND TAX

Land tax is imposed on owners and users of land. The rate of land tax depends on the category, location, and the existence of a state valuation for each particular land plot. Land tax is assessed annually for the following year, paid monthly in equal instalments.

DUTIES FOR THE INITIAL REGISTRATION OF VEHICLES

A local transport tax shall be charged on owners of passenger cars with an average market value exceeding 375 minimal salaries as of 1 January of the reporting year (i.e. UAH 1.4 million) and not older than five years. The Ministry of Economic Development and Trade needs to publish (on an annual basis, before 1 February of the reporting year) on its web-site a list of vehicles that are subject to the transportation tax (including brand, model, year of production, engine displacement, fuel type). The tax rate is UAH 25,000 per year for each car.

PROPERTY TAX

Property (Real Estate) tax is imposed on owners of residential and non-residential property in Ukraine, both individuals and legal entities, including non-residents. Real Estate Tax rates are set by local authorities but cannot exceed 3% of the statutory minimum salary established as of 1 January of a reporting year per square metre of an apartment, house or non-residential real estate (for 2018, the maximum is UAH 55.85 per square metre).

In addition, owners of apartments exceeding 300 square metres or houses exceeding 500 square metres should pay an additional UAH 25,000 on an annual basis. Tax relief for up to 60 square metres per apartment and 120 square metres per house (this will also be the case for an individual holding more than one property item the total size of which exceeds 180 square metres) is given to individual real estate taxpayers if property is used for private purposes only.

There are statutory tax exemptions (e.g., production facilities and warehouses of industrial enterprises, buildings and constructions used in agricultural production, property owned by government agencies and non-profit organisations (NGOs)).

SPECIAL PENSION FUND CHARGES

The following special charges are payable to the State Pension Fund:

- 3%, 4%, or 5% charge on the value of a new car, which is first subject to a registration with the government agency, depending on the said value (for the year 2018, the following criteria are applicable: up to UAH 290,730, 3%; above UAH 290,730, but not exceeding UAH 510,980, 4%; above UAH 510,980, 5%).
- 1% charge on the acquisition of real estate payable by individuals and legal entities that purchase real estate.
- 10% charge based on the value of precious metals contained in jewellery during its marking on the public enterprises of assay control.

STAMP DUTY

Stamp Duty is imposed on certain transactions, including notarisation of contracts and the filing of documents with the courts. In most cases, the amounts involved are nominal, although there are exceptions. Operations carried out at commodity exchanges and sales of real property are subject to a 1% stamp duty.

EXCISE TAX

Excise tax applies to certain goods imported to or produced in the Ukraine. Excisable goods include ethyl alcohol, alcoholic beverages, beer, tobacco and tobacco products, cars, car bodies, motorbikes, electricity, liquefied gas, petrol, diesel fuel, other fuel material, and electric power.

The rates of excise tax can be ad valorem (a percentage of the value of the goods), specific (in monetary units per unit of goods), or combined. A special local 5% excise tax applies to retail sales of alcoholic drinks, beer, and tobacco products.

There exists a special electronic administration system for excise tax on fuel. This system is aimed to control income and outcome flows of fuel in the market. The system requires entities to issue and register excise accounting documents (excise invoices) electronically on each operation of fuel sale, its usage for the company's needs, and for manufacturing non-excisable goods.

CHARGE ON ENVIRONMENTAL POLLUTION

Environmental pollution charges are imposed on any legal entity that discharges contaminants into the environment (air or water) or disposes of waste. The actual rate depends on the type and toxicity of each contaminant.

B. DETERMINATION OF TAXABLE INCOME

Taxable profit is defined as the financial result before tax, determined under Ukrainian accounting standards or under International Financial Reporting Standards, that is subject to several adjustments. Add-back adjustments increasing the financial result for tax purposes include the following:

- Thirty percent of the cost of goods, fixed assets, works and services purchased from non-residents registered in low-tax and non-transparent jurisdictions, or from non-profit organizations if the amount of purchase from non-profit organizations exceeds 50 minimum salaries. This limitation does not apply if the taxpayer substantiates the arm's length level of the expenses by preparing transfer pricing documentation.
- Royalties paid to non-residents exceeding the sum of royalty income and 4% of the taxpayer's net sales income for the preceding reporting year (excluding VAT and excise tax). In some cases, royalties are added back in full. The limitation does not apply if the taxpayer substantiates the arm's length level of the royalties by preparing transfer pricing documentation.
- Transfer pricing adjustments.
- Provisions and allowances accrued for financial accounting purposes (except salary provisions).
- Bad-debt allowances.
- Funds or cost of goods, works or services provided to non-profit organizations in an amount exceeding 4% of the taxpayer's taxable profit for the preceding year.
- Impairment of fixed assets and intangible assets.
- Expenses on repairs and reconstruction of non-production fixed assets and intangible assets.
- Non-repayable financial aid (goods/services), which was provided free of charge for the benefit of its recipients (other than duly registered non-profit organisations) that are not CIT payers or which are taxed at a 0% CPT rate.
- Losses from fines, penalties, forfeits, which were accrued in accordance with civil legislation for the benefit of entities that are not CIT payers (except for private individuals), or which are taxed at a 0% CPT rate.
- Losses from participation in the equity of other companies.

Industry-specific adjustments apply for banks and financial institutions. Tax loss carry forwards decrease the pre-tax financial result for CPT purposes.

If a taxpayer's income does not exceed UAH 20 million, the taxpayer may opt not to make any adjustments to the financial result before tax for CPT purposes.

According to domestic tax accounting rules, taxable items are normally recognised on the basis of the accrual method. In accordance with this method, income is generally recognised in the reporting period in which it was accrued. In general, expenses are recognised when they are incurred (i.e. upon receipt of goods or services), regardless of the period of payment. The expenses must be recognized in the reporting period in which the income related to these expenses is recognized.

Resident entities are taxed on the worldwide income they receive or accrue within the reporting period. Gross taxable income is defined as any income, from domestic or foreign sources, that is received or accrued by the taxpayer in the course of conducting any activity. This income may be in monetary, tangible or intangible form.

Tax holidays until 2021 are introduced for taxpayers with an annual income of less than UAH 3 million provided they meet certain requirements:

(i) Payroll amount (not less than two statutory minimum wage monthly per employee),

(ii) A defined average number of employees in the previous periods (for the entities established prior to 1 January 2017); and

(iii) Are compliant with limitations on types of activities (according to the specific list).

DEPRECIATION

Depreciation allowances are permitted for all capital assets, including both fixed and intangible property, except for land, goodwill, fixed assets under conservation and non-business-related capital assets. For tax purposes, fixed assets are defined as assets that are designated for use in a taxpayer's business activity for more than one year and that have a value exceeding UAH 6,000.

According to the Tax Code, fixed assets are divided into 16 groups according to their minimum useful life for tax depreciation purposes.

Groups	Fixed assets included in this group	Minimum useful life, years
Group 1	Plots of land	-
Group 2	Capital expenditure on land improvements unrelated to construction	15
Group 3	Buildings	20
	Facilities	15
	Transmission devices	10
Group 4	Machinery and equipment	5
	Computers and other automatic data processing equipment; related information read-out and printing equipment; related computer programs (except for payments for programs that are classified as royalties and/or programs treated as intangible assets); other information systems; switch boxes, routers, modules and modems; uninterrupted power supplies and means connecting them to telecommunications networks; telephones (including satellite phones), microphones and portable radio transmitters worth over UAH 2,500	2
Group 5	Motor vehicles	5
Group 6	Instruments, devices, furniture	4
Group 7	Animals	6
Group 8	Perennial plants	10
Group 9	Other fixed assets	12
Group 10	Library funds	-
Group 11	Low-cost non-current tangible assets	-
Group 12	Temporary facilities	5
Group 13	Natural resources	-
Group 14	Reusable containers	6
Group 15	Rented assets	5
Group 16	Long-term biological assets	7

For tax purposes, fixed assets are depreciated during their useful lives using one of the following four methods:

- Straight line method;
- Reducing balance method;
- Accelerated reducing balance method;
- Cumulative method.

The tax depreciation method used should correspond with the taxpayer's UAS (Ukrainian Accounting Standards) policy. Each fixed asset is accounted for separately and depreciated over its useful life, as defined in the taxpayer's tax policy, but which should be at least the minimum useful life period indicated in the Tax Code. Taxpayers should use the longer of the tax accounting indicated by Tax Code or financial accounting depreciation terms. According to the Tax Code, intangible assets are divided into six groups. Each intangible asset should be accounted for separately and amortised using one of the abovementioned methods over its useful life, taking into consideration the minimum useful life established by the Tax Code.

Groups	Fixed assets included in this group	Minimum useful life, years
Group 1	Rights to use natural resources	According to the entitling document

Group 2	Rights to use property	According to the entitling document
Group 3	Rights to use commercial branding (trademarks, etc.)	According to the entitling document
Group 4	Industrial property rights	According to the entitling document but no less than five years
Group 5	Copyrights and related rights	According to the entitling document but no less than two years
Group 6	Other intangible assets	According to the entitling document

STOCK / INVENTORY

Generally, stock is valued at its purchase cost. The Tax code contains no provisions concerning valuation of stock. The cost of materials transferred to production may be determined by the following valuation methods: average cost, cost of item, FIFO, price of sales or standard cost.

CAPITAL GAINS AND LOSSES

As mentioned above, capital gains and losses are subject to profit tax at regular corporate rates.

DIVIDENDS

Dividends paid by Ukrainian companies are subject to Advanced Corporation Tax (ACT), which is calculated based on the statutory tax rate. Advance payment is calculated on the excess amount of dividends to be paid over the value of the object of taxation for the reporting year on the results of which the dividends are paid and for which the liability is paid. In the case of an outstanding liability, advance payment is calculated on the full amount of dividends to be paid. ACT is due prior to or upon payment of dividends.

Ukrainian companies may use ACT they have paid to reduce their CPT liabilities for future periods. If the taxpayer does not have sufficient CPT liabilities for a period, then this ACT credit may be carried forward indefinitely.

ACT does not apply to dividends paid by the following entities:

- Dividends paid to individuals;
- Dividends paid by joint investment vehicles;
- Dividends paid to shareholders of the taxpayer's parent company, up to the amount of dividends received by the parent company from third companies;
- Dividends paid to companies whose profits are exempt from tax, up to the amount of such exempt profits in the period for which dividends are paid.

Dividends distributed to non-residents are subject to withholding tax at a rate of 15%, unless an applicable double tax treaty provides otherwise. Ukrainian CPT payers do not include dividends received from other Ukrainian CPT taxpayers that pay ACT on their taxable profit.

INTEREST EXPENSES

Any interest expenses incurred by a taxpayer in the course of carrying out business activities are generally deductible.

However, interest payments to non-resident related parties are capped at the level of 50% of financial profit before tax, financial expenses and depreciation charges of the taxpayer, provided that the taxpayer's debt-to-equity ratio exceeds 3.5 (10 for financial institutions and companies engaged exclusively in leasing activity).

Disallowed interest expenses may, in principle, be carried forward indefinitely (subject to a 5% reduction each tax period). The deduction of payments to tax havens is limited.

LOSSES

Tax losses may in principle be carried forward indefinitely and should be reported in CPT returns for subsequent periods as a separate deductible difference although there are specific limitations for utilising such losses in future tax periods. Losses may not be carried back.

A special method applies for accounting for losses relating to securities.

FOREIGN-SOURCED INCOME

Foreign-sourced income and gains are subject to profit tax at the regular rate except for dividends.

INCENTIVES

Small businesses may choose to adopt the Simplified tax system, which is designed to reduce the tax and administrative burden on legal entities and private individuals. Taxpayers eligible to use this system, tax rates and permitted types of business activities are described in the table below:

Group	Maximum annual income (UAH)	Maximum number of employees	Types of permitted activities*	Rate (%)
1 (individuals)	300,000	None	Trading only with private individuals (retail sales and/or rendering of services)	Up to 10% of monthly cost of living for ableworking individuals (UAH 176.2 in 2018)
2 (individuals)	1,500,000	Max 10 persons	Trading only with private individuals or other simplified taxpayers (production of goods and/or rendering of services except for certain types of operations)	Up to 20% of minimum monthly salary (UAH 744.6 in 2018)
3 (individuals and legal entities)	5,000,000	Not limited	Any*	3 % of income (VAT payer) 5 % of income (non-VAT payer)
4 (agricultural producers)	Not limited	Not limited	Share of agricultural commodity production in the previous tax (reporting) year equals or exceeds 75%**	Depends on the type of land

* The following business activities cannot benefit from the simplified tax system:

- Gambling establishments;
- Exchange of foreign currencies;
- Production, export, import and sale of excisable goods;
- Extraction, production and realisation of precious metals and precious gems;
- Extraction and realisation of mineral resources;
- Financial services except insurance;
- Management of enterprises;
- Postal and connection services;
- Sales of works of art, antiques; and,
- Touring events businesses.

Legal entities and individuals using the Simplified Tax System are exempt from the following taxes:

- Corporate Profits Tax;
- Personal Income Tax (on income of individual entrepreneurs only);
- Value-Added Tax (except for those opting to be VAT payers);
- Property tax;
- Rent for special use of water (4-th group).

** Entities that carry out activities for the production of excisable goods other than wine grape cannot opt for the simplified tax system.

C. FOREIGN TAX RELIEF

Tax residents are allowed to offset foreign taxes paid in respect of the income received abroad against their Ukrainian tax liabilities if it is provided by a double tax treaty (DTT) between Ukraine and the relevant foreign state. The amount of foreign tax credit is limited to the amount of Ukrainian tax that would arise from the same income in Ukraine. To claim a tax credit, the taxpayer must obtain an official confirmation of the amounts of income subject to tax abroad and the tax paid thereon, issued/verified by the relevant foreign tax authority.

D. CORPORATE GROUPS

There is no group taxation.

E. RELATED PARTY TRANSACTIONS

The Tax Code incorporates the main standards of the OECD Guidelines. However, the Ukrainian tax authorities are not obliged to follow OECD Guidelines since Ukraine is not an OECD member country. The Tax Code requires some transactions to be recognised as "controlled transactions" which must be performed at arm's length and are subject to control by the tax authorities. The following business transactions carried out by Ukrainian taxpayers are deemed to be controlled:

- Transactions with non-resident related parties;
- International transactions on the sale of goods through non-resident commission agents;
- Transactions with non-residents that do not pay CPT and/or are not tax residents of the country where they are registered as legal entities and are incorporated under specific legal forms (the list of such legal forms of non-residents has been approved by the Cabinet of Ministers);
- Transactions with non-residents (both related and non-related parties) registered in a jurisdiction listed by the Cabinet of Ministers of Ukraine, i.e.:
  - a state (territory) where the income tax rate is lower than in Ukraine by at least 5 percentage points;
  - a state which does not publicly disclose information on legal entity ownership;
  - a state which is not a party to international agreements with Ukraine containing provisions on the exchange of information.

On 27 December, 2017 the Cabinet of Ministers amended the list of low-tax jurisdictions which is used for transfer pricing purposes. The list was expanded to include new jurisdictions such as Estonia, Malta, the United Arab Emirates, Singapore, Hungary and Georgia. The new decree with the amended list of low-tax jurisdictions came into force on 1 January 2018. The full list of low tax jurisdictions now includes 85 jurisdictions. Special rules apply to transactions with residents of the countries included in the list, including the following:

- Business transactions are treated as controlled transactions for transfer pricing purposes (irrespective of whether the taxpayer and the person resident in the listed country are related parties); and
- Taxpayers may deduct only 70% of the cost of goods, work and services purchased in noncontrolled transactions from residents of listed countries, unless the taxpayer can demonstrate that the terms of the transaction are at arm's length.

Generally, all transactions within defined thresholds should be supported by TP documentation. There are no formal thresholds below which no TP documentation is required.

The value criteria for the abovementioned transactions are deemed to be controlled if both of the following conditions are met:

- Annual income of a taxpayer from any activities, defined in accordance with the accounting standards, exceeds UAH 150 million (net of indirect taxes) for the reporting year;
- Volume of such transactions of the taxpayer with one counterparty, as defined under the accounting standards, exceeds UAH 10 million (net of indirect taxes) for the reporting year.

Based on OECD rules, Ukrainian TP rules provide for five methods to determine whether the conditions of commercial and financial relations between related parties satisfy the arm's length principle:

- Comparable uncontrolled price method;
- Resale price method;
- "Cost plus" method;

- Transactional net margin method;
- Profit split method.

The comparable uncontrolled price method has priority. In cases where the resale price method, costplus method, net margin or profit split methods may be applied by the taxpayer with the same reliability, the resale price or cost-plus method shall be used.

The deadline for submitting the report on controlled transactions since 2017 is stated as 1st October of the year following the reporting year. Transfer pricing documentation should be submitted at the request of the Ukrainian tax authorities within one month.

The transfer pricing documentation should contain the following information:

- Comprehensive information about related parties, including information on entities, corporate rights of which 20% or more are owned by the taxpayer either directly or indirectly;
- Information about the group: structure, description of activities, group transfer pricing policies, information on entities which the taxpayer provides with local management reports (names of the countries in which these entities hold their head offices);
- Description of the management structure of the taxpayer, its organizational structure scheme;
- Information about the taxpayer's participation in business restructuring or transfer of intangible assets during the reporting or preceding year, with an explanation of the aspects of those operations that had or still have an impact on the operations of the taxpayer;
- Description of the transaction (terms and conditions) and copies of the agreements (contracts);
- Description of goods (work, services), including physical characteristics, quality and reputation in the market, country of origin and manufacturer, trademarks, etc.;
- Information about the payments actually made in the controlled transaction (amounts and currency of payment, date, payment documents);
- Factors that impact the price;
- Functional analysis and risk analysis;
- Economic and comparable analysis: transfer pricing method applied, its substantiation, amount of income or expenses, profitability level calculation of the at arm's length price and profitability range, approach to selection of comparables, sources of information, description and calculation of comparability adjustments of terms and financial results in a controlled and non-controlled transaction, description of an algorithm of allocating suppliers' costs incurred during the performance of the transactions that are considered when calculating the profit level indicator;
- Information about corresponding adjustments made by the taxpayer, if any.

The terms for selection of comparable companies are specified in the Tax Code. One may use information on comparable companies in order to determine profitability level subject to all the following conditions being met:

- A comparable company conducts activities comparable to the activities of the taxpayer and performs comparable functions (comparability of activities is determined under national and international classifiers);
- A comparable company does not have losses according to accounting (financial) statements in more than one reporting period out of all periods used for the calculation of financial indicators;
- A comparable company does not own, directly and indirectly, more than 20% of corporate rights in another legal entity or does not have as a participant (shareholder) a legal entity with a direct/indirect participatory share of more than 20%.

Criteria for grouping several controlled transactions for TP purposes are also prescribed. It is required to use the weighted average rate of profitability in order to calculate the profitability range when using multiple tax periods.

An option of concluding an advance pricing agreement (APA) with the Ukrainian tax authorities is available to large taxpayers, whereby an approach to pricing in controlled transactions can be agreed upon with the tax authorities in advance. APAs should guarantee that the tax authorities accept the selected transfer pricing methodology for controlled transactions.

To monitor a taxpayer's compliance with TP rules, the Ukrainian tax authorities are authorized to conduct specialized TP audits. Such audits may last for a period of 18 months and may be further prolonged for another 12 months in separate cases.

Implementation of BEPS

According to the information of the Ministry of Finance, the Ukraine has joined the implementation of the Base Erosion and Profit Shifting (BEPS) action plan from 1 January 2017.

The official letter with Ukraine's commitment to implement the BEPS plan was handed over by the Finance Minister to the OECD Secretary-General on 22 November 2016. At present, no changes to domestic tax legislation have been implemented.

F. WITHHOLDING TAX

Domestic withholding tax rates are set out in the table below (although more favourable treaty rates may apply). In order to benefit from any applicable treaty relief, a non-resident should provide the Ukrainian taxpayer with a residency certificate issued annually by the tax authorities of their country of residence. The amount withheld should be remitted to the government when the income is paid to the non-resident. Non-business-related income may be paid to non-residents from Ukrainian sources, provided that it is not attributable to a non-resident's PE in the Ukraine.

Income from Ukrainian sources	Withholding tax rate
Dividends	15%
Interest	15%
Royalties	15%
Income from international freight transportation	6%
Interest income from certain state securities	0%
Other Ukrainian-sourced income	15%

A special tax is levied on insurance and advertising income payable from the Ukraine to non-residents. This tax should be accrued on top of the income from Ukrainian sources payment (i.e. the gross amount) at the following rates and is non-recoverable for the taxpayer (see table below).

Income from Ukrainian sources	Tax rate
Insurance income	0% / 4% / 12%
Income from advertising services	20%

G. EXCHANGE CONTROLS

Currency operations that take place in Ukraine fall under state currency control regulations, a key feature of which is the concept of residency.

Only the local currency (UAH) may be used in business transactions between residents. Residents and non-residents involved in international trade and investment transactions generally use a foreign currency.

Foreign currency proceeds received by a company from its foreign clients must be credited to a local bank account within 180 days of the export date of the services or goods. Failure to comply with this provision will result in the Ukrainian company being liable to pay a penalty of 0.3% of the proceeds for each day of the delay.

Goods must be imported into Ukraine within 180 days of prepayments being made by a Ukrainian company to its suppliers. Failure to comply with this provision will result in the Ukrainian company being liable to pay a penalty of 0.3% of the cost for each day of the delay.

Certain other transactions involving local and foreign currencies are subject to licensing by the National Bank of Ukraine (e.g. settlements made in a foreign currency on Ukrainian territory). Ukrainian residents are also required to obtain an individual license to make investments abroad.

All entities are required to sell at least 50% of revenue they receive in specified foreign currencies (US Dollars, Euros, British Pounds, Swiss Francs and Russian roubles) and precious metals.

Several temporary restrictions are imposed on cross-border payments in foreign currency.

H. PERSONAL TAX

The Personal Income Tax (PIT) base for Ukrainian and foreign nationals depends on their tax residency status. Ukrainian tax residents are subject to PIT on their worldwide income, whereas non-residents are only

subject to taxation on the Ukrainian-sourced portion of their income. The Tax Code also provides for a self-recognition procedure, according to which an individual can voluntarily elect to be a Ukrainian tax resident. Domestic laws provide tax residency rules and these provisions may be overruled by the respective provisions of relevant double tax treaties. The following PIT rates are generally applied:

- 18% - on the worldwide income of tax residents and the Ukrainian-sourced income of non-residents.
- 0% - on inheritance from immediate family members, income from the first sale of qualifying residential property and plots of land not exceeding the limit for free land transfers (provided that the property has been in ownership for more than three years).
- 5% - for tax residents on: income from the sale of commercial property; income from the second and any further sale of residential property within one reporting year; income from the sale of movable property by its owner, other than the first sale of a vehicle; income from the sale of plots of land over the maximum area for free land transfers; on dividends issued by a resident issuer (except accrued dividends on shares and/or investment certificates); and on inheritance paid to nonrelatives.

The Tax Code also provides a list of items that must be included in an individual's taxable income. These include, among other things, gifts, insurance contributions and premiums, rental income and fringe benefits. Contributions to unqualified pension plans made on behalf of a taxpayer by another person/an employer will also be included into an individual's taxable income. Income received from the sale of real estate is not taxable if the property is sold only once during a calendar year, regardless of the size of property. Revenue earned from the sale of a house, apartment, part of an apartment, room or cottage (including the plot of land, on which it is located) is:

- Not subject to tax if sold only once during a calendar year, and if the property has been owned for more than three years; or,
- Subject to 5% tax, which is levied on the amount received for a second sale of the property within a reporting year.

Foreign individuals, who are considered Ukrainian tax residents, are taxed in the same manner and according to the same rules as Ukrainian citizens.

I. Military Duty.

In 2018 all types of income subject to PIT are also subject to military duty. The rate of this duty is 1.5% of the taxable income.

J. TREATY AND NON-TREATY WITHHOLDING TAX RATES

As of December 2017, the Ukraine has up to 73 double tax treaties in effect. Withholding taxes on interest, dividends and royalties are typically reduced by tax treaties. A summary of withholding rates under the various treaties is provided in the table below. But it should be noted that in every specific case the terms and conditions of the treaty in question need to be examined. Taxpayers do not require confirmation from the tax authorities before claiming relief under a treaty. However, the withholding agent must hold a certificate of residence from the treaty country for the person to whom income is paid. The certificate should be provided to the tax authorities at least once every two years.

In addition to the above, the Tax Code requires the recipient of all types of income from the Ukraine to be the beneficial owner (actual recipient) of the respective income. Agents, nominee holders and other intermediaries in respect of the received income cannot be beneficial owners of income sourced in Ukraine, and, therefore, are not entitled to favourable treaty provisions.

Recipient	Dividends (%)		Interest (%)[2]	Royalties (%)[3]
	Individuals, companies [1]	Companies, individuals		
Domestic rates:				
Non-resident individuals	5/18[4]	5/18[4]	18	18
Non-resident corporations	15	15	15	15
Treaty rates:				
Algeria	5	15	10	10

Armenia	5	15	10	0
Austria	5	10	2/5[5]	0/5
Azerbaijan	10	10	10	10
Belarus	15	15	10	15
Belgium	5	15	2/10[5]	0/10
Brazil	10	15	15	15
Bulgaria	5	15	10	10
Canada	5	15	10	0/10
China	5	10	10	10
Croatia	5	10	10	10
Cyprus[19]	5	15	2	5/10
Czech Republic	5	15	5	10
Denmark	5	15	0/10[7]	0/10
Egypt	12	12	12	12
Estonia	5	15	10	10
Finland	0/5[8]	15	5/10[7]	0/5/10
France	0/5[9]	15	2/10[5]	0/5/10
Georgia	5	10	10	10
Germany	5	10	2/5[5]	0/5
Greece	5	10	10	10
Hungary	5	15	10	5
Iceland	5	15	10	10
Ireland	5	15	5/10[20]	5/10
India	10	15	10	10
Indonesia	10	15	10	10
Iran	10	10	10	10
Israel	5/10	15	5/10[10]	10
Italy	5	15	10	7
Japan[6]	15	15	10	0/10
Jordan	10	15	10	10
Kazakhstan	5	15	10	10
Korea (South)	5	15	5	5
Kuwait	5	5	0	10
Kyrgyzstan	5	15	10	10
Latvia	5	15	10	10
Lebanon	5	15	10	10
Libya	5	15	10	10
Lithuania	5	15	10	10
Luxembourg[21]	5[18]	15	5/10[22]	5/10[23]

Macedonia	5	15	10	10
Malaysia[6]	15	15	15	10/15
Malta[21]	5[18]	15	10	10
Mexico	5[17]	15	10	10
Moldova	5	15	10	10
Mongolia	10	10	10	10
Morocco	10	10	10	10
Netherlands	0/5[11]	15	2/10[5]	0/10
Norway	5	15	10	5/10
Pakistan	10[16]	15	10	10
Poland	5	15	10	10
Portugal	10/15[12]	15	10	10
Romania	10	15	10	10/15
Russian Federation	5[13]	15	10	10
Saudi Arabia	5[18]	15	10	10
Serbia and Montenegro	5	10	10	10
Singapore	5	15	10	7.5
Slovakia	10	10	10	10
Slovenia	5	15	5	5/10
South Africa	5	15	10	10
Spain[6]	15	15	0	0/5
Sweden	0/5[14]	10	0/10[5]	0/10
Switzerland	5	15	0/10[5]	0/10
Syria	10	10	10	15
Tajikistan	10	10	10	10
Thailand	10	15	10/15[10]	15
Turkey	10	15	10	10
Turkmenistan	10	10	10	10
United Arab Emirates	5	15	3	0/10
United Kingdom	5	10	0	0[15]
United States	5	15	0	10
Uzbekistan	10	10	10	10
Vietnam	10	10	10	10

Notes:

1. The ownership threshold for qualifying companies is 10%, 20%, 25%, or 50%, depending on the specific provisions in the treaty.
2. Several treaties contain a rate of 0% on interest paid to or guaranteed by a government or one of its agencies.
3. If more than one rate is shown, this means that the rate will depend on the type of royalties paid.
4. The 18% rate applies to dividends from privileged shares or other fixed payments on shares, as well as

to disguised employment income. Dividends received from a Ukrainian legal entity CIT payer (other than collective investment arrangement) are subject to the 5% rate.

5. The lower rate applies to interest paid on certain credit sales and on loans granted by a financial institution.
6. The treaties with Japan, Malaysia, and Spain were entered into by the USSR before it dissolved. Ukraine will continue to honour these treaties, unless they are superseded.
7. The lower rate applies to interest paid in connection with the sale on credit of any industrial, commercial, or scientific equipment, unless the indebtedness is between associated enterprises.
8. The 0% rate applies if the investor holds at least 50% of the capital of the company paying the dividends and the capital invested is at least 1 million United States dollars (USD); the payer of dividends should not operate in the field of gambling, show business or an intermediation business, or in auctions.
9. The 0% rate will apply if a French company or companies hold, directly or indirectly, at least 50% of the capital of the Ukrainian company, and the aggregate investments exceed 5 million French francs.
10. The lower rate applies to interest paid on any loan granted by a bank.
11. The 0% rate applies if the investor directly holds at least 50% of the capital of the company paying the dividends, and the capital invested is at least USD 300,000.
12. The 10% rate applies if the company receiving the dividend has, for an uninterrupted period of two years before the dividend is paid, owned at least 25% of the capital stock of the company paying the dividends.
13. The 5% rate applies if the capital invested is at least USD 50,000.
14. The 0% rate applies if the Swedish company directly holds at least 25% of the voting power of the company paying the dividends and at least 50% of the Swedish company is held by Swedish residents.
15. The 0% rate applies only if the royalties are taxable in the United Kingdom.
16. The 10% rate applies if the company receiving the dividend directly owns at least 25% of the capital stock of the company paying the dividends.
17. The 5% rate applies if the investor (other than partnership) being a beneficial owner holds at least 25% of the capital of the company paying the dividends.
18. The 5% rate applies if the investor, being a beneficial owner, holds at least 20% of the capital of the company paying the dividends.
19. The 5% rate on dividends applies if the investor holds at least 20% of the capital of the company paying the dividends or the capital invested is at least 100,000 euros (EUR). The 5% rate on royalties applies in relation to royalties on trademarks, patents, or know-how.
20. The 5% rate applies in the case of interest paid in connection with the sale on credit of industrial, commercial or scientific equipment or on any loan granted by a bank.
21. Effective date: 1 January 2018.
22. The lower rate applies, among others, to interest paid to a bank or other financial institution. Conditions may apply.
23. The higher rate applies to royalties paid or the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films or films or tapes used for radio or television broadcasting.

UNITED ARAB EMIRATES

MEMBER FIRM

City	Name	Contact Information
Dubai	Graham Martins	+971 4 3888 900 dubai@pkfuae.com

BASIC FACTS

Full name:	United Arab Emirates
Capital:	Abu Dhabi
Main languages:	Arabic
Population:	9.54 million (2018 estimate)
Monetary unit:	UAE Dirham (AED)
Internet domain:	.ae
Int. dialling code:	+971

KEY TAX POINTS

- There are no taxes levied by the Federal Government on income or wealth of companies and individuals. However, most emirates have issued tax decrees of general application.
- The tax decrees issued by the emirates impose income tax at varying rates on taxable income of 'bodies corporate, where so ever incorporated', but the enforcement is generally limited to foreign oil exporting companies and foreign banks.
- There are no withholding taxes on outward remittances, whether of dividends, interest, royalties or fees for technical services etc. from businesses operating in the United Arab Emirates.
- UAE free zones, which permit 100% foreign ownership, grant specific tax exemptions ranging from 15 to 50 years to companies operating in the free zones. There are more than 40 free zones around the UAE.
- There are no personal taxes except municipal taxes ranging from 1% to 5% on the annual rental of residential property(ies).
- There is a 10% tax on hotel services and entertainment.
- 5% VAT is applicable with effect from 1 January 2018 on most goods and services.

A. TAXES PAYABLE

FEDERAL TAXES AND LEVIES

DIRECT TAXES

There are no taxes levied by the Federal Government on income or wealth of companies and individuals. However, most emirates have issued tax decrees of general application. These impose income tax of varying rates on taxable income of 'bodies corporate, where so ever incorporated'. In practice, however, enforcement of the decrees is limited to oil exporting companies and foreign banks. Corporate income tax is imposed on foreign oil companies, i.e. companies dealing in oil or oil exploration rights.

Although the tax rate applicable to oil companies is generally 55% of operating profits, the amount of tax actually paid by the oil companies is calculated on the basis of a rate agreed mutually on the basis of specific individual concessions between the company and the respective Emirate. The tax rate may range between 55% and 85%.

The tax of foreign banks is not enforced in all the emirates. Branches of foreign banks are taxed at 20% of their taxable income in the Emirates of Abu Dhabi, Dubai, Sharjah and Fujairah. The basis of taxation does not differ significantly between the various Emirates. Dubai, Sharjah and Fujairah have issued specific tax legislation for branches of foreign banks, while Abu Dhabi does not have a specific decree. Special arrangements also exist for major government-controlled joint venture companies and some foreign banks. No tax returns are requested or required of other businesses operating in the United Arab Emirates (UAE). Further, there are no withholding taxes on outward remittance, whether of dividends, interest, royalties or fees for technical services, etc. from the other businesses operating in the UAE.

In view of the above, detailed consideration is not given to the income tax decrees. Companies establishing major ventures in the UAE might, however, be well advised to seek formal tax exemptions from the respective ruler in order to avoid future assessments. Arrangements may also on occasion be made by foreign companies wishing to pay tax (for example, where profits from foreign branches are not subject to home state taxation if foreign taxes are paid) for tax to be paid at less than the tax decree rates. UAE free zones, which

permit 100% foreign ownership, grant specific tax exemptions ranging from 15 to 50 years to companies operating in the free zones.

B. INDIRECT TAXES

Municipal taxes are charged in all the Emirates. In Dubai a 10% municipal tax is charged on hotel revenues and entertainment. In all the Emirates, except Abu Dhabi, income from renting commercial premises is taxed at a rate of 10%. Municipal taxes on renting of residential premises range from 1% in Ajman and 3% in Abu Dhabi to 5% in Dubai. Customs (import) duties are levied generally at a rate of 5% but there are many items which are duty exempt such as medicines, most food products, capital goods and raw material for industries etc. Imports by free zone companies are also exempted unless products move outside the zone. If the products are moved outside the zone, Customs Duty is levied at 5%.

After the introduction of the new uniform customs tariff on 1 January 2003, all non-Gulf Co-operation Council (GCC) products, except for those exempted, are subject to 5% Customs Duty, while the products of GCC countries shall enter into each other's markets free of customs duties. Products are considered as originating in a GCC country if the value added to such product in the said country is more than 40% of the value of the product in question and if the factory that manufactured the product is at least 51% owned by GCC nationals.

In the event of re-export to non-GCC countries, a customs deposit has to be made and this will be refunded when proof of re-export is given to the authorities. In the event of re-export to GCC countries, Customs Duty at 5% will be levied at the first point of entry. The provisions of the GCC Customs Union have applied since 1 January 2003. There are currently no consumption taxes in the UAE, but individual Emirates may charge levies on certain products such as liquor and cigarettes and on certain services such as those provided in the hospitality industry.

The Federal Tax Authority (FTA) was set up as the government entity responsible for the collection and management of federal taxes in the UAE. The FTA works in conjunction with the UAE Ministry of Finance (MOF). So far, the FTA has introduced the laws relating to excise tax and Value Added tax (VAT) along with the relevant rules and procedures for implementing the taxes.

Excise tax was introduced across the UAE with effect from 1 October 2017. The excise tax rates to be applied in the UAE are as follows: 50% for carbonated drinks; 100% for tobacco products; 100% for energy drinks.

VAT was introduced in the UAE with effect from 1 January 2018. VAT is intended to provide the UAE with a new source of income which will be continued to be utilised to provide high-quality public services. VAT is charged in the UAE at the standard rate of 5% on most goods and services and at a zero rate for some categories of supplies such as export of goods and services outside the GCC, certain education services and healthcare services and international transportation and related supplies. Residential properties, bare land, local passenger transport and supply of some financial services are exempt from VAT.

Many of the popular free zones in the UAE like Jebel Ali Free Zone, Abu Dhabi Airport Free Zone and Sharjah Airport International Free Zone and others, that have specific fenced geographic areas, security measures and customs controls, have been included in a list of Designated Zones (DZs) released by the MOF. These DZs have certain advantages under the VAT regime, whereby no VAT is chargeable for a transfer of goods between DZs, subject to certain conditions and a transfer of goods from one entity to another within the same DZ, as long as it is part of a supply chain and not meant for final consumption by the receiving entity, may not be subject to VAT.

C. TREATY AND NON-TREATY WITHHOLDING RATES

The UAE has entered into the avoidance of double taxation treaties (DTT/tax treaties) with more than 90 countries. The UAE has also signed agreements for the Protection and promotion of Investments with nearly 60 countries. Tax treaties signed by the UAE may have little relevance from the UAE tax perspective as a UAE tax liability is predetermined (no withholding tax on dividends, interest and royalties among others). The taxes paid in the UAE can be claimed as a credit in the home country of the foreign company depending on the relevant DTT and the domestic laws of that country.

UAE DTTs are in force/under negotiation with the following countries:

Albania	Fiji	Luxembourg	Serbia
Algeria	Finland	Macedonia	Seychelles
Andorra	France	Malaysia	Singapore
Armenia	Gambia	Malta	Slovakia

Austria	Georgia	Mauritania	Slovenia
Azerbaijan	Germany	Mauritius	South Africa
Bangladesh	Greece	Mexico	South Korea
Barbados	Guinea	Mongolia	Spain
Belarus	Hong Kong	Montenegro	Sri Lanka
Belgium	Hungary	Morocco	Sudan
Belize	India	Mozambique	Switzerland
Benin	Indonesia	Netherlands	Syria
Bermuda	Ireland	New Zealand	Tajikistan
Bosnia and Herzegovina	Italy	Nigeria	Thailand
Brunei	Japan	Pakistan	Tunisia
Canada	Kazakhstan	Palestine	Turkey
China	Kenya	Panama	Turkmenistan
Comoro Islands	Kyrgyzstan	Philippines	Uganda
Cyprus	Latvia	Poland	Ukraine
Czech Republic	Lebanon	Portugal	Uruguay
Egypt	Libya	Romania	Uzbekistan
Estonia	Liechtenstein	Russia	Venezuela
Ethiopia	Lithuania	Senegal	Vietnam
			Yemen

UNITED KINGDOM

MEMBER FIRM

City	Name	Contact information
Birmingham	Stephen Bryan	+44 7881 502903 stephenb@pkfcooperparry.com
Edinburgh	Susie Walker	+44 131 220 2203 susie.walker@jcca.co.uk
Exeter	Stuart Rogers	+44 1392 667000 stuart.rogers@pkf-francisclark.co.uk
London	Chris Riley	+44 207 516 2427 criley@pkf-llttlejohn.com
London	Shakunt Shah	+44 208 515 2804 schheda@klsa.net
Northern Ireland	Paddy Harty	+44 2830 261010 p.harty@pkffpm.com

BASIC FACTS

Full name:	United Kingdom of Great Britain and Northern Ireland
Capital:	London
Main languages:	English
Population:	66.48 million (2018 estimate)
Monetary unit:	Pound Sterling (GBP)
Internet domain:	.uk
Int. dialling code:	+44
Tax authority:	HM Revenue & Customs ('HMRC')

KEY TAX POINTS

- A company resident in the UK is generally chargeable to Corporation Tax on all its sources of income and capital gains, wherever arising. Companies with overseas permanent establishments may however make an election to exempt profits and losses from those permanent establishments from UK tax if conditions are met.
- Dividends received by UK companies from both UK and non UK companies are generally exempt from Corporation Tax if conditions are met. These conditions are stricter for smaller recipient companies.
- Where income or gains arising overseas are taxable on a UK resident company due to the conditions for exemption not being met, double taxation relief is generally available in respect of foreign tax suffered.
- Non-resident companies are liable to Corporation Tax if they carry on a trade in the UK through a permanent establishment in the UK. Capital gains arising on a non-resident company in respect of the sale of assets used in, or for the purposes of a trade carried on through a UK permanent establishment are also subject to Corporation Tax.
- Controlled foreign companies (CFC) legislation is in place to ensure that profits diverted from the UK to subsidiaries resident in low tax jurisdictions are included in a controlling UK company's taxable income.
- Transfer Pricing rules impute arm's length pricing to transactions between connected parties whether located overseas or in the UK. For Small or Medium sized entities (SMEs) the application of the rules are generally restricted to transactions with countries with which the UK does not have a suitable double tax treaty.
- The 'Diverted Profits Tax' came into force in April 2015. This imputes a tax charge of 25% on profits 'artificially diverted' from the UK through transactions which have no economic substance, where the arrangements are not otherwise caught by CFC or Transfer Pricing rules. This tax is not covered by UK Tax treaties, the charge may not be creditable for overseas tax purposes.
- Country-by-Country reporting regulations apply to multi-national groups with a UK parent company and turnover of EUR 750 million (approximately GBP 685 million) or more. For accounting periods commencing on or after 1 January 2016, such entities must provide HMRC with an annual report which discloses certain financial and fiscal information for each country in which the group carries on its business.
- Companies, partnerships, groups or sub-groups with a turnover of GBP 200 million or more or a balance sheet total over GBP 2 billion in the previous tax year, are required to publish their tax strategy on the internet. If part of a multinational group, the strategy should cover matters relevant to UK tax. The first strategy should be published before the end of the first financial year commencing after 15 September 2016.
- UK companies/groups with net UK interest exposure above GBP 2 million are required to apply new rules effective from 1 April 2017 to limit corporate tax deductibility of interest expenditure. A fixed interest rate will apply, limiting the allowable net interest exposure to 30% of a group's UK EBITDA. Also a group ratio rule can apply replacing the current worldwide debt cap. If an election is made this will be beneficial if the group rate is higher than the 30% fixed ration. This group rate will be based on the external net interest to EBITDA for worldwide group.
- From 1 April 2017 businesses will be able to use carried forward losses against profits from other income streams other than those that created the loss or against trading profits generated by other group companies. Where group taxable profits exceed GBP 5 million, the amount of loss that can be offset will be restricted to 50% of the amount of profit that could be offset against the carried forward losses.

- VAT is charged on the supply of most goods and services in the UK, the acquisition in the UK from other EU Member States of any goods, and the importation of goods from places outside the EU Member States.
- Income Tax at 20% must be withheld from payments of interest or royalties, although from April 2016 banks will cease to be required to deduct Income Tax from certain payments of interest, principally where the recipient is a UK resident individual. Double Tax treaties reduce or remove this charge in many cases, but this must be claimed formally from HMRC prior to making any payment at a reduced rate of withholding. There is no withholding tax on dividends.
- Resident and UK domiciled individuals are subject to Income Tax on their worldwide income as it arises. Non-residents are normally only subject to Income Tax on income arising in the UK.
- UK resident but non-UK Domiciled individuals can choose to be taxed only on their Income and Capital gains arising in the UK together with Income and Gains remitted to the UK from overseas in a given tax year (the Remittance Basis). However, long term residents are required to pay an annual charge to qualify for this treatment.
- Non-domiciled individuals who come to work in the UK, and who were not resident in the UK for any of the previous three tax years, can claim overseas work day relief for the first three tax years following arrival in the UK.
- A UK domiciled or deemed domiciled individual is potentially subject to Inheritance Tax on the transfer of any property owned by him, whilst a non-UK domiciled individual may only be subject to Inheritance Tax on the transfer of property situated in the UK. Inheritance Tax is a combination of gift and death tax.
- From 6 April 2015, non-residents owning UK residential property are subject to Capital Gains Tax in respect of gains arising on disposal of that property. In most cases, only increases in value from that date will be subject to charge. Non-resident landlords owning UK commercial property will be subject to UK tax on gains arising from April 2019. Also, from April 2020, it is proposed that non UK companies carrying on UK property rental businesses will be charged to corporate tax rather than income tax at present.
- UK residential property owned by non-natural persons (e.g. companies) is subject to an annual tax (Annual Tax on Enveloped Dwellings) but there are reliefs where the property is used in certain property businesses, including letting.
- UK resident trusts are liable to UK tax on worldwide income and gains. Non- resident trusts are liable to UK tax only on UK income.
- Anti-avoidance legislation exists to attribute the income and gains of offshore trusts and companies to UK residents who set up such structures and their UK resident beneficiaries.
- Trusts are subject to their own Inheritance Tax regime on worldwide assets. However foreign assets settled by a non-UK domiciled person (who was also not deemed domiciled) are excluded.
- Devolved taxes – With effect from 1 April 2018 the Scottish government introduced new tax rates applicable to employment trading, pension and rental income for Scottish resident taxpayers. Land and Buildings Transaction Tax applies to Scottish based properties – See I below. There are separate Land and Buildings Transaction Tax and Landfill Tax regimes in Scotland. Separate devolved powers apply for Northern Ireland, see H below.
- HMRC wish to become one of the most digitally advanced tax administrations in the world. By 2020, HMRC will require most businesses, self-employed people and landlords to maintain digital tax accounts and submit quarterly, digital returns.

A. TAXES PAYABLE

COMPANY TAX

A UK resident company is liable to Corporation Tax on all its sources of income and capital gains, wherever these arise. A company is deemed to be resident in the UK, for tax purposes, if it is incorporated in the UK or its central management and control is exercised in the UK. A non UK resident company carrying on a trade in the UK through a permanent establishment (located in the UK) is liable to Corporation Tax on all income and gains attributable to that permanent establishment.

Corporation Tax rates are fixed for each financial year commencing 1 April. If a company's accounting period does not coincide with the financial year, its profits must be time apportioned and the Corporation Tax rate applied accordingly. Prior to 1 April 2015, the applicable rate of Corporation Tax varied depending upon a company's taxable profits. From 1 April 2015, however, a company is subject to a standard rate of Corporation Tax, irrespective of the level of its taxable profits:

	1 April 2016 to 31 March 2017	1 April 2017 to 31 March 2018
Standard rate	20%	19%

The UK standard rate of corporate tax is expected to reduce to 17% with effect from 1 April 2020. Large companies are those companies with taxable profits in excess of GBP 1,500,000. Where a company is a member of a group of companies, the limit of GBP 1,500,000 is reduced proportionately by the number of 'active' companies within the group. Where a company is 'large' for a second successive period, or where its taxable profits exceed GBP 10,000,000 (divided by the number of active companies within the group, where appropriate), it will be required to pay its Corporation Tax liability for that period in quarterly instalments. The first payment is generally due 6 months and 13 days after the start of the accounting period and quarterly thereafter. Companies with an annual Corporation Tax liability of GBP 10,000 or less are not required to pay taxes by instalments. For companies which are not required to pay their Corporation Tax in instalments, the payment date is 9 months and 1 day after the end of the relevant accounting period.

For accounting periods starting on or after 1 April 2019 companies with annual taxable profits of GBP 20 million or more (reduced by number of active companies in the group) are required to pay quarterly on the 3rd, 6th, 9th and final month of its 12 month accounting period. (For a 31 December year end, payments will be due on the 14 March, 14 June, 14 September and 14 December of that year.)

CAPITAL GAINS TAX

Capital gains made by companies are taxed at the standard rate of Corporation Tax. Non-resident companies are only taxed on capital gains from the sale of assets used in, or for the purposes of, a trade which is carried on through a permanent establishment located in the UK. From April 2015 non UK residents are chargeable on certain disposals of residential property in the UK and further changes are planned for UK commercial property. There are special provisions allowing tax deferrals by UK resident and non-resident companies for reinvestment / migration. Capital losses can only be offset against capital gains arising in the same financial year, or carried forward indefinitely to set against future capital gains. It is not possible to carry back capital losses.

A capital gain or loss arising on the disposal of shares in a trading company may be exempt from UK Corporation Tax where at least 10% of the ordinary share capital has been held for a minimum period of 12 months. This relief is called the "Substantial Shareholdings Exemption" (SSE). The rules are relaxed for disposals on or after 1 April 2017. The changes mean that the company making the disposal no longer has to be a trading company or member of a trading group. The company being sold no longer needs to meet a trading condition immediately after the disposal to an unrelated party and also the holding of a 10% stake requirement is relaxed provided at least 10% was held for a 12 month period within the 6 years prior to the disposal.

BRANCH PROFITS TAX

There is no branch profits tax in the UK. Foreign branch profits of a UK company are liable to UK Corporation Tax with relief (generally) available for overseas taxes paid on the same profits. An irrevocable election may be made to exempt the overseas branch profits from UK tax. Where an election is made any branch losses are not available to offset against the company's profits and previous losses relieved against UK profits are clawed back. The election is irrevocable and applies to all branches of a UK company. A UK branch of a non-resident company is taxable on its profits and gains in the same way as a UK resident company.

VALUE ADDED TAX (VAT)

VAT is charged on the supply of most goods and services made by businesses in the UK. VAT is

collected at each stage of the supply chain, generally when title to the goods passes or when services are performed. The burden of the tax falls on the ultimate consumer. Supplies of goods or services made in the UK by foreign entities can give rise to a requirement to register for VAT in the UK. VAT registration is compulsory for businesses established in the UK making annual taxable supplies in excess of the registration threshold. VAT registration is required if a business' VAT taxable turnover is more than GBP 85,000. This will not change for 2 years from 1 April 2018. Voluntary registration is sometimes available for businesses trading below this level. There is no VAT registration threshold for businesses making taxable supplies in the UK that have no UK business address. Such businesses must register for VAT immediately upon making taxable supplies in the UK unless the reverse charge simplification applies. The UK reverse charge simplification applies to most services when provided by a non-UK supplier to a UK VAT registered business customer.

The standard rate of VAT in the UK is 20%. Some supplies, such as the grant of certain interests in land, insurance, education, financial services, and health and welfare, are exempt from VAT (i.e. no VAT is charged but recovery of VAT on related purchases may be restricted). There is the 'option' for businesses to charge VAT on non-residential property transactions in order to recover VAT incurred, however, this is subject to anti-avoidance restrictions.

The export of goods from the UK, plus UK supplies of some other goods and services (e.g. books, food, children's clothing) are zero-rated. Other UK supplies may also be subject to VAT at the reduced rate of 5% (e.g. certain building works and energy saving products). VAT-registered businesses with an annual taxable turnover not exceeding GBP 150,000 may elect to simplify their VAT accounting by using the 'flat rate' scheme. Under the scheme, businesses account for VAT at a flat rate on turnover rather than on every single transaction. They are, however, not able to recover VAT on expenditure other than capital items over GBP 2,000.

APPRENTICESHIP LEVY

An apprenticeship levy came into effect in April 2017, at a rate of 0.5% of an employer's pay bill. A GBP 15,000 allowance for employers will mean that the levy will only be paid on employers' pay bills over GBP 3 million.

It is thought that less than 2% of UK employers will pay the levy.

FRINGE BENEFITS TAX (FBT)

No FBT is payable by the employer as the employees are normally taxed on benefits provided by virtue of their employment. However, National Insurance may be payable by the employer on the cash equivalent of the benefit provided.

BENEFITS IN KIND

There are 2 ways to report benefits, either through payroll reporting each time a payment is made or annually. An annual return is required regardless of which way benefits are reported.

LOCAL TAXES

Local authority rates are charged on the occupier of commercial property in the UK based on the rateable value of real estate at a level determined by central government.

OTHER TAXES

Insurance Premium Tax will be payable at the standard rate of 12% from 1 June 2017. Stamp Duty, at a rate of 0.5%, is payable by the purchaser (whether or not UK resident) on the transfer of shares in a UK incorporated company. Stamp Duty Land Tax (SDLT) is payable on UK land and building transactions and the rates are between 0 and 12% on the consideration paid for residential properties. SDLT is charged at increasing rates for each portion of the price. From 1 April 2016, an additional 3% charge applies to purchases of certain residential properties.

In Scotland, Land and Buildings Transaction Tax (LBTT) replaced SDLT with effect from 1 April 2015. The rates of LBTT for residential property range from 0 to 12%, with the 12% applying to consideration over GBP 750,000 as opposed to over GBP 1,500,000 for SDLT. LBTT is also applied progressively. From 1 April 2016, an additional 3% charge applies to purchases of certain residential properties.

For non-residential property, SDLT applies at rates ranging from 0 to 4% on a block basis. Non-Residential property transaction in Scotland are subject to LBTT rather than SDLT from 1 April 2015. Rates applicable range from 0 to 4.5% with 4.5% applying where the consideration exceeds GBP 350,000. Special rules apply to leases.

Special rates of SDLT apply where the residential property is purchased by a 'non-natural person' which includes companies. This rate is 15% for property costing over GBP 500,000. In addition, such properties are also subject to an annual tax, called the "Annual Tax on Enveloped Dwellings" or "ATED". Exemptions from ATED will apply where the property is used for specified, qualifying purposes, including certain letting arrangements.

For the year to 5 April 2017, Social Security Contributions are charged on employees at a rate of 12% on earnings over GBP 162 per week up to earnings of GBP 892 per week and 2% thereafter. There is no upper limit to the employer's contribution which is broadly charged at 13.8% of an employee's earnings over GBP 162 per week.

B. DETERMINATION OF TAXABLE INCOME

TRADING PROFITS

Taxable trading profits are calculated by determining assessable income and subtracting allowable deductions. Generally, to be deductible, expenditure must be incurred wholly and exclusively for the purposes of the trade and be revenue in nature rather than capital. Tax adjustments are made to the profit derived using UK accounting standards.

DEPRECIATION

Depreciation is not deductible and relief is instead given for investment through Capital Allowances. Capital Allowances are granted for depreciation of equipment and other assets at the following rates (using the reducing balance method, unless stated otherwise):

- An Annual Investment Allowance (AIA) provides for 100% tax relief on expenditure of up to GBP 200,000 on most types of plant and machinery costs but excludes cars.
- Plant, machinery and equipment: 18% where working life is less than 25 years. For certain assets where the working life is at least 25 years or the asset is one on a list of 'integral features' incorporated in a building, the writing down allowance is 8%.
- Motor cars: cars used in the business with CO^2 emissions of up to 130g/Km from April 2013 onwards form part of the general plant and machinery pool and attract allowances at 18%, whereas cars with higher emissions go into a special rate pool with annual allowances limited to 8%. The emissions figure goes to 110g/km for expenditure incurred on or after 1 April 2018.
- Research and development (R&D): 100% Capital Allowances are available to companies which incur capital expenditure on facilities or equipment for the carrying out of R&D. In addition, enhanced relief for revenue expenditure may be available in some cases. See 'Incentives' below.
- Investment in energy-saving equipment and environmentally-friendly equipment: 100% first year Capital Allowances are available for expenditure on designated energy efficient equipment and cars with very low CO^2 emissions (75g/km or less, or electric cars).

The amortisation on many intangible assets is deductible for tax. Relief can also be obtained in certain circumstances where the assets are not amortised for accounting purposes. No relief for the amortisation of goodwill or certain other business related intangibles is available where the goodwill or other intangible is acquired on or after 8 July 2015.

STOCK / INVENTORY

Stock and work in progress are valued at the lower of cost and net realisable value, being the only basis acceptable for tax purposes.

CAPITAL GAINS AND LOSSES

As discussed above, capital gains are included within the profits chargeable to Corporation Tax for an accounting period. Gains are normally computed by deducting the cost of an asset from its sale proceeds. An indexation allowance for inflation is available to companies. Capital losses can only be set against current or future capital gains, and not against income.

DIVIDENDS

Dividends received by UK companies from both UK and overseas companies are generally exempt from Corporation Tax subject to various conditions. For further details see section ‘C’ below.

INTEREST DEDUCTIONS

Interest is generally deductible on an accruals basis as long as the borrowing is for an allowable purpose but there are many anti-avoidance rules to restrict relief. The main exception is where, under certain circumstances, the interest is payable to a connected party and remains unpaid for more than 12 months after the end of the accounting period. Relief for such interest is deferred until it is paid unless the lender is liable to UK Corporation Tax and has brought the interest receivable into account.

The UK's transfer pricing rules apply to debt. Interest paid to a parent or fellow subsidiary (under common control and whether UK or overseas) is not deductible to the extent that the payment would not have been made if the companies had not been connected. There are no statutory debt/equity restrictions.

UK companies/groups with net UK interest exposure above GBP 2 million are required to apply new rules effective from 1 April 2017 to limit corporate tax deductibility of interest expenditure. A fixed interest rate will apply, limiting the allowable net interest exposure to 30% of a group's UK EBITDA. Alternatively, a group ratio rule may apply based on the ratio of external net interest to EBITDA for the worldwide group.

LOSSES

Trading losses may be:

- Set off against income and capital gains of the same accounting period;
- Carried back for set off against income and capital gains of the previous year;
- Carried forward against future trading profits from the same trade. Where within a period of three years there is both a greater than 50% change in a company's ownership and a major change in the nature or conduct of a trade, relief from the carry forward or carry back of losses will be denied from the date of the change in ownership.
- With effect from 18 April 2015, anti-avoidance provisions apply to deny the use of brought forward losses to certain arrangements where a company seeks to obtain a Corporation Tax advantage through the use of brought forward losses and it is reasonable to assume that the value of the Corporation Tax advantage exceeds the value of any non-tax advantages.
- From 1 April 2017 businesses will be able to use carried forward losses against profits from other income streams other than those that created the loss; or against profits generated by other group companies. Where group taxable profits exceed GBP 5 million, the amount of loss that can be offset will be restricted to 50% of the amount of profit that could be offset against the carried forward losses.

FOREIGN SOURCED INCOME

The UK has controlled foreign company (CFC) legislation which is designed to tax holding companies on the profits of subsidiary companies in a 'low tax territory' (countries where the tax rate is less than three-quarters of the corresponding UK tax on those profits). UK resident companies that hold a 25% or greater interest in a CFC may be taxed on the profits of the CFC but there are a number of exceptions to this rule. From 2012, the regime is targeted specifically at overseas profits that have been artificially diverted from the UK and a number of exemptions exist to take some companies or a proportion of their profits out of the charge. There is also a gateway test that companies can pass to avoid a CFC charge. A partial exemption for finance companies ensures that, in broad terms, profits caught under these rules are taxed at a quarter of the main Corporation Tax rate.

INCENTIVES

There are a number of grants and other forms of assistance available to businesses in the UK. Certain expenditure incurred in respect of qualifying research and development activities carried on by companies qualifies for enhanced tax relief. If the qualifying expenditure is incurred by small and medium sized companies, the relief is generally an additional deduction of 130%. Where such companies have a tax adjusted loss for a period, all or part of the losses can be surrendered for a repayable credit at a rate of 14.5%. From 1 April 2016, large companies may claim a taxable credit equal to 11% of the qualifying expenditure. Prior to 1 April 2016, large companies have the alternative option of claiming an enhanced deduction equal to 30% of the qualifying expenditure. In some circumstances, a small or medium sized company may be required to claim relief at the large company rates.

Research and development (R&D): 100% Capital Allowances are available to companies, which incur capital expenditure on facilities or equipment for the carrying out of R&D.

The Patent Box allows companies with qualifying patent income to be taxed on that income at an effective rate of 10% by way of a deduction against profits. The way in which the Patent Box relief is calculated will change with effect from 1 July 2016; however, if a company elects into the Patent Box regime for periods ended prior to 30 June 2016, it will be entitled to claim relief calculated under the existing rules until 30 June 2021, but only in respect of income from patents which existed as at 30 June 2016.

A 100% business rate discount is available to businesses that move into an Enterprise Zone. In addition, 100% Capital Allowances are available in respect of certain types of expenditure by businesses and companies based in some Enterprise Zones.

C. FOREIGN TAX RELIEF

Certain foreign taxes paid on income and gains of a UK resident company may be credited against the

Corporation Tax on the same profits or relieved by way of deduction against profits. The foreign tax relief cannot exceed the UK Corporation Tax charged on the same profits. Domestic and foreign dividends received by UK resident companies from 1 July 2009 are generally tax exempt. Various conditions need to be met and those conditions are different depending on whether the recipient is a small company.

D. CORPORATE GROUPS

Tax losses (other than capital losses but see below) may be surrendered within a 75% UK group effectively allowing consolidation of losses against profits and capital gains. Where a UK group company takes over the trade of a 75% fellow UK group member, the unused trading losses and Capital Allowances are transferred to the acquiring company. The trade losses are offset against future profits of the trade transferred. Companies may also benefit from consortium relief. A company is owned by a consortium if at least 75% of the ordinary share capital is held by companies, each of whom owns at least 5%.

The transfer of assets within a 75% group of UK companies does not give rise to a capital gain. If the transferee company leaves the group within six years of such a tax free transfer, a capital gain may arise based on the market value of the asset at the time of the transfer. If the company leaves the group as a result of another company making a disposal of its shares, the gain forms part of the disposal proceeds deemed to be received by the company selling the shares.

A company with capital losses may elect to treat a gain which would have been realised by another UK group company as if it had been realised by it. The practical effect is to give a form of 'group relief' for capital losses.

E. RELATED PARTY TRANSACTIONS

UK companies and partnerships are required under self-assessment to document all relationships with overseas and UK associated parties and to identify and include in the tax calculation prices which are in line with what would be expected if the relevant transactions had taken place on an arm's length basis. However, in certain circumstances, small and medium-sized groups may be exempted from the UK's transfer pricing provisions.

F. WITHHOLDING TAX

Subject to the terms of the tax treaty, withholding taxes must usually be deducted from interest and royalties. No withholding tax applies to dividends paid by UK resident companies or interest and royalty payments where the conditions of the EU Interest and Royalty Directive are met.

G. EXCHANGE CONTROL

There are no exchange controls in the UK.

H. CORPORATION TAX (Northern Ireland) BILL

The Corporation Tax (Northern Ireland) Bill provides for the devolution of the rate-setting power for Corporation Tax to the Northern Ireland Assembly. The new rules will have effect from a date to be appointed by HM Treasury and is expected to be in April 2018. The rate is expected to be similar, if not lower, than the Republic of Ireland's Corporation Tax rate of 12.5%.

I. PERSONAL TAX

Taxable persons comprise resident individuals, trustees and executors as well as non-resident individuals, trustees and executors in respect of their UK-source income. Resident persons are generally subject to Income Tax on their worldwide income as it arises. Non-residents are normally only subject to Income Tax on income arising in the UK. Broadly, UK resident individuals are liable to capital gains tax whilst non-residents are not. However, from 6th April 2015 non-resident individuals will be liable to UK CGT on UK sited residential property on the portion of the gain arising after 6 April 2015.

A new statutory residence test was introduced from 6 April 2013 and provides clarity to individuals on their residence status. For individuals who have been residing outside the UK for some time it is important that care is taken with the number of visits to the UK, as being in the UK for too long a period could make an individual UK resident. HMRC treat an individual as being in the UK for a day if the individual remains in the UK at midnight. Under the new statutory residence test it is possible to be UK resident in certain circumstances when in the UK for as little as 16 days. Different rules apply to individuals leaving the UK as to those coming to the UK and on every case it is important to take professional advice and review current residence status.

Broadly, individuals are domiciled in the country or state regarded as their permanent home. Individuals acquire a domicile of origin at birth, normally that of their father, and it is retained until a new domicile of choice

is acquired. To acquire a domicile of choice, a person must sever ties with the domicile of origin and settle in another country with the clear intention of making a permanent home there.

There are special rules which allow non-domiciled individuals from being taxed on their non-UK source income and gains until they are remitted to the UK. The rules regarding remittance to the UK are complicated and some UK residents are subject to a GBP 30,000, GBP 50,000 or GBP 90,000 annual charge for using this facility. As of 6 April 2014, specific anti-avoidance rules prevent a non-domiciled individual from using the remittance basis in respect of income earned from an overseas employment that is deemed to be connected with the individual's UK employment.

Non-domiciled individuals who come to work in the UK, and who were not resident in the UK for any of the previous three tax years, can claim overseas work day relief for the first three tax years following arrival in the UK. These rules allow a proportion of the individual's emoluments from employment to escape UK taxation until such time as those amounts are remitted to the UK, based on the number of UK and non-UK work days carried out by the individual during the true year.

Husbands and wives are taxed separately and each is entitled to a personal allowance. This has been set at GBP 11,500 for the year to 5 April 2018 and GBP 11,850 for the year to 5 April 2019 (although the allowance is reduced by GBP 1 for every GBP 2 above which an individual's annual income exceeds GBP 100,000). The income of a minor unmarried child is also taxed separately, unless it originates from funds given to the child by the parent and it is in excess of GBP 100.

Donations to UK registered charities are made net of basic rate tax. For each GBP 80 donated by an individual, the charity receives a total of GBP 100. Higher or additional rate tax relief is given by extending the basic rate or higher rate band by the grossed up amount of the gift (see below). A UK resident individual under the age of 75 may join a personal pension scheme and make contributions. Tax relief for all contributions in a tax year is given on the higher of 100% of relevant UK earnings and GBP 3,600 (gross), and is further restricted to the annual allowance. This is GBP 40,000 from 6 April 2014 onwards and was previously set at GBP 50,000 from 6 April 2011 to 5 April 2014. A tapered reduction in the annual allowance applies from 6 April 2016 for those with an adjusted income over GBP 150,000. The reduction is GBP 1 for every GBP 2 of income over GBP 150,000 and the minimum allowance is GBP 10,000.

Individuals are able to carry forward their unused annual allowances for up to three years. The total amount an individual may contribute into a pension over his or her lifetime (including any capital growth) is determined by the lifetime allowance (which is GBP 1,030,000 from 6 April 2018).

Interest on loans taken out wholly and exclusively for business purposes qualify for tax relief. This includes interest on loans taken out to:

(a) Acquire shares in a closely controlled company;

(b) Acquire shares in an employee-controlled company;

(c) Acquire interest in a partnership or to acquire machinery or plant for use in a partnership or employment.

The amount of unrestricted Income Tax reliefs an individual is entitled to take advantage of in any one tax year is restricted to the higher of GBP 50,000 and 25% of the individual's adjusted total income. Restricted reliefs include the interest relief referred to above, as well as relief for trading and property business losses off-set against general income. Individuals are entitled to a tax credit of up to 30% of the value invested in qualifying shares in the enterprise investment scheme (EIS) on investments of up to GBP 1 million per annum; and in venture capital trust (VCT) companies on investments up to GBP 200,000 per year. A more generous relief of 50% is available on investments of up to GBP 100,000 into small start-up companies from April 2012 onwards under the seed enterprise investment scheme (SEIS).

In addition to Income Tax relief, dividends received from ordinary VCT shares are exempt from Income Tax. EIS shares also qualify for capital gains deferral relief and there is no upper limit. Individual Savings Accounts (ISAs) are tax favoured savings accounts. Any income or gains from investments in an ISA is tax-free. The ISA annual contribution allowance for 2018/19 is GBP 20,000.

Capital gains chargeable on taxpayers other than companies are subject to capital gains tax at a rate of 10% or 20% for 2018/19 depending on the total of income and gains arising in the tax year. An 8% supplementary charge applies on gains realised on the disposal of residential property. A rate of 10% is also available (known as entrepreneurs' relief) in certain circumstances, such as on the disposal of shares held in a trading company, all or part of a business or an interest in a partnership, provided certain conditions are met. There is an annual exemption from tax on capital gains available per individual which for the year ended 5 April 2019 is GBP 11,700.

Capital gains derived from assets outside the UK will not be subject to UK tax in the hands of a foreign domiciled individual unless remitted to the UK provided the remittance basis has been claimed for that tax year. Individuals who leave the UK and become not resident for a period of less than five complete tax years may still be liable to tax on their return on any capital gains realised on assets owned prior to departure from the UK. This rule applies to those individuals who were resident for at least four out of seven tax years immediately preceding the year of departure.

Income Tax rates in 2018/19

	Taxable Income (GBP)	Rate on Income Other than Dividends (%)	Rate on Dividends* (%)
Basic rate	0 – 34,500	20	7.5%
Higher rate	34,501 - 150,000	40	32.5%
Additional rate	Excess	45	38.1%

*From 6 April 2016, individuals are entitled to a dividend allowance of GBP 5,000, meaning that Income Tax will not be due on the first GBP 5,000 of dividend income.

Scotland Income Tax Rates

	Taxable Income (GBP)	Rate on Income Other than Dividends (%)	Rate on Dividends* (%)
Starter rate	0 – 2,000	19	0%
Basic rate	2,001 – 12,150	20	7.5%
Intermediate rate	12,151 – 31,580	21	7.5%
Higher rate	31,581 – 150,000	41	32.5%
Top rate	Excess	46	38.1%

From 6 April 2018, individuals are entitled to a tax free dividend allowance of GBP 2,000.

INHERITANCE TAX (IHT)

A UK domiciled or deemed domiciled individual is potentially subject to IHT on the transfer of any property owned by him or her whilst a non-UK domiciled individual may only be subject to IHT on the transfer of property situated in the UK. IHT is a combination of gift and death tax. The first GBP 325,000 is free of IHT (the 'nil rate band'). It normally only arises on death but, in certain circumstances, lifetime gifts can also be chargeable to IHT. The rate on lifetime chargeable transfers is 20% and property passing on death is charged at 40%. The rate (applicable on death) was reduced to 36% from 6 April 2012 where the deceased leaves at least 10% of his or her net estate to charity. On death, IHT may also be levied on gifts made within the previous 7 years. Special rules apply to IHT on trusts.

There are some lifetime exemptions, which are completely free of IHT and are not subject to the 7 year rule. These include; an annual exemption of GBP 3,000; small gifts exemption of GBP 250 per donee; wedding gifts to a child GBP 5,000, grandchild/great-grandchild GBP 2,500 or to anyone else GBP 1,000.

From 6 April 2017, an additional nil-rate band will apply if the value of a deceased's estate includes a property which has been their residence at some point and is left to one or more direct descendants on death. The additional nil-rate band will also apply where the deceased has either down-sized to a less valuable residence or has ceased to own a residence on or after 8 July 2015. In such circumstances, the nil-rate band will be available in respect of the value of the original main residence, provided that the deceased has left the smaller residence, or assets of equivalent value, to direct descendants. The additional nil-rate band is being phased in and it will be set at GBP 100,000 for the tax year from 6 April 2017 to 5 April 2018, before gradually increasing to GBP 175,000 from 6 April 2020. For 2018/19 GBP 125,000 applies. If the value of the estate is in excess of GBP 2,000,000, the additional nil-rate band will be reduced by GBP 1 for every GBP 2 by which the value of the estate exceeds GBP 2,000,000.

Transfers between spouses and civil partners are exempt from IHT except when the transfer is made to a foreign domiciled spouse/civil partner by a UK-domiciled spouse/civil partner. A foreign domiciled individual

automatically acquires a 'deemed' domiciled in the UK for IHT purposes if he or she has been resident in the UK for 17 out of the previous 20 tax years, unless he or she is excluded from this rule under the terms of a double taxation treaty.

In addition, the non-domiciled individual may elect to be treated as UK domiciled for IHT purposes only. The effect of this would be that assets could be transferred from one member of a married couple/civil partnership to another, or left to them on death with no IHT arising. However, there may be IHT consequences in respect of any gifts or bequests made by the person treated as UK domiciled irrespective of the location of the assets concerned.

J. TREATY AND NON-TREATY WITHHOLDING TAX RATES

The table is for general guidance only. The rates in the table below reflect the lower of the treaty rate and the rate under domestic tax law. Where a treaty rate is higher than the domestic rate, the domestic rate applies. There is no withholding tax on dividends. If the conditions for the EU interest and royalties directive are satisfied, no tax is withheld.

	Interest[1] (%)	**Royalties (%)**
Non-treaty countries e.g. UAE, Brazil:	20	20
Treaty countries:		
Albania	6	0
Algeria	7	10
Antigua and Barbuda	20[2]	0
Argentina	12	3/5/10/15[3]
Armenia	5	5
Australia	0/10[4]	5
Austria	0	0/10[5]
Azerbaijan	10	5/10[6]
Bahrain	0	0
Bangladesh	7.5/10[4]	10
Barbados	0	0
Belarus[7]	0	0
Belgium	15	0
Belize	20[2]	0
Bolivia	15	15
Bosnia-Herzegovina[8]	10	10
Botswana	10	10
Brunei	20[2]	0
Bulgaria	0	0
Canada	10	0/10[9]
Chile	5/15	10/5
China	10	6/10[10]
Croatia[8]	10	10
Cyprus	0/10	0/5[18]

Czech Republic	0	0/10
Denmark	0	0
Egypt	15	15
Estonia	0/10	0/5/10[11]
Ethiopia	0/5	7.5
Falkland Islands	0	0
Faroe Islands	0	0
Fiji	10	0/15[21]
Finland	0	0
France	0	0
Gambia, The	15	12.5
Georgia	0	0
Germany	0	0
Ghana	12.5	12.5
Greece	0	0
Grenada	20[2]	0
Guernsey	20[2]	20[2]
Guyana	15	10/20
Hong Kong	0	3
Hungary	0	0
Iceland	0	0
India	10/15[4]	10/15
Indonesia	10	10/15[11]
Ireland	0	0
Isle of Man	20[2]	20[2]
Israel	15	0/15[18]
Italy	0/10	0/8
Ivory Coast	15	10
Jamaica	12.5	10
Japan	0/10[4]	0
Jersey	20[2]	20[2]
Jordan	10	10
Kazakhstan	10	10
Kenya	15	15
Kiribati	20[2]	0
Korea, Republic of	10	2/10[11]
Kosovo	0	0

Kuwait	0	10
Latvia	0/10	0/5/10[11]
Lesotho	10	10
Libya	0	0
Liechtenstein	0	0
Lithuania	0/10[12]	0/5/10[11]
Luxembourg	0	5
Macedonia	10	0
Malawi	0/20[13]	0/20[13]
Malaysia	10	8
Malta	10	10
Mauritius	0/-[14]	15
Mexico	0/5/10/15[15]	10
Moldova	5	5
Mongolia	7/10[4]	5
Montenegro8	10	10
Montserrat	20[2]	0
Morocco	10	10
Myanmar (formerly Burma)	20[2]	0
Namibia (South Africa treaty applies)	10	0
Netherlands	0	0
New Zealand	10	10
Nigeria	12.5	12.5
Norway	0	0
Oman	0	8
Pakistan	15	12.5
Papua New Guinea	10	10
Philippines	10/15[16]	15/20[18]
Poland	0/5[19]	0/5
Portugal	0/10	0/5
Qatar	0	5
Romania	10	10/15[6]
Russian Federation	0	0
St Kitts and Nevis	10/20[2]	0
Saudi Arabia	0	5/8[20]
Senegal	10	10
Serbia8	10	10

Sierra Leone	20[2]	0
Singapore	0/5	8
Slovak Republic	0	0
Slovenia	0/5	0/5
Solomon Islands	20[2]	0
South Africa	0	0
Spain	0/12	0/10
Sri Lanka	0/10[4]	0/10[6]
Sudan	15	10
Swaziland	20[2]	0
Sweden	0	0
Switzerland	0	0
Taiwan	10/20	10
Tajikistan7	0	0
Thailand	0/25[4]	5/15[6]
Trinidad and Tobago	10	0/10[9]
Tunisia	10/12[4]	15
Turkey	15	10
Turkmenistan7	0	0
Tuvalu	20[2]	0
Uganda	15	15
Ukraine	0	0
United Arab Emirates	0/20	0
United States	0	0
Uruguay	0/10	10
Uzbekistan	5	5
Venezuela	0/5[4]	5/7[17]
Vietnam	10	10
Zambia	10	10
Zimbabwe	10	10

Notes:

1. Many treaties provide for an exemption for certain types of interest, e.g. interest paid to the State, local authorities, the central bank, export credit institutions, or in relation to sales on credit. Such exemptions are not considered in this column.
2. The domestic rate applies - there is no reduction under the treaty.
3. The 3% rate applies to royalties paid for news; the 5% rate applies to copyright royalties (other than films, etc); the 10% rate applies to industrial royalties; the 15% rate applies to any other royalties.
4. The lower rate applies to interest paid to banks and other financial institutions.
5. The higher rate applies if the Austrian company controls more than 50% of the voting stock in the UK company.

6. The lower rate applies to copyright royalties.
7. The treaty concluded between the UK and the former USSR.
8. The treaty concluded between the UK and the former Yugoslavia.
9. The lower rate applies to copyright royalties (excluding films, etc).
10. The lower rate applies to copyright royalties (excluding films), computer software, patents and know-how.
11. The lower rate applies to equipment rentals.
12. The lower rate applies (apart from interest mentioned in note 1 above) to interest paid by a public body.
13. The domestic rate applies if the Malawi company controls more than 50% of the voting power in the UK10 company.
14. The zero rate applies to interest derived and beneficially owned by the Mauritian Government or local authority, or a bank carrying on a bona fide banking business which is a resident of Mauritius; the domestic rate applies in other cases (no reduction under the treaty).
15. The zero rate applies (apart from interest mentioned in note 1 above) to interest paid by a public body; the 5% rate applies to interest paid to banks and insurance companies and to interest on bonds and securities regularly and substantially traded on a recognized securities market; the 10% rate applies to interest paid by a bank or by a purchaser of machinery and equipment in connection with a sale on credit.
16. The lower rate applies to interest paid by a company in respect of the public issue of bonds, etc.
17. The lower rate applies to royalties for patents and know-how.
18. The lower rate applies to films etc.
19. The lower rate applies to interest paid to financial institutions (as defined).
20. 5% for use of, or right to use, industrial commercial, or scientific equipment. 8% in all other cases.
21. One of various conditions must be met or else the domestic rate applies.

UNITED STATES

MEMBER FIRM

City	Name	Contact Information
New York, NY/ Livingston, NJ Newburgh, NY / Bethesda, MD / Cranford, NJ	Leo Parmegiani	+1 646 699 2848 lparmegiani@pkfod.com
Harrison, NY / Stamford, CT	Peter Baum	+1 914 381 8900 pbaum@pkfod.com
Chicago, IL	Ann M. Behrens	+1 847 649 8178 abehrens@muellercpa.com
Atlanta, GA / Tampa, FL Nashville, TN / Las Vegas, NV Philadelphia, PA	Mike Whitacre	+1 404 253 7512 mike.whitacre@frazierdeeter.com
Los Angeles, CA	Georgette Green	+1 818 637 5000 ggreen@hbllp.com
Los Angeles, CA	Robert Gabon	+1 818 334 8625 rgabon@jlkrllp.com

Houston, TX	Frank Landreneau	+1 713 860 1429 flandreneau@pkftexas.com
Denver, CO	Ken Berkeley	+1 303 846 3315 kberkeley@eksh.com

BASIC FACTS

Full name:	United States of America
Capital:	Washington, D.C.
Main languages:	English
Population:	326 million (2018 estimate)
Monetary unit:	United States Dollar (USD)
Internet domain:	.us
Int. dialling code:	+1

KEY TAX POINTS

- Taxes are chargeable at both the federal, state and local level.
- Corporations incorporated in the United States (US) are generally subject to tax on their worldwide income. Effective in 2018, certain dividends received from a foreign subsidiary corporation are eligible for a 100% dividends received deduction. Foreign corporations are generally subject to tax only on their income effectively connected to a US trade or business.
- For corporations, capital gains are taxed at the same rates applicable to ordinary income.
- The tax on a foreign corporation's US branch's profits and earnings is the same as regular corporate tax, but an additional 30% branch level tax (BLT) is imposed if the after-tax earnings of the branch are not reinvested in the business by the close of the tax year, or are repatriated in a later tax year. Certain tax treaties could reduce this tax rate.
- The US does not impose any VAT, although most states impose single stage sales tax.
- A US corporation is entitled to a special deduction for dividends received from other domestic corporations. Dividends from foreign corporations may be eligible for a 100% participation exemption.
- US corporations are taxed on worldwide income, including any foreign branch income. To avoid any double taxation, foreign tax deductions or credits are available.
- Related party transactions negotiated at arm's length and meeting rigid substantiation standards are treated the same as non-related party transactions.
- Taxes are required to be withheld from portfolio dividends, interest, rents, and royalties, and certain other types of income paid to non-US payees.
- The Foreign Account Tax Compliance Act of 2010 (FATCA) imposes broad reporting and withholding obligations (directly and indirectly) on most non-US entities receiving US-source income in addition regular tax withholding.
- US citizens and residents are subject to taxation on their worldwide income even if they are not residing in the US. Non-resident individuals are generally subject to tax on their income from US sources.
- Special lower tax rates apply to capital gains and dividend income of individuals, depending on how long the asset has been held, and the type of asset.
- Other taxes which may be levied in addition to state tax include alternative minimum tax (AMT), selfemployment tax, social security and Medicare tax and qualified retirement plan tax. Taxes paid to the states and municipalities are generally deductible on the federal income tax return in the year paid. However, beginning in 2018, the state and local deduction is limited to USD 10,000 for individual taxpayers.

A. TAXES PAYABLE

COMPANY TAX

Company tax is payable by all corporate entities, except for certain exempt organizations and passthrough corporations subject to special rules. Corporations incorporated in the US are subject to tax on their worldwide income and foreign corporations are generally only subject to tax on their income effectively connected to a US trade or business. The US levied corporate tax on a graduated scale as follows for years beginning before 1 January 2018:

Taxable Income Exceeding (USD)	Taxable Income Not Exceeding (USD)	Tax
0	50,000	15%
50,000	75,000	7,500 + 25% of excess over USD 50,000
75,000	100,000	13,750 + 34% of excess over USD 75,000
100,000	335,000	22,250 + 39% of excess over USD 100,000
335,000	10,000,000	113,900 + 34% of excess over USD 335,000
10,000,000	15,000,000	3,400,000 + 35% of excess over USD 10,000,000
15,000,000	18,333,333	5,150,000 + 38% of excess over USD 15,000,000
18,333,333	-	Flat 35%

For years beginning after December 31, 2017, the US corporate rate has been reduced to a flat 21% on all levels of taxable income.

Generally, a large US corporation, defined as having at least USD 1 million gross taxable income in any of its 3 previous tax years, is required to prepay its estimated tax liability in up to four instalments. Corporations not meeting the large corporation income test can opt to pay 100% of the prior year tax under the "safe harbor" method. Penalties and interest may be assessed if estimated instalments are less than 100% of the actual liability.

The US imposes income taxation at both the business and individual levels. Corporate earnings, taxed first to the corporation and again later when distributed as dividends to shareholders, may be taxed at a combined effective federal rate exceeding 35%. Therefore, business is increasingly being conducted through flow-through entities such as traditional partnerships, limited liability companies (LLC), and certain tax-election corporations ('S corporations'). S corporations may not have non-resident individuals or corporations as shareholders. Foreign-owned businesses in the US may not derive as much benefit from these structures as domestic businesses due to the interaction of US withholding and branch profits taxes.

Significant planning opportunities are available for both US domestic and foreign taxpayers through the use of 'hybrid' entities. These companies are treated as flow-through entities by one jurisdiction and as taxable entities by another. US rules are often flexible in allowing US taxpayers to select the desired tax status of the entity under the "check-the-box" regime.

Corporate tax returns and payments are due by the 15th day of the fourth month following the end of the corporation's fiscal year. The original due date for calendar year taxpayers is April 15. An automatic extension of five months to file the return may be granted if requested by the original due date of the return. Extensions to file a return, however, do not extend the time for payment of tax due. Failure to pay could result in an invalid extension.

CAPITAL GAINS TAX

For corporations, the excess of the net gains from the sale of capital assets over net losses from the sale of assets or net capital gains is taxed at the same rates applicable to ordinary income. However, capital losses may only be used to offset capital gains and the excess of losses over gains may be carried back three years or forward five years. Losses must be applied to the earliest carry back year before any carry forwards maybe used.

ALTERNATIVE MINIMUM TAX (AMT)

The US imposed an alternative minimum tax on certain corporations at a rate of 20%. The AMT income is

derived from regular taxable income adjusted by specified items that received preferential treatment under the regular tax system. Such 'tax preference' items may include accelerated depreciation, depletion and intangible drilling costs. In addition, an AMT net operating loss deduction can only offset up to 90% of the current year alternative minimum taxable income. The AMT is imposed if the tax on the alternative minimum taxable income is greater than the regular tax. It does not apply to small corporations, defined as corporations with less than USD 7.5 million of average annual gross receipts over a three-year period.

For years beginning after December 31, 2017, the US corporate AMT has been repealed.

BRANCH PROFITS TAX

A foreign corporation's US branch's profits and earnings is subject to the same tax as a US resident corporation. In addition, a 30% branch level tax (BLT) is imposed on the after-tax earnings of the US branch that are not reinvested in the business by the close of the tax year or that are repatriated in a subsequent tax year. The branch level taxable base is adjusted for any changes in the net equity of the US branch. The BLT may be reduced or eliminated by any relevant tax treaties or replaced by the secondary withholding tax.

In addition to the branch profits tax, a branch level interest tax of 30% is imposed on any interest paid by the US branch to a foreign entity not engaged in the same business activity. The tax also is assessed on any excess interest deducted on the US tax return over the amount actually paid.

SALES TAX

Sales tax is imposed at the state and municipality levels and vary in rates and in bases. In general, sales tax is imposed on tangible goods sold to the final consumer. A ‘use’ tax is imposed on goods purchased for use in a business but only when no sales tax has been collected. Generally, vendors must register and collect sales tax in states where they are considered to be 'doing business'.

The question of whether sellers are required to collect and pay sales tax on sales of goods and services ordered via the internet or other electronic means is currently unsettled in the US. Foreign sellers who merely ship products ordered over the internet to the US will typically not be subject to state and local taxation although many states are becoming increasingly aggressive in this area. Some states impose an "economic nexus" standard whereby a business connection is established and sales tax collection obligation created if a certain threshold of sales are destined for such state.

VALUE ADDED TAX (VAT)

The US does not impose any VAT.

FRINGE BENEFITS TAX (FBT)

The US does not impose any corporate level tax on fringe benefits provided to its employees. However, certain fringe benefits are taxable to employees receiving the benefits and are required to be reported on their personal income tax returns. The US does require employers and employees to each pay certain payroll related taxes including:

1. (1) A portion of an employee's Social Security (FICA), taxable at 6.2% of the wage base (currently in 2018 USD 128,400, annually adjusted).
2. (2) Federal unemployment tax (FUTA) at 6.2% of the first USD 7,000 of wages (less credits of up to 5.4% for state unemployment tax).
3. (3) State unemployment tax (SUT) which varies from state to state.
4. (4) Medicare at 1.45% of total wages paid (with no wage limitation cap).
5. (5) Additional Medicare 0.9% (0.009) on employees only for wages in excess of USD 200,000 (USD 250,000 for couples filing joint returns).

LOCAL TAXES

Most states and some municipalities of the US impose income or franchise taxes on corporations. Tax rates vary as do the measurement of tax bases. Most states allow income to be apportioned to a state if business is conducted in more than one state. Historically, a three-factor allocation formula consisting of tangible assets, sales and receipts, and payroll has generally been used. However, many states are moving to formulas that are more heavily weighted to sales. Increasingly, US states utilize the single sales factor to apportion income and tax bases. Most states begin with federal taxable income in the computation of their taxable base, but many states require adjustments to calculate state taxable income.

Several states have imposed a tax on gross margin or gross sales in lieu of a tax on net income. It is also important to note that state income taxes are not subject to the provisions of the various US income tax treaties and, therefore, some states consider foreign companies to be subject to their state income tax even if the company is not subject to US federal income tax by virtue of a double tax treaty.

While particular rules vary from state to state, state tax authorities generally assert income or franchise tax jurisdiction over a business whose presence within the state is sufficient to form a "nexus" with that state. Unbound by treaty terms, states often seek to define "nexus" broadly, setting a lower evidentiary hurdle than what may be needed to find a permanent establishment under US income tax treaties. Accordingly, a non-US company operating in the US should remain aware of potential state income tax liabilities, even where treaty benefits may be claimed at the US federal income tax level. It is also important to note that foreign sellers may be required to collect state sales tax even if not subject to state or local income taxes.

Other taxes that may be levied at the state level include real and personal property tax, franchise tax, intangibles tax, transfer tax, and tax on capital. Taxes paid to the states and municipalities are deductible on the federal income tax return in the year paid or accrued.

OTHER TAXES

In addition to corporation income taxes, the US also imposes the following taxes.

ACCUMULATED EARNINGS TAX

Corporations accumulating over USD 250,000 of prior and current period earnings and profits may be subject to this tax. The tax is imposed at rate of 20% on 'accumulated taxable income'. The amount of accumulated taxable income subject to tax is reduced by earnings retained for the reasonable needs of the business.

PERSONAL HOLDING COMPANY (PHC) TAX

Closely-held corporations that receive substantial income from passive activities and do not distribute this income to shareholders are subject to the PHC tax. The tax is imposed at a rate of 20% on the undistributed income. This tax is in addition to the regular corporate tax.

B. DETERMINATION OF TAXABLE INCOME

Corporate taxable income is determined by ascertaining assessable gross income and reducing it by allowable deductions. Allowable deductions must be segregated into ordinary and special deductions. Corporations are taxed at the entity level. For flow through entities such as partnerships, limited liability companies and 'S' corporations, taxable income is determined in a similar fashion. However, these entities flow through the income or loss and special deductions to its shareholders / members / partners who are taxed on their own returns.

DEPRECIATION AND DEPLETION

Property, plant and equipment may be written off over its effective useful life as established under a statutory cost recovery system. For property acquired or placed in service after 31 December 1986, the capitalized costs must be depreciated using the Modified Accelerated Cost Recovery System (MACRS) over a life of three to 39 years. Most tangible personal property is in the three, five and seven year category while real property is categorised as 27.5 or 39 years for residential and non-residential property, respectively. However, depreciation on certain components of buildings and real property improvements can be accelerated to shorter lives through the use of cost segregation studies designed to identify the proper categorization of costs for tax asset classification purposes.

For some smaller corporations, an election may be made to treat the cost of assets as an expense rather than as a depreciable capital expenditure. The maximum deduction for the year 2018 is USD 1 million and is limited to taxable income determined without regard to the above election. This expense benefit is phased out on a dollar for dollar basis if qualified purchases exceed a certain threshold amount (USD 2,500,000).

Taxpayers may qualify for 100% bonus depreciation for qualified property, long production property or non-commercial aircraft placed in service. The property can be new or "original use" as well as used property.

A deduction for depletion is allowable for expenditures on natural resources. Generally, depletion may be calculated using either a cost or percentage method. Cost depletion is based on the adjusted basis of the property and an estimate of the number of units that make up the deposit and the number of units extracted during the year.

Under the percentage depletion method, a flat percentage of gross income is taken as the depletion deduction. It may not exceed 50% (100% for oil and gas properties) of the taxable income from the property before the depletion deduction. For independent oil and gas producers and royalty owners, the depletion deduction may not exceed 65% of the taxpayer's taxable income.

STOCK / INVENTORY

Inventories are generally stated at the lower of cost or market value on the first in, first out (FIFO) method, or cost only on the last in, first out (LIFO) method. Uniform capitalization rules may require the inclusion in inventory or capital accounts of certain otherwise deductible indirect and administrative costs incurred for real or personal property produced or acquired for resale.

CAPITAL GAIN AND LOSSES

See discussion above.

DIVIDENDS

A US corporation is entitled to a special deduction for dividends received from other domestic corporations. A deduction is allowed for 50% of the dividends received from corporations owned less than 20% by the recipient corporation. The deduction increases to 65% if the corporation is owned more than 20% but less than 80% by the recipient corporation and increases to 100% if the ownership is 80% or more. Dividends from foreign corporations received by a US corporation may be eligible for a 100% participation exemption.

INTEREST DEDUCTIONS

A taxpayer generally may deduct business interest paid or accrued within the tax year on indebtedness. However, such debt must pertain to the debt of the taxpayer and must result from a genuine debtorcreditor relationship. Numerous exceptions and limitations exist regarding the deductibility of interest. For example, if a corporation's average annual gross receipts for the prior three years exceed USD 25 million, then a significant limitation applies. Interest deductions are limited to 30% of taxable income before interest, depreciation and amortization. Any interest disallowed under this limitation can be carried forward indefinitely.

In addition, in general, interest accrued and payable to a foreign related party is not deductible until paid.

LOSSES

Generally, net operating losses from a trade or business may not be carried back but can be carried forward for an indefinite period. Losses generated in fiscal years beginning in 2017 can offset 100% of taxable income and losses generated after such period can only offset 80% of taxable income in future years. A successor corporation may use carryovers of a predecessor to a limited extent in a change of ownership, a subsidiary liquidation or a specified reorganization. Significant limitations apply for corporations which have experienced a “change of control”.

FOREIGN SOURCE INCOME

US corporations are taxed on worldwide income, including any foreign branch income. To mitigate or minimize any double taxation, foreign tax deductions or credits are available to offset the US tax on the foreign source income. Where US shareholders have more than a 50% interest in a foreign subsidiary, certain income of the foreign subsidiary may be taxed as if received directly by the US shareholder. Other special rules apply to certain types of foreign corporations with US shareholders.

INVESTMENT TAX CREDIT

The Investment Credit comprises four components:

1. (1) The rehabilitation credit;
2. (2) The energy credit;
3. (3) The qualifying advanced coal project credit; and,
4. (4) The qualifying gasification project credit.

For flow-through entities, the credits must be allocated to the individual partners/shareholders on a pro rata basis. Generally, the credit is 10% of qualifying expenses (20% in the case of certified historic structures). It should be noted that no investment credit is allowed for investment credit property to the extent it is financed with nonqualified non-recourse debt.

INCENTIVES

In addition to investment tax credits, other preferential tax incentives are available for activities such as those related to export, activities engaged in US possessions, qualified private activity bonds, research and development expenditures, and for hiring certain specified individuals. Also, a deduction of up to 9% of taxable income is available for certain US manufacturing/production activities.

OTHER

Other issues that need to be mentioned include the following:

1. (1) Deductions are generally allowable for charitable contributions, but for corporations may not exceed 10% of taxable income computed without regard to the contributions. Excess contributions may be carried forward for five years.
2. (2) Organisational and business start-up expenditures are deductible up to USD 10,000, subject to certain limitations and the remainder must be written off over 180 months.
3. (3) Meals and entertainment expenses are limited to 50% of expenses incurred in most circumstances. Entertainment expenses are entirely non-deductible.
4. (4) Bad debts, except for certain financial institutions, are deductible only under the specific write-off method for receivables that become uncollectible in whole or in part during the tax year. Other debts can only be deducted for tax purposes if worthlessness can be proved as a result of an identifiable event.
5. (5) Life insurance premiums paid on key employees are deductible only to the extent that they are:
   (a) Included in the employees' compensation;
   (b) Not unreasonable in amount (statutory limited amount);
   (c) The employer is not directly or indirectly a beneficiary.

C. FOREIGN TAX RELIEF

A US corporation or a foreign corporation engaged in business in US may elect to claim either a credit or a deduction for income taxes paid to another country if the taxes are connected with or related to its business and if the income is also taxed by the US. Generally, the tax credit is available only if such foreign tax is based on foreign source income. The tax credit may not reduce the US tax liability on income from US sources. Any unused foreign tax credit in one year may be carried back to the prior year and forward ten years.

D. CORPORATE GROUPS

Affiliated groups of US corporations (parent has 80% ownership) are permitted to offset the losses of one affiliate against the profits of another via the filing of consolidated federal income tax returns. A parent's usage of prior subsidiary losses before its acquisition may be limited. State and local rules vary from federal rules in this regard and may not permit loss offsetting. Some may also require, alternatively, that returns are filed to include results of all related companies, including companies that are not includable in a federal consolidated income tax return.

E. RELATED PARTY TRANSACTIONS

Related party transactions negotiated at arm's length are treated the same as non-related party transactions. However, in general, a deduction may not be taken by one party until the transaction has been included in gross income by the other party. The Internal Revenue Service may make any adjustments necessary to reflect the income of the related parties.

For multi-national groups, additional emphasis is placed on the 'transfer price' among members of the group. Several methods are provided to determine a proper arm's length price including the use of unrelated third party comparables, the comparable profits and the profit split methods. Significant compliance burdens now apply in these situations. Failure to maintain contemporaneous documentation of pricing determinations could result in substantial penalties (up to 40% of the tax adjustment due). US regulations require taxpayers to conduct transfer pricing studies to determine the 'best method' under the applicable circumstances.

Transfer pricing determinations must often meet standards in multiple jurisdictions. US rules for determining transfer pricing may vary from the rules of other countries that have introduced transfer pricing standards and from OECD guidelines. US states are increasingly interested in both multi-national and multi-state transfer pricing and may at times take positions differing from those of the Internal Revenue Service (IRS).

F. WITHHOLDING TAXES - NON-US PAYEES

Taxes are required to be withheld from portfolio dividends, interest, rents, and royalties, and certain other types of income paid to non-US payees. The statutory rate is 30% but reduced rates may apply if the recipient is qualified to obtain the benefits of a US tax treaty. Foreign persons or entities may also be exempted from withholding if the US source income is connected with conduct of a trade or business in the US. This exemption is not available unless the foreign recipient provides notice to the US payor prior to payment. Portfolio interest is exempt from withholding. Portfolio interest includes interest earned on US bank deposits and portfolio debt obligations.

Special withholding tax rules apply to non-US partners in US partnerships and non-US members of an LLC that conduct a trade or business in the US. The highest rate in effect will be used as the withholding tax rate and is applied to a foreign partner's annual allocable share of the partnership's US source income (whether an individual or corporation). The current rates are 37% and 21% respectively. Special withholding tax rules also apply to direct or indirect sales or other dispositions of US real property by foreigners. A 15% withholding rate applies to the gross amount realised or sales price on the disposition of US real property unless specific permission is granted for a reduction in the withholding.

A further, more recent, addition to the framework of US withholding obligations is found in the Foreign Account Tax Compliance Act of 2010 (FATCA). Intended as a countermeasure against perceived tax abuse through the use of foreign accounts, FATCA imposes broad reporting and withholding obligations (directly and indirectly) on most non-US entities receiving US-source income, including the proceeds from sale or disposition of US property that can produce interest or dividends. While many FATCA rules focus on what the law refers to as "FFIs", or foreign financial intuitions, FATCA's impact extends to financial and non-financial operating companies. Further, FATCA compliance may be required as a condition to eligibility for benefits under any applicable US tax treaty.

G. EXCHANGE CONTROL

No direct exchange controls exist. Transactions in currency of USD 10,000 or more must be reported to the US Department of Treasury. Multiple related transactions must be treated as a single transaction for disclosure purposes. The direct or indirect transportation of currency or other monetary instruments exceeding USD 10,000 to a foreign jurisdiction must also be reported. Transfers through normal banking procedures that do not involve the physical transportation of currency are not required to be disclosed. However, US financial institutions are required to report cash transactions exceeding USD 10,000.

H. PERSONAL TAX

US citizens and other resident individuals are subject to the same tax rules. Taxes are assessed on worldwide income reduced by certain adjustments, deductions, and exemptions. Non-resident individuals are generally subject to tax on their income from US sources. Certain credits are available to reduce the tax computed. Generally, income consists of compensation from employment services, interest and dividends, income or loss from self-employment, capital gains and losses, rents and royalties and income or loss from pass-through entities. Allowable deductions include medical expenses, home mortgage and investment interest, state, local and real estate taxes, casualty losses, charitable contributions and other business and investment related miscellaneous deductions.

Limitations exist for the amount of losses and deductions that may be claimed by a taxpayer. Most deduction limitations are based upon the income levels of the individual. Income tax rates vary depending upon the filing status of the taxpayer. The five categories of filing status are:

(1) Single;

(2) Married filing a joint return;

(3) Married filing separate returns;

(4) Head of household; and,

(5) Qualifying widow(er) with dependent child.

The current maximum personal income tax rate is 37%. Effective 1 January 2013, a new 3.8% tax applies on certain net investment income for taxpayers with modified adjusted gross incomes in excess of USD 200,000 (USD 250,000 for married filing joint returns). Examples of income that would be subject to the 3.8% investment tax are dividends, interest, royalties, capital gains, passive income from businesses, and net rental income.

The US requires employers to withhold federal and state income taxes, social security and Medicare from an employee's salary. These taxes must be remitted to the government on a periodic basis. Selfemployed

individuals are required to make quarterly estimated payments equal to at least 90% of their actual tax liability in most cases. Higher income individuals may need to pay in 100% of the current year's tax or 110% of the prior year's tax. Penalties and interest may be assessed for underpayment of these taxes.

Special tax rates apply to capital gains and dividend income of individuals. The tax rate is based on the length of time that the asset is held, the type of capital asset, and the overall tax bracket of the individual. Many dividends also receive a preferential tax rate. Non-resident individuals are typically subject to tax on income from US sources and are generally not taxed on US source capital gains unless the gains are directly or indirectly related to sales of US real property. Many non-resident individuals do not receive preferential tax rates on dividend income. The current preferential rate for qualified dividends and long term capital gains is 20% (23.8% total inclusive of the net investment income tax).

In addition to the regular income tax, individuals may also be liable for other taxes on their tax returns. These taxes include the alternative minimum tax (AMT), self-employment tax, social security and Medicare tax and qualified retirement plan tax. Most states and some municipalities also impose income taxes that vary in rates and bases. The US imposes other taxes on individuals such as gift tax and estate tax.

I. TREATY AND NON· TREATY WITHHOLDING TAX RATES

	Dividends (%)	Dividends Substantial Holdings[1] (%)	Interest[2] (%)	Royalties[3] (%)
Non-treaty countries	30	30	30	30
Treaty countries: Resident corporations and individuals	Nil	Nil	Nil	Nil
Treaty countries: Non-resident corporations and individuals:				
Armenia[5]	30[4]	30[4]	30[4]	0
Australia	15	5/0	10	5
Austria	15	5	0	0/10
Azerbaijan[5]	30[4]	30[4]	30[4]	0
Bangladesh	15	10	10	10
Barbados	15	5	5	5
Belarus[5]	30[4]	30[4]	30[4]	0
Belgium	15	5/0	0	0
Bulgaria	10	5	5	5
Canada	15	5	0	0
China	10	10	10	10
Cyprus	15	5	10	0
Czech Republic	15	5	0	10
Denmark	15	5/0	0	0
Egypt	15	5	15	15
Estonia	15	5	10	5/10
Finland	15	5/0	0	0
France	15	5	0	0

Germany	15	5	0	0
Georgia[5]	30[4]	30[4]	30[4]	0
Greece	30	30	0	0/30
Hungary	15	5	0	0
Iceland	15	5	0	0/5
India	25	15	15	15/10
Indonesia	15	10	10	10
Ireland, Republic of	15	5	0	0
Israel	25	12.5	17.5	15/10
Italy	15	5/0	10	0/5/8
Jamaica	15	10	12.5	10
Japan	10	5/0	10	0
Kazakhstan	15	5	10	10
Korea, Republic of	15	10	12	15/10
Kyrgyzstan[5]	30[4]	30[4]	30[4]	0
Latvia	15	5	10	5/10
Lithuania	15	5	10	5/10
Luxembourg	15	5	0	0
Malta	15	5	10	10
Mexico	10	5/0	15	10
Moldova[5]	30[4]	30[4]	30[4]	0
Morocco	15	10	15	10
Netherlands	15	5/0	0	0
New Zealand	15	5/0	10	5
Norway	15	15	10	0
Pakistan	30	15	30	0/30
Philippines	25	20	15	15
Poland	15	5	0	10
Portugal	15	5	10	10
Romania	10	10	10	10/15
Russia	10	5	0	0
Slovak Republic	15	5	0	0/10
Slovenia	15	5/0	5	5
South Africa	15	5	0	0
Spain	15	10	10	5/8/10

Sri Lanka	15	15	10	10
Sweden	15	5/0	0	0
Switzerland	15	5/0	0	0/30
Tajikistan[5]	30[4]	30[4]	30[4]	0
Thailand	15	10	15	5/8/15
Trinidad and Tobago	30	30	30	0/15
Tunisia	20	14	15	15
Turkey	20	15	15	10
Turkmenistan[5]	30[4]	30[4]	30[4]	0
Ukraine	15	5	0	10
United Kingdom	15	5/0	0	0
Uzbekistan[5]	30[4]	30[4]	30[4]	0
Venezuela	15	5/0	10	5/10

Notes:

1. Refer to the relevant treaty for details of the necessary interest that the recipient needs to hold in the payor in order for this rate to apply.
2. Certain interest paid by banks and insurance companies to non-residents are exempt.
3. For copyright royalties the individual treaties should be consulted due to rate variations. Royalties may include personal property rentals.
4. The domestic rate applies. There is no reduction under the treaty.
5. The treaty concluded between the United States and the former USSR.

URUGUAY

MEMBER FIRM

City	Name	Contact Information
Montevideo	Juan Antonio Chiarino	+598 290 20597 jachiarino@pkfuruguay.com.uy

BASIC FACTS

Full name:	Republica Oriental del Uruguay
Capital:	Montevideo
Main languages:	Spanish
Population:	3.47 million (2018 estimate)
Monetary unit:	Uruguayan Peso (UYU)
Internet domain:	.uy
Int. dialling code:	+598

KEY TAX POINTS

- Corporate net income obtained by legal entities resident in Uruguay and by non-residents operating through a permanent establishment is taxed by IRAE at a rate of 25%. Under certain conditions there are options to be liquidated in a fictional form if it is more convenient (IRAEFIC) - (IRAEFA).
- Uruguay operates a territorial system of taxation.
- Resident and non-resident individuals are subject to personal income tax (IRPF - IRNR) on Uruguayan source income at varying tax rates depending on the type of income concerned. Personal income tax consists of two categories: Category 1: tax capital income (capital gains and leasing of real estate) and equity increases (sales of shares, patents, real estate, etc). Category 2: tax personal services income (dependent and independent) from Uruguayan source of individuals taxed at progressive rates up to 36%.
- The standard VAT rate is 22% but there is a reduced rate of 10% for certain items while some are VAT-exempt.

A. TAXES PAYABLE

TERRITORIALITY

Uruguay taxes income under the territorial system of taxation. Thus, foreign source income is not taxable in Uruguay. However, this principle has some exceptions such as technical services, advertising, derivative instruments, internet platforms, image rights of athletes and operations with low-taxed companies.

CORPORATE TAX

Resident legal entities (corporations and individuals) and non-resident entities with a permanent establishment in Uruguay are subject to corporate income tax (IRAE) on their net income of Uruguayan source obtained from industrial, commercial and agricultural activities at a rate of 25%.

Individuals and some corporate types with income not exceeding certain threshold amounts may choose to be taxed under IRAEFIC instead of IRAE at progressive rates from 3.3% to 12% on income.

Companies or individuals deriving income from agricultural activities may opt to be subject to IRAE, IRAEFA or IMEBA, which depends on the type of company, amount of income and amount of hectares exploited. Agricultural income subject to IRAEFA is taxed at a rate ranging from 3% to 3.75% while agricultural income subject to IMEBA is taxed at a rate ranging from 0.01% to 2%.

Non-resident entities without a permanent establishment in Uruguay are subject to a specific tax on income of non-residents (IRNR). It is not a corporate tax since it does not apply to activities that combine capital and labor, except for works of less than 3 months.

Dividends, profit distributions or remittances generated by income taxed under IRAE, paid or credited in Uruguay or abroad by taxpayers subject to IRAE are also subject to a withholding tax at the rate of 7% (otherwise they are exempt from tax). The name of the tax is IRPF for residents and IRNR for Non-Residents. Dividends, distributions of profits or remittances generated by income taxed under IRAE that remain undistributed after three fiscal years are treated as a deemed distribution and are subject to a 7% deemed dividend tax.

The tax year is the same as the commercial year of the company, provided that adequate accounting records are kept. Otherwise, the fiscal year is the calendar year (31 December). The fiscal ending date for agricultural companies is mandatorily 30 June and for non-residents without a permanent establishment in Uruguay it is 31 December. In all cases, companies must file their tax returns before the end of the fourth month following the end of their tax year. Advance tax payments are made on account of the final liability for the relevant tax year. If the total advance payments exceed the final liability, a refund is made by means of credit certificates, which may be used to pay the taxpayer's future taxes but may not be repaid.

CAPITAL GAINS TAX

Capital gains earned by corporations and permanent establishments of non-residents are subject to the same fiscal treatment as normal taxable income and must be included in the same tax return.

Capital gains earned by individuals resident in Uruguay are subjects to IRPF at a rate ranging from 0% to 12%.

Capital gains earned by non-resident entities without a permanent establishment in Uruguay are subject to IRNR at a rate ranging from 0% to 12%.

BRANCH PROFITS TAX

Branches of foreign corporations are subject to IRAE and IMEBA at the same rate as resident companies. Dividends, profit distributions or remittances generated by income taxed by IRAE, paid or credited abroad by taxpayers are also subject to a withholding tax called IRNR at the rate of 7%. Repatriations of branch profits to a head office outside Uruguay are subject to this tax.

VALUE ADDED TAX (VAT)

Imports and the supply of goods and services in Uruguay are subject to VAT at the basic rate of 22%. Land, leases of real estate, cattle, non-industrial agricultural products, agricultural machines, newspapers, foreign currency, precious metals, public and private securities and certain essential goods and services are exempted. Certain essential goods, as well as medicines, new buildings, fruits, flowers, vegetables and land transport of passengers are subject to the minimum rate of 10%. A monthly payment is due on the sales of the previous month. Tax included in the purchases of merchandise, services and fixed assets (input VAT) is deductible from the tax billed to customers (output VAT).

FRINGE BENEFITS TAX

No tax is levied specifically on fringe benefits as they are taxed along with Personal Income Tax (IRPF Category 2) (the taxpayers are the employees) and social security contributions (the taxpayers are the employers and employees).

Note: see section H for Personal Income Tax.

SOCIAL SECURITY CONTRIBUTIONS

Employers (corporations and individuals) are subject to social security taxation on all salaries and fringe benefits paid to employees (subject to some specific exceptions) at the rate of 7.5% plus 5% of medical care.

Employees are subject to a withholding tax on their social security contributions from 18% to 23% on the gross amounts received (excluding withholding tax). In addition, they are subject to a withholding tax on their personal income tax from 0% to 36% on the gross amounts received (excluding withholding tax).

Social security contributions and personal income tax are due monthly on amounts paid for the previous month.

LOCAL TAXES

Two principal municipal taxes are in force. The main one, so-called “Real Property Contribution”, is collected by the municipal authorities. Taxpayers are the owners (companies, individuals and Non-Resident entities) of land and buildings located in urban and rural areas. It represents a percentage (from 0.25% to 1%) of the cadastral value and is due yearly spread over three to six payments.

The second local tax is payable by owners of buildings (companies, individuals and non-resident entities) on a monthly basis for the services rendered by the local authority. This amount is adjusted periodically according to current inflation.

OTHER TAXES

A very important tax is the “Net Wealth Tax” which is determined as a percentage of the net fiscal equity at the end of the tax year.

Corporations, individuals and non-resident entities that pay IRAE are subject to the tax at a standard rate of 1.5% on their net worth, calculated on the difference between taxable assets and deductible liabilities. All must file their tax returns before the end of the fourth month following the end of their tax year. Advance tax payments are made on account of the final liability for the relevant tax year. If the total advance payments exceed the final liability, a refund is made by means of credit certificates, which may be used to offset against the taxpayer's future taxes but may not be repaid.

On the other hand, individuals not taxed under IRAE must file the tax returns related to their net worth as per 31 December before 31 May of the following year. In this case, the tax has several peculiarities regarding its calculation and the tax rates range from 0% to 1%.

Excise tax “IMESI” applies to the first transaction effected in the domestic market by manufacturers or importers of some listed goods, e.g. vehicles, alcoholic beverages, cigarettes and cosmetics. The tax rates vary for each item.

Another tax is the "Tax on Primary Education", which taxes both urban and rural real estate. The former are taxed at a value equivalent to 1/3 of the real estate contribution while the latter are taxed at a rate ranging from 0% to 0.3%.

B. DETERMINATION OF TAXABLE INCOME

DEPRECIATION

Depreciation of assets used in business activities must be computed using the fixed fiscal percentage established by the tax authority. If there is no established percentage, it must be determined based on the number of years of probable useful life of the assets. Depreciation is calculated under the straightline method. Key depreciation rates include the following:

Asset	Rate
Machinery and equipment	10%
Automobiles	10%
Buildings in rural areas	3%
Buildings in urban areas	2%

STOCKS / INVENTORY

On the basis of original costs in local currency, companies are free to choose between FIFO or average cost. The method chosen cannot be changed without the agreement of the Tax Authority. Tax regulations do not allow generic deductions of any kind (obsolescence) or global increases (revaluations), but it allows the deduction of the value of merchandise that has suffered losses of value.

CAPITAL GAINS AND LOSSES

No special tax rules apply to capital gains or losses. They must be included in the tax return along with the current income.

INTEREST DEDUCTIONS

Interest paid to banks, financial institutions and companies that pay IRAE is deductible without limitation. Interest paid to individuals or to financial institutions located abroad is deductible up to a limited percentage that is established by the Tax Authority.

LOSSES

Losses resulting from the tax return are deductible from gains of the next five years, and, up to that date, are revaluated according to inflation coefficients. The accumulated tax loss can be deducted up to 50% of the net fiscal profit for the year.

INCENTIVES

Uruguay has an Investment Law that could benefit investors, depending on several factors such as who makes the investment in Uruguay. There are benefits for generic areas and others for specific ones, that include tax reduction on the corporate net income tax, net wealth tax and VAT.

FREE TRADE ZONES

Strategically located within Mercosur, Uruguay offers a very liberal treatment for free trade zones. Those areas of the national territory with a distinctive economic regime enjoy customs and tax exemptions and are excluded from the jurisdiction of the state monopolies. All types of export focused activities such as commercial, industrial or service oriented activities may be developed in free trade zones. Uruguay also has a very liberal treatment in the ports areas similar to free trade zone areas.

C. FOREIGN TAX RELIEF

Foreign tax relief is not available under Uruguayan fiscal law because overseas income is not taxable.

D. CORPORATE GROUPS

There are no special tax rules relating to corporate groups.

E. RELATED PARTY TRANSACTIONS

Taxation of related party transactions must be calculated on the basis of the fair market value, independently of the agreement between the parties. Uruguay applies transfer pricing regulations according to the OECD model.

F. WITHHOLDING TAX

The following income paid or credited in Uruguay or abroad by taxpayers subject to IRAE are subject to a withholding tax at the rate of:

Asset	Rate
Dividends, profit distributions or remittances	7%
Interest	7% to 12%
Royalties	12%
Technical assistance fees	12%

The name of the tax is IRPF for residents and IRNR for non-residents.

G. EXCHANGE CONTROL

No exchange controls are in force in Uruguay. All remittances to foreign countries can be carried without limitations through banks, financial institutions and authorised currency exchange houses. All transfers must be verified under money laundry regulations.

H. PERSONAL TAX

Resident and non-resident individuals are subject to personal income tax (IRPF - IRNR) on Uruguayan source income at varying tax rates depending on the type of income concerned. Personal income tax consists of two categories:

Category 1: tax capital income (capital gains and lease of real estate) and equity increases (sales of shares, patents, real estate, etc). Note: see section A subtitle CAPITAL GAINS TAX for capital gains.

Income from lease of real estate is subject to tax at the standard rate of 12% while equity increases are subject to tax at 12% on the difference between price and tax cost.

Category 2: tax personal services income (dependent and independent) from Uruguayan source of individuals at progressive rates up to 36%.

Individuals not taxed under IRAE are subject to “Net Wealth Tax”. Note: see section A subtitle OTHER TAXES.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies[1] (%)		
Domestic rates				
Individuals	7	7	7/12/25	12/25
Companies	7	--	7/12/25	12/25
Treaty countries:				
Ecuador	15	10	15	10/15
Finland	15	5	10	5/10
Germany	15	5	10	10

Hungary	15	15	15	15
India	5	5	10	10
Korea	15	5	10	10
Liechtenstein	10	5	10	10
Luxembourg[2]	15	5	0/10	5/10
Malta	15	5	10	5/10
Mexico	5	5	10	10
Portugal	10	5	10	10
Romania	10	5	10	10
Singapore[2]	10	5	10	5/10
Spain	5	0	10	5/10
Switzerland	15	5	0/10	0
United Arab Emirates	7	5	0/10	0/5/10
United Kingdom	15	5	0/10	10
Vietnam	10	5	10	10

1. The reduced rate depends on the minimum participation percentage in capital: 10% for Germany, Liechtenstein, Luxembourg, Singapore and the United Kingdom, 20% for South Korea, 25% for Ecuador, Finland, Malta, Romania and Switzerland, 70% for Vietnam and 75% for Spain.
2. Effective from 1 January 2018.

UZBEKISTAN

MEMBER FIRM

City	Name	Contact Information
PKFI	Stefaan De Ceulaer	+44 20 3691 2511 Stefaan.deceulaer@pkf.com

BASIC FACTS

Full name:	Republic of Uzbekistan
Capital:	Tashkent
Main languages:	Uzbek, Karakalpak, Russian
Population:	32.3 million (2018 estimate)
Monetary unit:	Uzbekistan Soum (UZS)
Internet domain:	.uz
Int. dialling code:	+998

KEY TAX POINTS

- A new Tax Code entered into force from 1 January 2008 in an attempt to develop a fairer tax system, to ease the tax burden on businesses, to simplify tax procedures, to encourage savings and investment and to promote economic development in the country. With the adoption of the new Tax Code, the main taxes applicable to investor activities are:

- corporate income tax;
- individual income tax;
- value added tax;
- excise duties;
- property tax;
- obligatory contributions to non-budget funds;
- land tax;
- tax withheld at the source of payment from non-residents' income;
- other duties and payments.

- The tax system of Uzbekistan consists of the single tax regime on the one hand and the general tax regime on the other hand. Single tax payers are micro and small enterprises, and enterprises of trade and catering, legal entities in the implementation of the lottery, sweepstakes and other games based on risk. Other companies fall under the general tax regime.
- Value added Tax (VAT) applies to all taxable sales of goods, works and services at a rate of 20%. There is a zero rate on qualifying exports and certain internal supplies.
- Transfer pricing: In accordance with the Tax Code, the tax authorities may adjust prices used by related parties where these prices differ from the prices, which would have been set for independent customers/ suppliers.
- Individuals who are physically present in Uzbekistan for 183 days or more in any calendar year (or during any other period of up to 12 months), are considered to be residents of Uzbekistan for tax purposes. Resident taxpayers are subject to income tax on income gained from sources of their activity both in Uzbekistan and abroad. Non-residents, however, are taxed only on their income from sources in Uzbekistan.
- The majority of businesses in Uzbekistan are organised as limited liability companies, open and closed joint stock companies, partnerships, sole proprietorships, and representative offices of foreign companies. Companies may limit their presence to a permanent establishment (not a legal form and only for tax purposes). The most common types of business presence in Uzbekistan for foreign companies are:

- limited liability companies;
- joint stock companies;
- representative offices;
- permanent establishments.

- Taxable income comprises business and investment income and is calculated as the difference between aggregate income and deductible expenses. In general, expenses incurred wholly and exclusively for business purposes are deductible. For other income sources, expenses may be deducted provided they are incurred wholly and exclusively in the generation of income.
- Dividends paid to residents and non-residents with a permanent establishment in Uzbekistan from profit that has been subject to Uzbekistan tax are exempt from profit tax (by way of a deduction from taxable income). Profit tax is not imposed on income derived from state securities.
- Capital gains are treated as ordinary income and are subject to the standard profit tax rate. However, a capital gains tax liability arises only when the gain is attributed to the sale of shares for a higher price.
- Losses (which should be based on financial year results) may be carried forward for five years (except for losses incurred while the taxpayer was exempt from profit tax). However, total losses carried forward in each subsequent year may not exceed 50% of taxable income for the current tax period. Losses may not be carried back.
- The general profit tax rate is 14%, with a 22% rate applicable to banks. In addition to general profit tax, as of 2018 non-residents with a permanent establishment in Uzbekistan pay 7% on a percentage of the total expenses directly related to the income-generating activities in Uzbekistan through the PE (branch remittance tax) (previously 10% on net profit after tax).
- The unified tax rate is 14%. However, the rate differs for a number of industries. For example, IT, construction, publishing companies, and industrial enterprises pay 5%, while entertainment companies and companies with lease income (more than 60%) derived from the rent of sales outlets pay 30%. Different rates have been set for trading and catering companies. The unified tax rate is lower for companies established in remote regions.

A. TAXES PAYABLE

COMPANY TAX

The tax system of Uzbekistan consists of two models: the single tax and general tax regime.

Single tax payers are micro and small enterprises, and enterprises of trade and catering, legal entities in the implementation of the lottery, sweepstakes and other games based on risk. Accordingly, Uzbek Law on guarantees of freedom of entrepreneurial activity considers small enterprises as follows:

- Individual entrepreneurs;
- Micro-firms whose annual average number of workers employed:
  - (i) In production sector - is not more than 20 persons;
  - (ii) In the sphere of services and other non-production sectors - not more than 10 persons;
  - (iii) Are involved in wholesale, retail trade and catering - not more than 5 persons.

Small enterprises whose annual average number of workers involved in:

- light and food industry, metal-processing and instrument-making industry, woodworking industry, furniture industry and industry of building materials: not more than 100 persons;
- machine- building, metallurgy, fuel-energy and chemical industry, production and processing of agricultural products, construction and other production domain: not more than 50 persons;
- science, science servicing, transport, communication, sphere of services (with the exception on insurance companies), commerce, catering and other non-production domain: not more than 20 persons.

Other companies fall under the general tax regime.

1. The tax rate on profits of legal entities: 14% in general and 22% for commercial banks. A progressive scale applies to mobile phone operators.
2. Exporters of goods and services of their own production for freely convertible currency (USD, CHF, JPY, EUR or GBP) may apply reduced rates of corporate income tax: (i) if the export share in total sales ranges from 15% to 30%, corporate income tax is reduced by 30% and (ii) if the export share in total sales exceeds 30%, corporate income tax is reduced by 50%. The incentive does not apply to wholesale and retail sale or intermediary companies, nor to revenue from the export of commodities (such as cotton fibre, oil, gas, precious metals etc.).
3. For legal entities receiving income from auctions, the organization of mass entertainment events by involving legal entities and individuals (including non-residents) licensed to engage in touring activities, the tax rate on retained profit is set at 35% of the taxable basis.

Other corporate taxes

Capital duties: none.

Payroll tax: micro-firms and small businesses make 15% unified social contributions (to pension, employment and professional trade union funds) based on employee salaries. The rate for other eligible companies is 25%.

Property tax: 5% property tax is levied on a legal entity's fixed assets. Equipment not installed in due time is charged at twice the property tax rate.

Social security: companies pay 1.6% of their gross revenue (in addition to unified social contributions) to employee pension funds. Micro-firms and small businesses subject to general taxation regulations do not make pension, road and school fund contributions (from gross revenue) except those companies producing excisable goods and extracting mineral products.

Fines and late payment interest

The Tax Code stipulates the following sanctions for tax violations:

- A late payment of taxes is subject to 0.033% interest for each day payment remains in arrears. Total interest may not exceed total unpaid tax;
- The evasion of tax registration, i.e. operating without registering with the tax authorities, is subject to a fine of up to 50% of net revenue for the period.

CAPITAL GAINS TAX

There is no specific capital gains tax in Uzbekistan.

BRANCH PROFITS TAX

A branch/permanent establishment is subject to 14% profit tax while any remittance from a branch to the head office is subject to a 7% branch remittance tax. This tax is levied as a percentage of the total expenses directly related to the income-generating activities in Uzbekistan through the PE. (previously 10% on net profit after tax)

SALES TAX / VALUE ADDED TAX

VAT, like all other taxes, is regulated by the Tax Code and is closely tied to the direct tax legislation. The standard rate of VAT is 20%, which applies to all taxable sales of goods, works and services. There is a zero rate on qualifying exports and certain internal supplies, which is discussed later in this chapter.

VAT taxable persons include all legal entities and their branches engaged in entrepreneurial activity in Uzbekistan, importers of VAT-liable goods/works/services and legal entities that are subject to reverse charge VAT (taxable turnover of foreign suppliers).

For legal entities under the simplified tax regime payment of VAT is optional. VAT is not paid by the legal entities undertaking certain non VAT-able activities. Individuals are not required to charge and account for VAT.

LOCAL TAXES:

LAND TAX

Individuals and enterprises, including foreign legal entities operating in Uzbekistan via a permanent establishment, owning land plots or rights to their use are subject to land tax. It is applied to taxpayers based on fixed fees established and based on the quality, location and level of water supply to each piece of land. Exemption is provided in respect of land plots allocated for construction under the projects included in the Strategic Investment Programme of the Republic of Uzbekistan. This exemption is granted for the period of construction.

Land and property taxes are levied on individuals owning, possessing, renting or otherwise using land, and owning real estate. The taxable base is the area of land. Tax rates are determined regionally, and can vary anywhere between 1.3% and 2.2% of the value of real estate.

TAX FOR IMPROVEMENT AND DEVELOPMENT OF SOCIAL INFRASTRUCTURE

The income remaining with a legal entity after the deduction of income tax is subject to this tax and the rate depends on the nature of goods provided. For example, entities providing certain types of goods and services in the retail trade (as prescribed under the legislation) are subject to tax at a rate of 8%.

The system of local taxes and mandatory payments also permits the application of a simplified taxation by certain types of qualified legal entities. This system of simplified taxation is applied by agricultural enterprises and permits payment of a single tax (with certain exclusions) instead of paying certain generally applied taxes and mandatory payments. The determining factor for application of the single tax by agricultural enterprises is the value of the land parcel.

SINGLE TAX PAYMENTS

The rates of single tax payment for micro and small enterprises (except for enterprises of trade and public catering)

No.	Taxpayer	Tax rate in % to the tax base
1.	Legal entities of all economic sectors, except for sections provided in paragraphs 2 to 7	5
2.	Legal entities, rendering services on customs clearance (customs brokers)	5
3.	Pawn shops	30
4.	Legal entities receiving income from organizing mass events by attracting legal entities and individuals (including Non-Residents) licensed to class concert and entertainment activities	30

5.	Procurement organizations, brokerage offices (excluding those in item 6), as well as legal entities providing intermediary services on Commission basis, orders and other contracts for the provision of mediation services	33
6.	Legal entities carrying out brokerage activity on the securities market	13
7.	Legal entities specializing in the leasing of fixed outlets (revenues from lease more than 60%) for the implementation of food and nonfood items	30
8.	Exporters of goods and services of their own production for freely convertible currency (USD, CHF, JPY, EUR or GBP) may apply reduced rates of corporate income tax: (i) if the export share in total sales ranges from 15% to 30%, corporate income tax is reduced by 30% and (ii) if the export share in total sales exceeds 30%, corporate income tax is reduced by 50%. The incentive does not apply to wholesale and retail sale or intermediary companies, nor to revenue from the export of commodities (such as cotton fibre, oil, gas, precious metals etc.).	Corporate income tax rate is reduced by 30% and 50% if the export share in total sales ranges from 15% to 30% or exceeds 30% respectively

SINGLE SOCIAL PAYMENTS

Single social payment

No.	Taxpayers	Tax rates as % of taxable base
1.	Small enterprises and farms	15%
2.	Other taxpayers not referred to in paragraph 1	25%

The amount of the single social payment is distributed between state trust funds and the Council of Federation of trade unions of Uzbekistan in accordance with established procedures in the following sizes:

For micro-firms and small enterprises, and farms:

Non-budgetary Pension Fund	14.8%
The State employment assistant fund	0.1%
the Council of Federation of trade unions of Uzbekistan	0.1%
Other taxpayers:	
Non-budgetary Pension Fund	24.8%
The State employment assistant fund	0.1%
the Council of Federation of trade unions of Uzbekistan	0.1%

OTHER TAXES

EXCISE TAX

Excise tax is to be paid by all individuals and enterprises that produce, import or export certain products. The Cabinet of Ministers of Uzbekistan established the list of products subject to excise taxes and the applicable rates. The following are examples of excise-liable goods produced in Uzbekistan and applicable rates in 2016: cognac, vodka and other strong alcohol drinks – up to UZS 6,275 per 1 litre, vine natural – 6,055 UZS per 1 litre, beer – UZS 6,416 per 1 litre, cigarettes with filters – UZS 37,432 per 1,000 cigarettes, petrol –UZS 321,430 – 408,890 per 1 tonne (depending on the petrol type), diesels – UZS 284,250 per 1 tonne, natural gas - 25%, jewellery – 25%, General Motors Uzbekistan cars – 29%.

As of 1 January 2012 retail trade of golden jewellery is subject to excise tax of USD 10 for 1 gram of gold. Products sold for export are exempt from excise tax, except for goods specifically listed by the Cabinet of Ministers of Uzbekistan as subject to excise. Examples of such goods with respective excise tax rates, as set

by Resolution of the Cabinet of Ministers No. 554 of 31 December 1999, are: cigarettes 50%, alcohol 50%, paper 50%, construction materials 50%, home electronic appliances 50%, General Motors Uzbekistan cars EUR 3 per 1 cubic centimeter etc. These goods, if exported by the manufacturers and their official distributors for hard currency, are not subject to export excise tax.

Certain goods imported in the Republic of Uzbekistan are also subject to import excise tax. For examples of import excise rates please refer to the relevant section of this Guide. Certain goods imported in the Republic of Uzbekistan are also subject to import excise tax. For examples of import excise rates please refer to the relevant section of this Guide.

SCHOOL TAX

A Resolution of the Cabinet of Ministers of 28 December 2004 requires all legal entities to pay a tax equal to 1% (reduced by VAT and applicable excise tax amounts) of their annual turnover to the Nonbudgetary Fund for School Education Development.

ROAD TAX

Every legal entity in Uzbekistan must generally pay 1% (with certain variations for different businesses) of their annual turnover to the Road Fund. This tax is intended for development of roads and highways in Uzbekistan.

WATER USE TAX

The Cabinet of Ministers fixes the rates of a water use tax. This tax applies to legal entities that use water in their activities for production and technical needs.

B. DETERMINATION OF TAXABLE INCOME

Taxable profits include trading profit, capital gains, profits from financial activities and other profit items. The taxable profit of an Uzbek enterprise is based on statutory accounting profits, adjusted for specific items. All Uzbek enterprises are required to maintain their accounts in accordance with accounting regulations that primarily facilitate tax accounting. The list of expenses that may be deductible for tax purposes is also set by the legislation. According to the Law on Accounting, as from 1 January 1998 enterprises must account for both revenue and expenditure on an accrual basis. This norm also extends to tax accounting. The accounting period for both tax and statutory accounting purposes is a calendar year. Tax treatment of entities with foreign investment is broadly similar to other Uzbek legal entities.

A foreign legal entity (FLE) that is considered to have a taxable permanent establishment (PE) in Uzbekistan is subject to tax in respect of the portion of profits relating to the business activity in Uzbekistan. In order to determine the portion related to the activity in Uzbekistan, the PE is obliged to maintain limited book-keeping records only.

If a foreign enterprise derives income from sources in Uzbekistan, but does not carry on activities that lead to the creation of an Uzbek taxable PE, it becomes subject to CIT through withholding at source (please refer to the relevant section of this Guide). Income from services provided outside Uzbekistan is not considered as Uzbek-sourced income, and thus, is not subject to withholding tax.

Effective 1 January 2010, when determining taxable income of a FLE carrying on activities in Uzbekistan via a PE, the taxable base should not be less than 10% of total expenses directly related to income generating activities in the Republic of Uzbekistan through the PE, whether incurred in or outside of Uzbekistan.

DEPRECIATION

For tax purposes, depreciation/amortisation is calculated with application of rates defined by the Tax Code. If the accelerated depreciation method is used in accounting, the difference between the accounting depreciation and tax depreciation is deferred to future periods as a temporary difference.

Depreciation is calculated from the month following the month when the asset was put into use until it is fully depreciated, disposed or written off. The maximum annual depreciation rates applicable to different types of fixed assets and intangibles are outlined in the table below.

Depreciable Item	Rate
Buildings and other structures	5%
Cars, tractors, special equipment, computers and related hardware	20%
Lorries, buses, special cars and trucks, industrial machinery and equipment	15%

Railway, river and air transport vehicles	8%
Depreciable assets not mentioned above	15%

Intangible assets, including leases and other property rights, are amortised over the asset's useful life or the period of activity of the enterprise, whichever is shorter. Where an asset's useful life cannot be determined, the asset would be amortised over five years.

STOCK / INVENTORY

Under the National Standards of Accounting, stock is valued at its purchase cost. The profits tax law contains no provision concerning valuation of stock. The cost of materials transferred to production may be determined by the following valuation methods: average cost, cost of item, FIFO or LIFO.

CAPITAL GAINS AND LOSSES

Capital gains arising from the disposal of tangible and intangible assets are calculated as the difference between the selling price and the net book value (depreciated value) of an asset.

The capital gain is included in taxable profits, and capital losses are deductible only if the disposed asset had been used for business purposes for three or more years.

DIVIDENDS

Micro-firms and small enterprises, who pay income in the form of dividends to individual shareholders, do not withhold tax at the source of payment.

INTEREST DEDUCTIONS

Interest expense is deductible except for interest on overdue and deferred loans or when such interest is subject to capitalisation, e.g. interest on loans attracted for the purchase/lease of fixed assets that is to be included in the value of such fixed assets.

LOSSES

Losses arising from sale of goods (works/services) below cost are non-deductible. Production wastes and defects, losses resulting in force-majeure circumstances are generally deductible. Losses from fixed assets disposal can also be deducted, if the fixed asset has been used for three and more years.

FOREIGN SOURCED INCOME

Foreign-sourced income and gains are subject to profit tax at the regular rate

INCENTIVES

Current tax law provides many benefits for manufacturing enterprises, including implementing projects in accordance with the localization Program, development services, and others. The range of benefits is very wide: from a full exemption from all taxes and fees before taxes at reduced rates to an exemption for the whole period of activity of the enterprise or several years.

The income tax at a rate of 16% (whereas generally established rate is 20%) shall be applied to the production enterprises with foreign investments where the foreign investments' share in the charter capital constitutes 50% or more and the amount of that charter capital is equivalent to at least USD 1 million. The cost of technological equipment imported by the foreign investors to the territory of the Republic of Uzbekistan as their contribution into charter capital of the enterprise with foreign investments shall be exempted from VAT.

Production enterprises with foreign investments shall be exempted from payment of land tax for a period of 2 years from the moment of their state registration. Enterprises attracting direct private foreign investments shall be exempted since 1 July 2005 from payment on principal activity of income (profit) tax, property tax, tax on development of social infrastructure and improvement of territories, unified tax for micro-firms and small enterprises, as well as obligatory deductions to the Republican Highways' Fund.

Foreign companies, which conduct prospecting and exploration works on oil and gas, as well as foreign contractor and subcontractor organizations attracted by foreign companies to these works, are exempt from all types of taxes, deductions and payments existing on the territory of the Republic of Uzbekistan, for the period of conducting exploration works.

C. FOREIGN TAX RELIEF

Uzbekistan does not grant unilateral relief from double taxation. Under the double tax treaties entered into by Uzbekistan, a foreign tax credit is available for foreign tax paid on income earned abroad (subject to certain documentary requirements: copy of tax payment order, confirmation from a competent tax authority or any other document confirming payment of tax outside of Uzbekistan).

D. CORPORATE GROUPS

The following entities are generally subject to CIT in Uzbekistan:

- Uzbek legal entities, including entities with foreign investments; and,
- Foreign legal entities carrying on activities in Uzbekistan via a permanent establishment or receiving income from sources in Uzbekistan.

Uzbek legal entities, including entities with foreign investment and their branches outside the Republic are taxable on worldwide profits. FLEs carrying out their activities in Uzbekistan are only taxable on their profits from activities performed in the Republic of Uzbekistan.

Permanent Establishments / Branches

TThe concept of a PE in Uzbekistan is used solely for tax purposes. PEs of FLEs are not considered as separate legal entities. Requirements for registration of PEs of foreign legal entities extend to tax registration only, as such may allow the tax authorities to tax profits of FLEs attributable to their PEs in Uzbekistan. As of 1 January 2010, PEs are allowed to operate bank accounts and have official stamps. In general, for tax purposes a PE of FLE in Uzbekistan is deemed to be any place of entrepreneurial activity on Uzbek territory, including activity through an authorised person. An Uzbek PE would also be deemed to exist as a result of entrepreneurial activities carried on in Uzbekistan for 183 days and longer during any consecutive 12-month period.

PEs are subject to CIT (14%) as are normal Uzbek enterprises with certain peculiarities as discussed further. As of 2018, the CIT basis of PEs is a percentage of the total expenses directly related to the income-generating activities in Uzbekistan through the PE and this part is taxed at 7% upon remittance to the head office. (previously 10% on net profit after tax) Branches of Uzbek legal entities are generally taxed at the head office level, except for local taxes, such as property tax or land tax.

E. RELATED PARTY TRANSACTIONS

As of 1 January 2010 a transfer pricing concept was reintroduced in the Tax Code. Thus, the tax authorities may adjust prices used by interrelated parties in cases when these prices differ from the prices which would have been set for independent customers/suppliers. Interrelated parties are defined as foreign parent companies and their Uzbekistan subsidiaries, Uzbek parent companies and their subsidiaries abroad, as well as Uzbek companies and foreign companies that have the same shareholders.

F. WITHHOLDING TAX

- Dividends and interest paid to non-residents are subject to a 10% final withholding tax, subject to the application of a tax treaty.
- Royalties and lease payments to non-residents that are not connected to a PE are subject to a 20% final withholding tax, subject to the application of a tax treaty.
- Fees for services provided on Uzbek territory (including management services and expert advice) and other income paid to non-residents from Uzbek sources that are not connected to a PE are subject to a 20% final withholding tax, subject to the application of a tax treaty.

G. EXCHANGE CONTROL

All currency restrictions with respect to the export-import of products and services, the buying and selling of hard currency valuables (precious metals, jewellery checks, etc.), interest transfers, dividend payments from investments abroad, dividends and revenue payments abroad for investments in Uzbekistan, as well as certain other currency conversion restrictions, have been abolished. However, certain administrative difficulties in converting UZS to foreign currency for remittance abroad diminish the effect of currency liberalization in practice.

Uzbek legal entities may not hold bank accounts outside Uzbekistan without permission from the Central Bank. All settlements within Uzbekistan must be made in UZS, except for payments made by Non-Residents for certain services in hard currency and some other limited instances established by the Cabinet of Ministers and Uzbek currency law.

H. PERSONAL INCOME TAX

Individuals who are physically present in Uzbekistan for 183 days or more in any calendar year (or during any other period of up to 12 months), are considered to be residents of Uzbekistan for tax purposes. Resident taxpayers are subject to income tax on income gained from sources of their activity both in Uzbekistan and abroad. Non-residents, however, are taxed only on their income from sources in Uzbekistan. Certain types of income are exempt from taxation. Such income includes, inter alia, alimony, severance pay, and pension income.

Taxable income

Taxable income includes employment income, income from property, income in the form of material benefit and other income. Certain expenses incurred by legal entities are not viewed as income of individuals, such as, without limitation:

- Costs related to transportation of employees to/from the work place;
- Relocation costs (when an employee is transferred to another work place) including transportation and accommodation;
- Compensation payments (within statutory norms), e.g. for use of private cars for business purposes;
- Compassionate payments;
- Per diem allowances within statutory norms; actual transportation/accommodation in full (if supporting documents are available); and,
- Meal and transportation costs or respective allowances provided by employers.

Employment income

Employment income consists of the following:

- All payments accrued and paid to individuals under employment or civil contracts;
- Motivation payments, e.g. annual bonuses, professionalism and tutorship allowances, long-service premiums;
- Compensation payments, e.g. hardship and overtime allowances, per diems exceeding statutory norms; and,
- Payments for time-off, e.g. various vacation pays, time for qualification courses attendance, material assistance.

Tax rates on income of Individuals

Taxable income (multiples of MMW[1])	Tax rate on the excess
First 1	0
1 - 5	7.5
5 - 10	16.5
Over 10	22.5

[1] MMW = monthly minimum wage (UZS 172,240 as from 1 December 2017).

Assessment scale for groups of taxable income is determined on the basis of the minimum wage established at the beginning of the year on 1 December 2017 (UZS 172,240) and is not revised during the year if you change the size of the minimum wage.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)		Interest (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies (%)		
Domestic rates				
Companies	10	10	10	20
Individuals	10	--	10	20
Treaty countries:				
Austria	15	5	10	5
Azerbaijan	10	10	10	10
Bahrain	8	8	8	8
Belarus	15	15	10	15
Belgium	15	5	10	5
Bulgaria	10	10	10	10
Canada	15	5	10	5/10
China	10	10	10	10
Czech Republic	10	5	5	10
Estonia	10	5	5	10
Finland	15	5	5	0/5/10
France	8/10	5	0/5	0
Georgia	15	5	10	10
Germany	15	5	5	3/5
Greece	8	8	10	8
Hungary	10	10	10	10
India	10	10	10	10
Indonesia	10	10	10	10
Iran	8	8	10	5
Ireland	10	5	5	5
Israel	10	10	10	5/10
Italy	10	10	5	5
Japan	15	15	10	0/10
Jordan	10	7	10	20
Kazakhstan	10	10	10	10
Korea (South)	15	5	5	2/5

Kuwait	0/5	0/10	8	20
Kyrgyzstan	5	5	5	15
Latvia	10	10	10	10
Lithuania	10	10	10	10
Luxembourg	15	5	10	5
Malaysia	10	10	10	10
Moldova	15	5	10	15
Netherlands	15	0/5	10	10
Oman	7	7	7	10
Pakistan	10	10	10	15
Poland	15	5	10	10
Romania	10	10	10	10
Russia	10	10	10	0
Saudi Arabia	7	7	7	10
Singapore	5	5	5	8
Slovak Republic	10	10	10	10
Slovenia	8	8	8	10
Spain	10	0/5	5	5
Switzerland	15	5	0/5	5
Thailand	10	10	10/15	15
Turkey	10	10	10	10
Turkmenistan	10	10	10	10
Ukraine	10	10	10	10
United Arab Emirates	15	5	10	10
United Kingdom	10	5	5	5
Vietnam	15	15	10	15

VENEZUELA

MEMBER FIRM

City	Name	Contact Information
Caracas	Beniamino Carpentieri	+58 212 952 4050 bcarpentieri@pkfve.com

BASIC FACTS

Full name:	Bolivarian Republic of Venezuela
Capital:	Caracas
Main languages:	Spanish

Population:	32.3 million (2018 estimate)
Monetary unit:	Venezuelan Bolívar (VEF)
Internet domain:	.ve
Int. dialling code:	+58

KEY TAX POINTS

- Venezuelan resident or domiciled companies are subject to profit tax only on their worldwide income whereas non-residents are subject to tax on their Venezuelan source income even when they do not have a permanent establishment or a fixed base in Venezuela.
- There is a progressive system of corporation tax rates which applies to income and capital gains.
- VAT is payable on imports and the supply of goods and services. The standard rate is 12%.
- Withholding taxes apply to the payment to residents and non-residents of interest and royalties. Dividends are also subject to withholding tax when they represent profits not already charged to corporation tax. A similar principle applies to branch profits repatriated from Venezuela to an overseas territory.
- Credit is available for overseas tax paid on foreign income against Venezuelan tax payable on the same income.
- Resident individuals are subject to income tax on their worldwide income. Non-residents are taxable on their Venezuelan source income.
- Tax on large financial transactions at a rate of 0.75%.This tax has come into effect on 1 February 2016 (“Law of Tax on Large Financial Transactions”).

A. TAXES PAYABLE

COMPANY TAX

Venezuelan resident or domiciled companies are subject to profit tax on their worldwide income. Non-Resident or non-domiciled companies are subject to corporation tax only on Venezuelan-sourced income even when they do not have a permanent establishment or a fixed base in Venezuela. Foreign resident or domiciled companies who have a permanent establishment or fixed base in the country will exclusively pay taxes on the income of national or foreign source attributable to this permanent establishment or fixed base.

Tax is imposed on a current year basis. The tax year adopted is generally that specified in a company's statutory documents with the standard year being a calendar year. However, it should be noted that other periods are also allowed, including periods of 12 months or less. Final tax is payable when lodging the final corporation tax return, usually required within three months of the end of the accounting period. The taxable income is expressed in tax units. The tax unit (*unidad tributaria*, TU) is a tax adjustment index. Its value is adjusted annually by the tax authorities in accordance with inflation and amounts to VEF 177 for 2016. The corporate income tax rates are as follows:

Taxable income (Tributary unit (TU))	Rate (%)
0 to 2,000	15
2,001 to 3,000	22
Over 3,001	34

Income from banking activities, financial, insurance and reinsurance are taxed at a fixed rate of 40%.

CAPITAL GAINS TAX

There is no separate or distinct tax on capital gains. However, capital gains and/or losses from the sale of assets belonging to companies that are situated in Venezuela are included in the calculation of the income for the purposes of determining the tax liability of companies (income tax). Under the law, a flat tax of 34% is established for dividends arising from the excess of the dividend payer's net income (on which dividends were declared) over its taxable net income (taxed fiscal net income). Dividends received from companies incorporated and domiciled abroad or incorporated abroad and domiciled in Venezuela are excluded from net income as contemplated in the law but tax paid on such dividends may be applied outside Venezuelan territory.

There is no tax on earnings of branch offices in Venezuela. Venezuelan branches of foreign companies are taxed in Venezuela for income obtained in the country pursuant to corporate tax. According to the income tax law, companies or community estates established abroad and domiciled in Venezuela or established and domiciled abroad, which have a permanent establishment in Venezuela, are liable for paying a tax of 34% on any excess of the net income of the permanent establishment that is neither exempt nor exonerated over its taxed fiscal net income for the fiscal year on behalf of their partners, shareholders or joint owners. This presumed dividend does not apply in cases where the branch can prove to the Tax Administration's satisfaction that it reinvested the full amount of the difference between its net income and its taxed fiscal net income in the country. The reinvestment must remain in the country tor at least five years.

VALUE ADDED TAX (VAT)

VAT is applicable to the sales, transmission or transfer of chattels, the rendering of services and the importation of goods, as specified in the law, and is applicable throughout the entire Venezuelan territory (the Free Port of the State of Nueva Esparta, Paraguana Peninsula in the State of Falcon and in the Cultural Scientific and Technological Tax-Free zone in the State of Merida, will be exempt from VAT). It will be paid by individuals and corporations, unincorporated or de facto companies, joint ventures and other public or private legal or economic entities, in their capacity as importers of goods, habitual or not. It will also be paid by manufacturers, producers, assembly plants, independent merchants and service providers, who engage in activities that are defined by the law as taxable acts. Certain imports of goods and services are exempt from tax. Exporters who are regular taxpayers are entitled to recover the tax paid upon the purchase of tangible chattels or receipt of services related to their export activities. This also applies in the case of chattels imported for export.

The VAT amount accruing is determined by taxation periods of one calendar month, subtracting the aggregate tax credit amounts from the respective aggregate tax debit amount. The result is the VAT to be paid. The standard rate, currently 12%, is charged on the net price of the transaction.

LAW OF TAX ON LARGE FINANCIAL TRANSACTIONS

The Law of Tax on Large Financial Transactions has come into effect from 1 February 2016. The tax rate is 0.75% and it is paid by legal and economic entities without legal entity status qualified as special tax payers by the Tax Administration. This tax is applied on debits in bank accounts or against custody deposits or any other kind of deposits, debits in liquid funds, trust assets and other financial market funds or any other financial instrument, made in banks and other financial institutions. The Tax on Large Financial Transactions is not deductible from Income Tax.

FRINGE BENEFITS TAX (FBT)

There is no tax payable by the company on fringe benefits. Instead, any benefits provided to an employee are included in their personal income and are subject to tax.

LOCAL TAXES

There is only a municipal tax that is assessed on gross income from commercial industrial activities at different percentages, depending on the business activities conducted and the geographic jurisdiction in which the company is located.

OTHER TAXES

CUSTOMS DUTIES

This involves paying tax on goods that are imported in accordance with the customs tariff which is calculated based on the cost, insurance and freight (CIF) value.

STAMP DUTY

This is applied on certain transactions including transfer of ownership, formation of companies and a wide range of legal transactions and operations.

PUBLIC REGISTRY

These are duties that are incurred for the registration and certification of authenticity of various documents in the Main and Subsidiary Registry Offices of each geographic jurisdiction in which the operation is conducted.

MANDATORY SOCIAL SECURITY (MSS)

These are payments that are made monthly by employers and employees on the payroll of companies for the purpose of guaranteeing the functioning of the national worker social security system.

LAW FOR PROVIDING HOUSING AND HABITAT

Companies must contribute to the obligatory savings fund with 2% monthly of workers payroll. Workers' contribution shall be 1% of his salary. The savings fund must finance housing programs for the workers.

NATIONAL INSTITUTE OF EDUCATIONAL CO-OPERATION (NIEC)

Employers must contribute to this Institute on a quarterly basis at the rate of 2% of the total wages and compensation paid to their workers. Workers must contribute 0.5% of the profits paid to them by the employer at the end of the corporate business year. These contributions are for the purpose of professional training of workers and young apprentices, and tackling national illiteracy.

INHERITANCE AND GIFT TAXES

This is assessed on gratuitous transfers of *rights causa mortis* or *inter vivos.*

ORGANIC LAW OF SCIENCE, TECHNOLOGY AND INNOVATION (LOCTI)

This Law establishes a number of contributions that companies must make according to the activities they indulge in, as follows:

(a) Hydrocarbon companies, 2% of annual gross revenues;

(b) Companies in mining and electrical power activities, 1% of annual gross revenues;

(c) Companies engaged in other production sectors of goods and services must contribute annually the equivalent of 0.5% of gross income.

The highest percentage will apply to any company which performs several activities and may as a consequence fall into more than one category above. The Law establishes that such contributions may be made in research developed in the same companies or into Government dependent Funds.

ORGANIC LAW OF DRUGS

This Law establishes a contribution of 1% of annual net income of companies employing 50 or more workers. This contribution must be invested in programs for the prevention of drug traffic and consumption within the same company for its workers and their family environment. Likewise, the Law establishes that 2% of their annual net income must be contributed by companies manufacturing or importing alcoholic beverages, tobacco and its mixtures, like chewing tobacco, to maintain and operate prevention and rehabilitation centres for consumers of these substances.

ORGANIC LAW OF TELECOMMUNICATIONS

In the Organic Law of Telecommunications, various taxes and duties are set forth on the companies indulging in the business of telecommunications and making use of radio-electric spectrum, sound broadcasting and open television, among others. The various taxes and duties they must pay go between 0.05% and 2.3% of their annual gross revenues.

ORGANIC LAW OF TOURISM

The Organic Law of Tourism sets forth a contribution of 1% monthly on gross revenues obtained, that must be paid by those rendering tourist services.

ORGANIC LAW OF SPORT, PHYSICAL ACTVITY AND PHYSICAL EDUCATION

The law establishing the National Fund for the Development of Sport, Physical Activity and Physical Education will be constituted by the contributions made by companies or other public and private organizations engaged in economic activities in the country for profit. The fund will be used to finance plans, projects and programs for development and promotion of sport and physical activity, and social security and athletes. The contribution by companies or other organisations, will be 1% of the net profit or annual accounting profit when the profit exceeds UT 20,000.

CONSITUTIONAL LAW OF THE TAX REGIME FOR THE SOVEREIGN DEVELOPMENT OF THE MINING ARC

On 29 December 2017, the Constitutional Law of the Tax Regime for the Sovereign Development of the Mining Arc was published, the purpose of which is the creation of a special tax regime in the field of Income Tax. The tax rate to be applied will be set by the President of the Republic and will depend on the capacity of production and/or processing of the gold of each subject.

B. DETERMINATION OF TAXABLE INCOME

Taxable net income is calculated by deducting the allowable costs and deductions (prescribed under the law) from gross taxable income.

INVESTMENT ALLOWANCE

The benefits of tax investment abatements were eliminated in the Reform of the Income Tax Law 2015 that came into effect on 31 December 2015.

DEPRECIATION

The amount admissible as deduction for depreciation during the tax year is the percentage necessary to recover the cost of such assets during the time that they are available to be used in production. Depreciation may be increased by adjusting depreciable fixed assets for inflation. Only the straight-line or the production unit method is admitted. The Tax Administration may admit other methods. Accelerated depreciation of assets is not admitted.

STOCK / INVENTORY

Taxpayers shall draw up an inventory of all goods intended for sale at the start of their activities and at the close of each tax year. The inventoried goods shall be appraised at the cost price. They can also be appraised at the wholesale market price when that is less than the cost price.

DIVIDENDS

From 1 January 2001, net income from dividends is considered to be a portion of income from dividends paid or credited to account, in cash or in kind, and arising from net income that is neither exempt nor exonerated, that exceeds the taxed fiscal net income, and accordingly, has not been taxed with income tax. Dividend income is taxed at the rate of 34% of the amount paid. The full amount of the tax must be withheld at the time of payment or credit to account. Tax on dividends from companies in the oil and mining industry are taxed at the rate of 67.7% and 60% respectively and tax is to be withheld in full at source.

Dividends received from companies incorporated and domiciled abroad or incorporated abroad and domiciled in Venezuela are excluded from net income as contemplated in the law but tax paid on such dividends may be applied outside Venezuelan territory.

INTEREST DEDUCTIONS

Interest on capital borrowed and invested in income-producing activity is deductible. In the case of interest received by companies abroad, there must be withholding in accordance with the following percentages:

Beneficiary	Rate (%)
Financial Institutions (Domiciled)	5.00
Financial Institutions (Non-domiciled)	4.95
Parent Company	5.00
Legal Entity other than the above	32.30

LOSSES

Operating losses can be used for three consecutive periods from the fiscal year in which they occur but only in a proportion of 25% of the total taxable income of each successive period.

FOREIGN SOURCED INCOME

The current Income Tax Law established the obligation of residents of Venezuela and of companies domiciled in the country to pay income tax on all the revenue they obtain, whether in Venezuela or abroad.

INCENTIVES

The Customs Duty paid on imports of goods and products used in the production of goods for export would be reimbursed by the Banco Central de Venezuela (BCV).

REGULAR ADJUSTMENT FOR INFLATION

The income tax law considers the regular adjustment for inflation, which represents the greater or lesser value of the net worth obtained by recognising the effects of the inflation in non-monetary assets and liabilities through the application of Consumer General Price Index, based on procedures established in the Venezuelan tax legislation. The fiscal adjustment for inflation, thus calculated, is considered as a taxable gain or a deductible loss in determining the income tax expense. According to the reform of the Income Tax Law 2015 (published on 30 December 2015 and effective for periods beginning on 1 January 2016), the financial entities, the insurance and reinsurance activities, and taxpayers qualified as special by the tax administration are excluded from having to make a regular adjustment for inflation.

C. FOREIGN TAX RELIEF

Venezuela has signed wide agreements in order to avoid double taxation and in relation to shipping and air transportation.

D. CORPORATE GROUPS

There is no provision for consolidated tax returns.

E. RELATED PARTY TRANSACTIONS

In cases involving commercial transactions between companies that could be considered related, they must follow the methodology stipulated in this chapter regarding transfer pricing to determine their income. The rules on transfer pricing stipulate that application thereof is mandatory in the case of operations between related parties. The law also determines when a relationship shall be deemed to exist, therefore, when the transaction is between related parties.

F. WITHHOLDING TAX

In the case of tax withholding to domiciliated, the Tax Administration considers it to be a tax advance, which may be deducted from the tax determined in the fiscal year in which it is declared.

G. EXCHANGE CONTROL

Exchange controls are currently in effect. Foreign currency transactions are controlled by the “National Centre for Foreign Trade” Centro Nacional de Comercio Exterior (CENCOEX). Also all foreign currencies entering the territory were to be mandatory sold to the Central Bank of Venezuela. Financial institutions cannot engage in a foreign exchange business without prior approval of (CENCOEX) and/or Central Bank of Venezuela.

H. PERSONAL TAX

The tax of individuals is determined on revenue received annually, provided that such revenue is greater than TU 1,500 and they are allowed personal abatements and abatements for family charges, as well as personal expenses incurred during the fiscal year, e.g. medical expenses, school payment, insurance policies, etc.

The tax rate table is as follows:

Taxable income (Tributary unit)	Rate (%)
0 to 1,000	6
1,001 to 1,500	9
1,501 to 2,000	12
2,001 to 2,500	16
2,501 to 3,000	20
3,001 to 4,000	24
4,001 to 6,000	29
Over 6,001	34

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)	Interest (%)	Royalties (%)
Domestic rates			
Companies	0/34	4.95/34[14]	15/34[1]
Individuals	0/34	34[15]	34[15]
Treaty countries:			
Austria	5/15[2]	0/4.95/10[16, 17]	5
Barbados	5/10[3]	5/15[17]	10
Belarus	5/15[4]	5	5/10[19]
Belgium	5/15[4]	0/10[18]	5
Brazil	10/15[5]	15	15
Canada	10/15[4]	10	5/10[19]
China	5/10[6]	5/10[17]	10
Cuba	10/15[4]	0/10[16]	5
Czech Republic	5/10[2]	0/10[16]	12
Denmark	5/15[4]	0/5[16]	5/10[20]
France	0/5/15[7]	0/5[16]	5
Germany	5/15[2]	5	5
Indonesia	10/15[6]	0/10[16]	10/20[20]
Iran	5/10[2]	0/5[17]	5
Italy	10	0/10[16]	7/10[21]
Korea	5/10[6]	5/10	5/10[22]
Kuwait	5/10[6]	5	20
Malaysia	5/10[6]	15	10
Netherlands	0/10[4]	0/5[16]	5/7/10[23]
Norway	5/10[6]	0/5/15[16, 17]	9/12[20]
Portugal	10	0/10[16]	10/12[20]
Qatar	5/10[6]	0/5[16]	5
Russia	10/15[8]	5/10[17]	10/15[20]
Saudi Arabia	5	5	8
Spain	0/10[4]	4.95/10[17]	5
Sweden	5/10[9]	0/10[16]	7/10[24]
Switzerland	0/10[4]	0/5[16]	5
Trinidad and Tobago	5/10[4]	0/15[16]	10
United Arab Emirates	0/5/10[10]	0/10[16]	10[25]

United Kingdom	0/10[11]	0/5[16]	5/7[26]
United States	5/15[12]	4.95/10[16, 17]	5/10[24]
Vietnam	5/10[13]	0/10[16]	10[25]

NOTES:

1. Taxed at progressive rates (see higher, under 'Company tax') on 90% of the gross payment.
2. The lower rate applies to direct participations of at least 15% of capital.
3. The lower rate applies to direct participations of at least 5% of capital.
4. The lower rate applies to direct or indirect participations of at least 25% of capital or voting power (depending on the treaty).
5. The lower rate applies to participations (direct or indirect) of at least 20% of capital.
6. The lower rate applies to direct participations of at least 10% of capital.
7. The 0% rate applies when the beneficial owner is a company that holds at least 10% of the capital of the company paying the dividends. The 5% rate applies in all other cases. The 15% rate applies if the beneficiary of the dividends is a resident of Venezuela that receives from a company resident in France dividends that would give rise to a tax credit (*avoir fiscal*). For dividends received by a resident of France, the recipient has a right to a payment from the French Treasury for an amount equal to the *avoir fiscal.*
8. The lower rate applies to direct participations of at least 10% of capital and an investment of at least USD 100,000.
9. The lower rate applies to Venezuelan companies holding at least a 25% direct participation in the capital of a Swedish company.
10. The 0% rate applies to dividends paid to government institutions and state-owned entities. The 5% rate applies to direct participations of at least 10% of capital. The 10% applies in other cases.
11. The 0% rate applies to direct or indirect participations of at least 10% of voting power.
12. The lower rate applies to participations of at least 10% of the voting stock.
13. The lower rate applies to direct participations of at least 10% of capital.
14. Taxed at progressive rates (see higher, under 'Company tax') on 95% of the gross amount, provided that the loan is invested in the production of income in Venezuela, if not the rates apply to 100% of the gross amount.
15. Interest paid to non-resident individuals is subject to a 34% withholding tax on 95% of the gross amount, provided that the loan is invested in the production of income in Venezuela, if not the rate applies to 100% of the gross amount. Royalties paid to non-resident individuals are subject to a 34% withholding tax on 90% of the gross amount.
16. The 0% rate applies, inter alia, to interest paid by public bodies.
17. The lower rate applies to interest paid to banks or financial institutions.
18. The 0% rate applies, inter alia, to interest on deposits (not represented by bearer instruments) with a bank and interest on commercial debt-claims (including debt-claims represented by commercial paper) resulting from deferred payments for goods, merchandise or services supplied by an enterprise.
19. The lower rate applies to royalties paid in respect of computer software or any patent or information concerning industrial, commercial or scientific experience.
20. The lower rate applies to payments for technical assistance.
21. The lower rate applies to copyright royalties (including films and tapes for radio and television broadcast).
22. The lower rate applies to royalties for the use of, or the right to use, any industrial, commercial or scientific equipment.
23. The 5% rate applies to royalties for patents, leasing of equipment and know-how while the 7% rate applies to trademark royalties and the 10% rate to copyright royalties (including films and tapes for radio and television broadcast).
24. The 10% rate applies to copyright royalties (including films and tapes).
25. The rate also applies to payments for technical assistance.

26. The 5% rate applies to patents, trademarks and know-how royalties while the 7% rate applies to copyright royalties (including films and tapes for radio and television broadcast).

VIETNAM

MEMBER FIRM

City	Name	Contact Information
Hanoi / Ho Chi Minh City	Nhu Tien Nguyen	+849 12 005 808 +848 39 115 539 tiennn@pkf.com.vn
Hanoi / Ho Chi Minh City	Van Dang	+84 28 22 200 237 +84 944 622 461 dangmyvan@pkf.afcvietnam.vn

BASIC FACTS

Full name:	Socialist Republic of Vietnam
Capital:	Hanoi
Main languages:	Vietnamese
Population:	96.35 million (2018 estimate)
Monetary unit:	Vietnam Dong (VND)
Internet domain:	.vn
Int. dialling code:	+84

KEY TAX POINTS

- Corporate Income Tax is charged on any enterprise carrying on a trade, business in Vietnam. All Income (including income from overseas) of the enterprises registered in accordance with the Law of Enterprises are subject to Corporate Income Tax (CIT).
- For resident individuals Personal Income Tax is levied on their income earned within and outside Vietnam's territory, while non-residents are taxed only on their income earned in Vietnam.
- Value Added Tax (VAT) is a tax levied on imported goods and goods and services used in manufacturing, trading or consumption in Vietnam (except for exempted cases stipulated in the law). There are two (2) methods to calculate VAT, which are the deduction method and the direct method.
- Excise Tax is applied to specific luxury goods and services.

A. TAXES PAYABLE

COMPANY TAX - CORPORATE INCOME TAX (CIT)

The standard CIT rate is 20% as from 2016. Companies operating in the oil and gas industry are subject to a CIT rate ranging from 32% to 50% depending on the location and specific project conditions. Companies engaged in prospecting and exploration of mineral resources (e.g. silver, gold, gemstones) are subject to a CIT rate of 40% or 50% based on the project's location.

Tax incentives

Tax incentives are granted to new investment projects based on regulated encouraged sectors, encouraged locations and the size of the project. Business expansion projects (including expansion projects licensed or implemented during the period from 2009 to 2013 which were not entitled to any CIT incentives previously) that meet certain conditions are also entitled to CIT incentives. New investment projects and business expansion projects do not include projects established as a result of certain acquisitions or reorganisations.

- The sectors which are encouraged by the Vietnamese Government include education, health care, sport/culture, high technology, environmental protection, scientific research, infrastructural development, processing of agricultural and aquatic products, software production and renewable energy.
- Locations which are encouraged include qualifying economic and high-tech zones, certain industrial zones and difficult socio-economic areas.
- Large manufacturing projects (excluding those related to the manufacture of products subject to special sales tax or those exploiting mineral resources) with a total capital of VND 6,000 billion or more, disbursed within 3 years of being licensed can also qualify for CIT incentives if the projects meet either of the following criteria:
    - minimum revenue of VND 10,000 billion per annum by the fourth year of operations at the latest; or
    - head count of more than 3,000 by the fourth year of operations at the latest.

From 2015, large manufacturing projects are defined to also include projects with a total capital of VND 12,000 billion or more, disbursed within 5 years of being licensed (excluding those related to the manufacture of products subject to special sales tax or those exploiting mineral resources) and using technologies appraised in accordance with relevant laws.

Further, new investment projects engaged in manufacturing industrial products prioritized for development will be entitled to CIT incentives if they meet one of the following conditions:

- The products support the high technology sector; or
- The products support the garment, textile, footwear, IT, automobile assembly, mechanical sectors and are not produced domestically as at 1 January 2015, or if produced domestically, they meet the quality standards of the EU or equivalent.

The two common preferential rates of 10% and 20% are available for 15 years and 10 years respectively, starting from the commencement of operating activities. From 1 January 2015, a preferential rate of 15% will apply in certain cases. The duration of application of the preferential tax rate can be extended in certain cases. From 1 January 2016, enterprises having projects entitled to the preferential CIT rate of 20% will enjoy a rate of 17% instead. When the preferential rate expires, the CIT rate reverts to the standard rate. Certain socialised sectors (e.g. education, health) enjoy the 10% rate for the life of the project.

Taxpayers may be eligible for tax holidays and reductions. The tax holidays take the form of a complete exemption from CIT for a certain period beginning immediately after the enterprise first makes profits, followed by a period where tax is charged at 50% of the applicable rate. However, where the enterprise has not derived taxable profits within 3 years of the commencement of operations, the tax holiday/tax reduction will start from the fourth year of operation. Criteria for eligibility for these tax holidays and reductions are set out in the CIT regulations.

Additional tax reductions may be available for companies engaging in manufacturing, construction and transportation activities which employ many female staff or employ ethnic minorities.

Tax incentives which are available for investment in encouraged sectors do not apply to other income (except for income which directly relates to the incentivised activities such as disposal of scrap), which is broadly defined.

Administration

Enterprises shall make a self-declaration of CIT payable. The enterprise shall pay the amount of CIT provisionally payable determined each quarter during the year and shall finalize the whole CIT payable for the fiscal year within 90 days after the year end. Generally, the tax year for the purpose of tax finalisation shall be the calendar year, except for the enterprise that is permitted to apply a fiscal year other than the calendar year: the tax year of this enterprise shall conform to its fiscal year.

CAPITAL GAINS TAX

There is no specific capital gains tax in Vietnam. Capital gains are treated as ordinary income for the purpose of calculating income tax.

BRANCH PROFITS TAX

There is no specific branch profits tax in Vietnam. Foreign Enterprises and Foreign Individuals are subject to Withholding Tax on Income that they earn in carrying business.

VALUE ADDED TAX (VAT)

VAT is a tax levied on imported goods and goods and services used for manufacturing, trading or consumption in Vietnam (except for the exempted cases stipulated in law).

VAT Rate

There are three levels of VAT rate. In general, goods or services are mostly subject to a rate of 10%, while some goods or services are subject to a rate of 5% or 0% depending on the type of goods or services.

VAT payable = Output VAT – deductible VAT

Output VAT is the total VAT on goods sold and services recorded on the VAT invoices. Deductible VAT comprises Input VAT which is total VAT on VAT invoices for purchases of goods and services (including fixed assets) serving the manufacture or sale of taxable goods and services, VAT on imported goods at Customs and VAT paid on behalf of foreign enterprises mentioned in the Withholding Tax. VAT shall be declared and paid monthly. For enterprises which have a turnover in the previous year below VND 50,000,000,000 (fifty billion) or newly established enterprises, VAT can be declared and paid quarterly.

VAT refund

Where the taxpayer's input VAT for a period exceeds its output VAT, it will have to carry the excess forward for a period of twelve months. It can then claim a refund from the tax authorities. In certain cases, a refund may be granted on a monthly/quarterly basis. Newly established entities in the preoperation investment phase may claim VAT refunds on a yearly basis or where the accumulated VAT credits exceed VND 300 million. Newly established entities and certain investment projects which are in the pre-operation stage may be entitled to refund for VAT paid on imported fixed assets based on shorter timelines than normal, subject to certain conditions.

Calculating VAT

There are two (2) methods to calculate VAT, i.e. the Deduction Method and the Direct Method.

- For the Deduction Method, VAT is calculated as follows:

  Output VAT = selling price (excluding VAT) x VAT rate
- For the Direct Method, VAT is calculated as follows:

  VAT payables = selling price x rate of VAT (in direct method)

VAT payables includes the selling price. The VAT rates that apply to the Direct Method are:

- 1% for distribution or supply of goods;
- 5% for services or construction (excluding building materials);
- 3% for manufacturing, transport, services (associated with goods), construction (including building materials); and
- 2% for other lines of business.

For the enterprises trading and fashioning of gold, silver and gemstones, VAT is calculated as follows:

VAT payables = (selling price – cost price) x rate of 10%

EXCISE TAX

Excise Tax is applied to specific luxury goods, either imported or manufactured in Vietnam, and services. Excise Tax is calculated based on the quantity of taxable goods (services) sold at their taxable value, and their corresponding tax rate. Taxable value is selling price (excluding VAT) for manufactured goods and services or customs value for imported goods. Specific goods (services) and the tax rate are as follows:

Description		Rate
A.	**Goods**	
1.	Cigarettes, cigars and other tobacco products	
	- before 1 January 2016	65%
	- from 1 January 2016 to 31 December 2018	70%
	- from 1 January 2019	75%

2.	Liquor	
	a. from 20 degrees proof	
	- before 1 January 2016	50%
	- from 1 January 2016 to 31 December 2016	55%
	- from 1 January 2017 to 31 December 2017	60%
	- from 1 January 2018	65%
	b. under 20 degrees proof	
	- before 1 January 2016	25%
	- from 1 January 2016 to 31 December 2017	30%
	- from 1 January 2018	35%
3.	Beer	
	- before 1 January 2016	50%
	- from 1 January 2016 to 31 December 2016	55%
	- from 1 January 2017 to 31 December 2017	60%
	- from 1 January 2018	65%
4.	Automobiles under 24 seats	
	a. up to 9 seats	45% 60%
	b. from 10 to 16 seats	30%
	c. from 15 to under 24 seats	15%
5.	Two- and three-wheeled motorcycles of a cylinder capacity of over 125 cm3	20%
6.	Aircraft	30%
7.	Yachts	30%
8.	Gasoline of various kinds, naphtha, reformed components and other compounds for mixing gasoline	7% 10%
9.	Air-conditioners with capacity of 90,000 BTU or less	10%
10.	Playing cards	40%
11.	Votive paper and votive objects	70%
B	**Services**	
1.	Discotheque	40%
2	Massage parlors and karaoke bars	30%
3.	Casino and reward games, including jackpot, slot and other similar machines	35%
4.	Betting business	30%
5.	Golf business, including sale of membership cards and golf game tickets	20%
6.	Lottery business	15%

BUSINESS LICENCE TAX

Business License Tax is a tax on the business capital of business establishments. Annually, Business Licence Tax shall be paid by 31 January. For new business establishments the deadline comes to the end of the first month of operations. Depending on the registration capital, Business Licence Tax amounts to:

Description		Amount
1.	Over VND 10 billion	VND 3,000,000
2.	From VND 5 billion to VND 10 billion	VND 2,000,000
3	From VND 2 billion to VND 5 billion	VND 1,500,000
3.	Less than VND 2 billion	VND 1,000,000

EXPORT – IMPORT TAX

Export – Import Tax is levied on goods exported or imported across the Vietnamese border, on goods brought from the domestic market into non-tariff zones and vice versa and on other traded or exchanged goods that are considered imports or exports.

Export – Import Tax rate for each exported or imported item is determined by the Export Tax and Import Tax tariff.

NATURAL RESOURCES TAX

Natural Resources Tax is levied on organizations and individuals conducting the exploitation of natural resources in Vietnam. Natural Resources Tax is determined by the actual natural resources exploited, the unit price and the tax rate stipulated for the specific resources.

B. DETERMINATION OF TAXABLE INCOME

Generally, deductible expenses which are deductible for the purpose of calculation of taxable income include expenses actually used for the production or trading in goods and services and expenses incurred with receipts or source documents issued in accordance with the law.

- CIT payables = (Taxed income – Allocation to R&D fund) x CIT rate.
- R&D fund is Science and Technology Development Fund.
- Taxed income = Taxable Income – Exempt Income – Prior year loss carried forward.
- Taxable income = Turnover – Deductible Expenses + Other Income.

DIVIDENDS

Income divided from capital contribution, share purchase, joint venture or economic association with domestic enterprises, after contributed capital recipients, share issuers or joint venture or association parties have paid Corporate Income Tax (CIT) under the Law on CIT shall be exempted from CIT. When the enterprises receive this income (dividends) before the tax calculation, the income shall not be exempted from CIT. In this case, the enterprise must pay CIT on this income at the common rate applied to this enterprise. For individuals, dividends are liable to tax at a rate of 5%.

LOSSES

Enterprises which suffer losses shall be entitled to carry forward those losses to taxable income of the following years. Losses may be carried forward within five (5) years from the year following the year the loss arose.

FOREIGN SOURCE INCOME

Vietnamese enterprises which make an offshore investment and derive income from production and business activities overseas shall declare and pay CIT in accordance with the current Law on CIT of Vietnam.

C. FOREIGN TAX RELIEF

Vietnamese enterprises which make an offshore investment and derive income from production and business activities overseas shall declare and pay CIT in accordance with the current Law on CIT of Vietnam. In case these enterprises have paid income tax on income arising overseas, the paid tax amount may be subtracted (in Vietnam) but must not exceed the CIT amount payable under the Law on Corporate Income Tax.

D. CORPORATE GROUPS

There are no provisions for any form of consolidated filing or group loss relief.

E. RELATED PARTY TRANSACTIONS

Decree 20/2017/ND-CP, which came into force on 1 May 2017, sets out the transfer pricing (TP) regulations. The prescribed TP methodology generally follows the OECD Transfer Pricing Guidelines although some modifications and additional requirements exist.

A 25% control threshold (previously 20%) is sufficient for enterprises to be deemed as related parties. The definition also extends to companies under the common control of an individual through capital contribution or direct management, and where a company is substantially controlled or managed by another company.

The prescribed TP methods are: (i) comparable uncontrolled price (ii) resale price (iii) cost-plus (iv) transactional net margin and (v) profit split. The circular does not stipulate the preference of any method over the others.

Advance pricing agreements (APAs) are possible.

An annual declaration of related party transactions must be submitted together with the taxpayer's annual corporate income tax return, comprising a Master File, a Local File and a Country-by-Country ('CbC') report. Taxpayers are also required to prove that arm's length pricing has been adopted and are required to maintain contemporaneous records.

The taxpayer must perform CbC reporting if (i) the ultimate parent company also is obliged to prepare and submit such documents in its respective tax jurisdiction or (ii) the taxpayer is a Vietnamese ultimate parent company with worldwide consolidated revenue in a tax year exceeding VND 18 trillion.

The taxpayer is exempt from preparing TP documentation if one of the following conditions is met:

- The taxpayer has revenue below VND 50 billion and the total value of related party transactions is below VND 30 billion in a tax period;
- The taxpayer concludes an APA and submits annual APA reports; or
- The taxpayer has revenue below VND 200 billion and performs simple functions and achieves at least the following ratios of EBIT to revenue on its respective business: distribution (5%), manufacturing (10%), processing (15%).

If the pricing strategy is found not to be at arm's length, the tax authorities may impose the deemed appropriate pricing and deemed taxable profits in order to impose the deemed tax.

F. WITHHOLDING TAX

Foreign enterprises and foreign individuals subject to Withholding Taxes are:

- Foreign enterprises and individuals doing business in Vietnam or earning income in Vietnam on the basis of contracts, agreements with Vietnamese organizations, individuals, or between foreign contractors and foreign sub-contractors to perform a part of the Contractor agreement;
- Foreign enterprises and individuals supplying goods in Vietnam in the form of on the spot export/import and earning income in Vietnam on the basis of contracts, agreements with Vietnamese organizations, individuals, or between foreign contractors and foreign sub-contractors to perform a part of the Contractor agreement.

Branches of foreign companies that carry out business or supply services in Vietnam shall be subject to Value Added Tax (VAT) and Corporate Income Tax (CIT) if they fully satisfy the following conditions:

- Having a permanent establishment in Vietnam;
- The business duration in Vietnam is 183 days or more;
- Applying the Vietnamese accounting regime, carrying out tax registration and obtaining the tax code from tax agencies.

These branches are subject to the same rules and the same tax rate as resident enterprises. Corporate Income Tax shall only be levied on the net profits arising from business carried on in Vietnam. Branches of foreign companies that do not satisfy these conditions shall be subject to the Withholding Tax which comprises VAT and CIT as mentioned below:

a) VAT rate (%) calculated upon taxable turnover applicable to business lines:

No.	Business line	Rate
1	Services, machinery and equipment lease, insurance; construction or installation without supply of raw materials, machinery and equipment	5%

2	Production, transportation, services provided together with goods; construction and installation involving the supply of raw materials, machinery and equipment	3%
3	Other business activities	2%

b) CIT rate (%) calculated upon taxable turnover (excluding VAT, if any) applicable to business lines:

No.	Business lines	CIT Rate
1	Trade: Distributing, providing goods, raw materials, supplies, machinery and equipment; distributing, providing goods, raw materials, supplies, machinery and equipment attached to services in Vietnam (including the provision of goods in the form of on-spot export and import (except for processing goods for foreign organizations, individuals); providing goods under delivery conditions of the Incoterms)	1%
2	Services, insurance, leasing machinery and equipment, leasing drilling rigs, particularly:	5%
	- Restaurant, hotel, casino management services;	10%
	- Derivative financial services.	2%
3	Leasing airplanes, airplane engines, spare parts of airplane, ships.	2%
4	Construction, installation including or excluding materials, machinery, equipment.	2%
5	Other production and business, transport (including the transport by seaway, by airway).	2%
6	Transfer of securities, deposit certificates, reinsurance abroad, and commission of the reinsurance transfer.	0.1%
7	Interest on loans.	5%
8	Royalties.	10%

Generally, the Vietnamese party is responsible for declaring, deducting and paying Withholding Tax on behalf of the foreign party and is responsible for paying this Tax within fifteen (15) days from the day of payment to the foreign party.

G. EXCHANGE CONTROL

Within the territory of Vietnam, except for cases that are allowed by State Bank, any transaction, payment, listing, advertising, quotation, valuating, pricing in any contract, agreement and other similar forms (including the conversion or price adjustment of goods, services, value of contract, agreement) of residents, non-residents, shall not be performed in foreign exchange. Foreign currency revenues of residents earned from the import and export of goods and services or other current sources overseas must be deposited into the foreign currency accounts opened at authorized credit institutions in Vietnam, which correspond to the payment terms specified in the relevant contracts or payment records, except for some cases that the State Bank of Vietnam considers allowing to retain part of or the entire amount of foreign currency revenue overseas.

Foreign currency payment and transfer regarding imported and exported goods and services must be performed by wire transfer through authorized credit institutions. Upon entry into, or exit from, Vietnam, (and without declaration to the border Customs) individuals can carry foreign currency as follows:

- USD 5,000 or other foreign currency of the same value;
- VND 15,000,000;
- Precious metals, gemstones (excluding gold) valued at VND 300,000,000;
- Negotiable instrument valued at VND 300,000,000.

Vietnamese individuals and foreigners are not allowed to bring gold bars and gold materials to entry into or exit from Vietnam, but can carry gold jewelleries and gold arts with a total weight of under 300 grams. In excess of these norms, Vietnamese and foreigners shall be required to declare to the border Customs.

H. PERSONAL TAX

All residents and non-residents are subject to Personal Income Tax. A resident is a person that meets one of the conditions below:

- Has been present in Vietnam for 183 days or longer in a calendar year, or for 12 consecutive months from the day on which that person arrives at Vietnam;
- Has a regular residence in Vietnam in one of the two cases below:
  - Has a regular residence according to the legislation on residence;
  - Rents a house in Vietnam according to legislation on housing under a contract that lasts 183 days or longer in the tax year.

Non-residents are the persons that fail to meet the conditions listed above. A resident is liable to pay tax on income earned in Vietnam and overseas, except for non-taxable income, such as income from real estate transferred between spouses and between blood-relations. Personal income tax derived from wages for a resident is equal to assessable income multiplied by the tax rate. Assessable income is taxable Personal Income less deductions. For personal income from wages, deductions are as follows:

- Personal deduction per month comprises deduction for taxpayer and deduction for each dependant which are children under 18, unemployed spouse, elderly and parents;
- Insurance premium.
- Payment for business trips;
- Office clothes (subject to a cap if the office clothes are provided in cash)
- Overtime premium;
- One-off allowance for relocation;
- Transportation to and from work;
- Once a year home leave round trip airfare for expatriate employees and Vietnamese working overseas;
- Training;
- Mid-shift meals (subject to a cap if the meals are provided in cash);
- Allowances/ benefits for wedding, funeral (subject to a cap).

Personal income tax rates:

Level	Assessable income/year (million VND)	Assessable income/month (million VND)	Tax rate (%)
1	Up to 60	Up to 5	5
2	Over 60 to 120	Over 5 to 10	10
3	Over 120 to 216	Over 10 to 18	15
4	Over 216 to 384	Over 18 to 32	20
5	Over 384 to 624	Over 32 to 52	25
6	Over 624 to 960	Over 52 to 80	30
7	Over 960	Over 80	35

A non-resident is liable to pay Personal Income Tax only on income earned in Vietnam.

For Income from wages, Personal Income Tax is equal to taxable income from wages multiplied by a rate of 20% (with no deduction). Other calculation of Personal Income Tax is stipulated in the relevant legal documents.

Non-taxable income

Lump-sum moving allowances for foreigners that move and reside in Vietnam and Vietnamese people that go and work abroad, is non-taxable income.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Withholding Tax rates for dividend, interest and royalties are as follows:

	Dividends[1] (%)	Interest (%)	Royalties (%)
Domestic rates			
Companies	0	5	10
Treaty rates			
Algeria[2]	15	15	15
Australia	10	10	10
Austria	5/10/15	10	7.5/10
Azerbaijan	10	10	10
Bangladesh	15	15	15
Belarus	15	10	15
Belgium	5/10/15	10	5/10/15
Brunei	10	10	10
Bulgaria	15	10	15
Canada	5/10/15	10	7.5/10
China	10	10	10
Cuba	5/10/15	10	10
Czech Republic	10	10	10
Denmark	5/10/15	10	5/15
Estonia	5/10	10	10
Finland	5/10/15	10	10
France	7/10/15	Nil	10
Germany	5/10/15	10	7.5/10
Hong Kong	10	10	7/10
Hungary	10	10	10
Iceland	10/15	10	10
India	10	10	10
Indonesia	15	15	15
Iran	10	10	10
Ireland	5/10	10	5/10/15
Israel	10	10	5/7.5/15
Italy	5/10/15	10	7.5/10
Japan	10	10	10
Kazakhstan	5/15	10	10
Korea (North)	10	10	10
Korea (South)	10	10	5/15

Kuwait	10/15	15	20
Laos	10	10	10
Luxembourg	5/10/15	10	10
Malaysia	10	10	10
Malta	5/15	10	5/10/15
Mongolia	10	10	10
Morocco	10	10	10
Mozambique	10	10	10
Myanmar	10	10	10
Netherlands	7/10/15	10	5/10/15
New Zealand	5/15	10	10
Norway	5/10/15	10	10
Oman	5/10/15	10	10
Pakistan	15	15	15
Palestine	10	10	10
Panama	5/7/12.5	10	10
Philippines	10/15	15	15
Poland	10/15	10	10/15
Portugal	5/10/15	10	7.5/10
Qatar	5/12.5	10	5/10
Romania	15	10	15
Russia	10/15	10	15
San Marino	10/15	10/15	10/15
Saudi Arabia	5/12.5	10	7.5/10
Serbia	10/15	10	10
Seychelles	10	10	10
Singapore	5/7/12.5	10	5/10
Slovak Republic	5/10	10	5/10/15
Spain	5/7/10/15	10	10
Sri Lanka	10	10	15
Sweden	5/10/15	10	5/15
Switzerland	7/10/15	10	10
Taiwan	15	10	15
Thailand	15	10/15	15
Tunisia	10	10	10
Turkey	5/10/15	10	10
Ukraine	10	10	10

United Arab Emirates	5/15	10	10
United Kingdom	7/10/15	10	10
Uruguay	5/10	10	10
Uzbekistan	15	10	15
Venezuela	5/10	10	10

Notes:

1. Dividends paid to non-resident corporate investors are not subject to withholding tax. Distributions repatriated abroad by foreign invested enterprises are not subject to withholding tax. A foreign investor generally may repatriate its after-tax dividends out of Vietnam after fulfilling all tax and financial obligations towards the Vietnamese Government. The rates provided in some treaties represent the maximum withholding tax rate should Vietnam impose a withholding tax on dividends in the future.
2. Treaty not yet in force.

ZAMBIA

MEMBER FIRM

City	Name	Contact Information
Lusaka	Steve Chibwe	+260 211 267124/267267 schibwe@zm.pkfea.com
Livingstone	Simon Njelemba	+260 213 321476 / 320767 snjelemba@zm.pkfea.com
Ndola	R. Ravi Sankar	+260 212 610297 - 8 / 610302 rravisankar@zm.pkfea.com

BASIC FACTS

Full name:	Republic of Zambia
Capital:	Lusaka
Main languages:	English
Population:	17.49 million (2018 estimate)
Monetary unit:	Zambian Kwacha (ZMW)
Internet domain:	.zm
Int. dialling code:	+260

KEY TAX POINTS

- Companies whether resident or non-resident and are in receipt of income, which has a source or deemed source in Zambia, are liable for tax.
- Normal tax is payable by Zambian companies on their taxable income at the following Tax rates:

a.	Mineral processing	30%
b.	Mining	30%
c.	Manufacturing and other companies	35%
d.	Public Benefit Organisation (on income from business)	15%
e.	Agro processing	10%
f.	Farming	10%

g.	Non-traditional exports	15%
h.	Chemical manufacture of fertilizer	15%
i.	Organic manufacture of fertilizer	15%
j.	Trusts, deceased or bankrupt estates	35%

There is no capital gains tax in Zambia. Instead there is what is known as Property Transfer Tax (PTT) which is levied on the sale or deemed sale of all immovable property, shares and intellectual property at 5% of the realisable value. PTT is also levied on the transfer of a mining right or an interest in a mining right at the rate of 10%.

- VAT is chargeable on all taxable goods and services supplied by a registered supplier at a standard rate of 16%.
- Zambian resident individuals and companies are subject to tax in Zambia on foreign interest and dividends.
- Tax credits are granted in respect of foreign taxes paid on foreign sources of income in accordance with the Income Tax Act and the numerous Double Tax Treaties.
- Group taxation is not applicable in Zambia. All group companies are taxed as separate entities.
- The Zambia Revenue Authority Commissioner-General is empowered to make adjustments to nonarm's length cross-border transactions and thin capitalisation between related parties.
- Income from rent, royalties, commission, dividends, management and consultancy and other professional services are subject to withholding taxes when received by residents. Non-residents are subject to withholding tax on construction and haulage operations, royalties, management & consultancy, commission, public entertainment, dividends and interest.
- Zambian resident individuals are subject to tax on their income from a source or deemed source within Zambia. Foreign interest and dividends received by individuals ordinarily resident in Zambia including companies are taxable.

A. TAXES PAYABLE

COMPANY TAX

A Company is resident in Zambia for any charge year if it is incorporated or formed under the Laws of Zambia or if the central management and control of the company's business or affairs are exercised in Zambia for that year. In Zambia all companies whether they are resident or non-resident and are in receipt of income, which has a source or deemed source in Zambia are liable for tax. For the purposes of the Zambian Income Tax Act, income for any charge year includes:

- Gains or profits from any business for whatever period of time carried on;
- Emoluments;
- Annuities;
- Dividends;
- Interest, charges and discounts;
- Royalties, premiums or any like consideration for the use or occupation of any property;
- Income from letting of any property;
- Lump sum payments, capital recoveries etc.

Normal tax is payable by Zambian companies on their taxable income at the rate of 35%. The tax is payable by both public and private companies as well as small businesses. However, there are concessional rates of tax applicable to certain sectors as follows:

- Agriculture: 10%
- Export of non-traditional products 15%
- Charities (on income from business activity) 15%
- Company (Rental income- Final Tax) 10%

The tax rates applicable to the Mobile Telecommunications sector are as follows:

- On income up to ZMW 250,000 35%
- On income in excess of ZMW 250,000 40%

Small businesses with gross income of up to ZMW 800,000 in a charge year, subject to certain exemptions, can register to pay tax at 3% on gross income, under the turnover tax system. However, small business providing management or consultancy services are not covered by this exemption. Mining companies involved in the mining of base metals that earn income from tolling or processing of purchased mineral ores, concentrates and any other semi-processed minerals pay tax at 30%.

TRUSTS

Zambian Trusts like deceased estates and bankruptcy estates pay tax at a flat rate of 35%. Notwithstanding the aforementioned, the Trust needs not be taxed on all of its net income where a beneficiary is entitled to the whole or part of the income of the trust, as it is taxed in his hands instead of being taxed as income of the Trust. Where tax has already been paid on such income before it reaches the hands of the beneficiary it will be set off against any tax raised on him (beneficiary). In practice under Zambian Law, the beneficiary and not the Trust is to be taxed on:

- Income in which the beneficiary has a vested interest where this is paid or accumulated to him;
- Sums applied for the benefit of the beneficiary under the terms of the Trust; and,
- Sums paid to or applied for the benefit of the beneficiary in exercise of discretion.

Under the tax avoidance rules, the Commissioner-General may avoid a trust where he determines that the main aim or purpose of a trust was to minimise or avoid tax.

CAPITAL GAINS TAX

There is no capital gains tax in Zambia. However, there is a Property Transfer Tax (PTT) which is charged on the realisable value of the property being transferred. PTT is payable by the transferor of the property. It is charged on the sale or transfer of all immovable property and any shares issued by a company incorporated in Zambia. PTT is also chargeable on the sale or transfer of Mining Right/Interest in Mining Right and intellectual property. PTT in relation to immovable property excludes letting or subletting of property and leasing, under-leasing or sub-leasing for a period of less than 5 years. In relation to shares, transfer of property excludes the allocation of the same by the company to the member in whose name the share was first registered. The rate of Property Transfer Tax in charge year 2018 is 5%. Effective 1 January 2018, in the case of the transfer of a share issued by a company incorporated outside the Republic where that company directly or indirectly owns at least ten (10) percent of a company incorporated in Zambia, tax shall be charged and collected from the Zambian incorporated company.

BRANCH PROFITS TAX

Where a branch of a foreign company operates in Zambia, the branch taxable income is subject to tax at the rate of 35% or any other rate applicable according to the sector the branch is operating in. Effective 1 January 2015, externalisation or repatriation of branch profits attracts a withholding tax of 15%.

DIVIDEND TAX

Dividends paid or that become payable by a Zambian company to its resident or non-resident shareholders are subject to withholding tax at 15%. Any withholding tax on dividends paid to foreign shareholders can be reduced or tax credits claimed in terms of any applicable double tax treaty.

PARTNERSHIPS

In Zambia a Partnership is not recognised as a distinct taxable entity. For this reason it is not chargeable to tax instead, each partner is assessed separately. Taxable income for the Partnership is computed jointly and then shared between the partners according to the agreed ratios and each partner is subject to tax on his share of profits as trade income.

VALUE ADDED TAX (VAT)

VAT is imposed on most goods and services supplied by a vendor at 16% except for zero-rated and exempt supplies. All exports are zero-rated and the growing of a selected few agricultural products are also zero-rated. Exempt supplies in most cases constitute mostly agricultural products, food stuffs as well as educational services. Compulsory VAT registration is triggered when the value of taxable supplies in a 12-month period exceeds or is expected to exceed ZMW 800,000. However, other companies may register voluntarily without meeting the threshold. This type of registration is renewable every year.

FRINGE BENEFITS TAX

The Income Tax Act provides that any advantage or benefit which is not capable of being turned into money or money's worth that is provided to employees is not allowed as a deduction for tax purposes. Such benefits or advantages are not subject to tax in the hands of the employees. These include the following:

- Free housing where 30% of employees' annual taxable income is disallowed; and,
- Personal to holder motor vehicles where the amounts disallowed are as follows:
    1. Up to 1800 cc engine capacity - ZMW 18,000
    2. Between 1800 cc and 2800 cc engine capacity - ZMW 30,000
    3. Above 2800 cc engine capacity - ZMW 40,000

In all other cases, where the employer, on behalf of the employee, makes payment of electricity bills, telephone bills, water bills, school fees and association and club membership fees, the employer will be required to gross up and add such payments to the salary of the employee and deduct tax under PAYE. The above expenses are allowable deductions in arriving at the taxable income of the employer. All cash benefits, given in the form of allowances, are taxable in the hands of the employees.

WITHHOLDING TAX

Rent, royalties, dividends, management and consultancy fees, commission and interest are subject to withholding taxes at source. The withholding tax rate applicable to residents is 15% in all instances except for rent which is at 10%.

The withholding tax rate on royalties, commission, management and consultancy fees, public entertainment and foreign contractors applicable to non-residents is 20% except for dividends and interest which is at 15%.

Category	Charge year		
	2018	2017	2016
Withholding tax and other rates			
Non-mining dividend pay-outs	15%	15%	15%
Profits distribution by branches of foreign companies	15%	15%	15%
Management fees to non-residents	20%	20%	20%
Management fees to residents	15%	15%	15%
Royalties to non-residents	20%	20%	20%
Winnings from gaming, lotteries and betting (Final tax)	20%	20%	20%
Debentures interest paid to Zambian investors in a property loan stock company listed on the Lusaka Stock Exchange	0%	0%	0%
Interest for individuals on savings and deposit accounts (Final tax)	0%	0%	0%
Interest on treasury bills for individuals (Final tax)	15%	15%	15%
Interest on treasury bills (Final tax for Public Benefit Organisations)	15%	15%	15%
Commissions to non-residents	20%	20%	20%
Public entertainment fees to non-residents (Final tax)	20%	20%	20%
Non-resident contractors	20%	20%	20%
Rentals (Final tax)	10%	10%	10%
Medical levy	0%	0%	0%
NAPSA tax allowable threshold / month	ZMW 0	ZMW 255	ZMW 255

TURNOVER TAX

Threshold	Up to K800,000	Up to K800,000	Up to K800,000
Tax rate	3%	3%	3%

TURNOVER TAX COMPUTATION

Monthly Turnover Category	Tax payable
K0 – K4,200	3% of monthly turnover above K3,000
K4,200.01 – K8,300	K225 per month + 3% of monthly turnover above K4,200
K8,300.01 – K12,500	K400 per month + 3% of monthly turnover above K8,300
K12,500.01 – K16,500	K575 per month + 3% of monthly turnover above K12,500
K16,500.01 – K20,800	K800 per month + 3% of monthly turnover above K16,500
Above K20,800	K1,025 per month + 3% of monthly turnover above K20,800

CARBON EMMISSIONS SURTAX

This is levied on all vehicles being imported as well as those visiting and transiting. For registered vehicles in the country, it is an annual charge based on the engine capacity of the vehicle as follows:

Engine capacity in cubic centimetres	Surtax rate
1500 cc and below	70
Between 1500 cc and 2000 cc	140
Between 2000 cc and 3000 cc	200
3001 cc and above	275

STAMP DUTY

In Zambia Stamp Duty is levied on the increase of share capital and registration of debentures. The Stamp Duty on the increase of share capital is presently at 2.5% on the amount of increase. The Stamp Duty on the registration of debentures is 1% of the debenture value up for registration to the minimum of ZMW 300 and the maximum of ZMW 3,000.

B. DETERMINATION OF TAXABLE INCOME

The taxable income of a company is determined by deducting expenditure so allowed to be deducted in terms of the Income Tax Act. In all instances, unless specifically excluded by the provisions of the Income Tax act, expenditure incurred wholly and exclusively for the purposes of generating income from that source is allowable.

The Act provides for three types of deductions which are specific deductions, general deductions and prohibited deductions. Specific deductions are deductions allowable for a specific source. If a source of income does not exist in a charge year no specific deductions relating to that source should be allowed. General deductions are those deductions which are allowable from total income liable for tax from all sources. And prohibited deductions are those deductions which are not deductible in computing income. Capital allowances and tax losses from the same source are also allowable in determining taxable income.

CAPITAL ALLOWANCES

Asset	Initial Allowance	Investment Allowance	Improvement Allowance	Wear & Tear Allowance	Notes
Industrial buildings	10	10	100	5	1,2
Commercial buildings	-	-	100	2	3
Farm, agro, plant and machinery	-	-	-	100	9

Farm improvements	-	-	-	100	7
Farm works	-	-	-	100	8
Farm dwelling	-	-	-	100	5
Manufacturing plant and machinery	-	-	-	50	4
Leased machinery and equipment	-	-	-	50	4
Tourism implements and machinery	-	-	-	50	4
Commercial motor vehicles	-	-	-	25	-
Non-commercial vehicles	-	-	-	20	-
Plant, machinery and equipment	-	-	-	25	-
Low cost housing	10		-	25	1,5

Notes:

1. Initial allowance is granted on a newly constructed industrial building. No initial allowance is granted on an industrial building which has been in existence for some time and is subsequently purchased. But initial allowance can be granted on a new addition to an existing industrial building. Housing units (Low cost housing) constructed or acquired to house employees will qualify for industrial building allowance but the cost of each housing unit should not exceed ZMW 20,000. All housing units constructed or acquired on or after 1 April 1997 will qualify for industrial building allowance provided the cost does not exceed ZMW 20,000 per unit.
2. The investment allowance is also granted on capital expenditure incurred on the construction of, addition to or alteration of any industrial building to be used for purposes of business as a manufacturer.
3. The improvement allowance on constructed industrial and commercial buildings is only granted to those operating in industrial parks and multi facility economic zones.
4. Accelerated wear and tear allowances at 50% are only available on manufacturing, and tourism and leased assets under operating lease.
5. The cost for farm dwelling and low cost housing for wear and tear purposes is restricted to ZMW 20,000 per unit per year.
6. Premium allowance is also granted for the right to use any patent, design, trade mark or copy right or for the use of other property which the Commissioner-General determines is of a like nature, where such right is used for purposes of business. The amount of allowance allowed for any charge year shall not exceed the amount of the premium or like consideration divided by the number of years for which the right of use is granted.
7. Farm improvements means any permanent work, which includes farm dwelling, fencing and any building constructed for and used for the welfare of employees, and in relation to farming land owned or occupied by the farmer claiming the allowance.
8. Farm works includes expenditure on stumping, clearing, boreholes, wells, aerial and geophysical surveys, prevention of soil erosion and water conservation.
9. Capital allowances increased is at 100% (wear and tear) on implements machinery and plant used in Farming and Agro-processing,

STOCK / INVENTORY

All trading stock on hand at the end of the tax year must be added to income while all trading stocks on hand the beginning of the year ranks as a deduction. Trading stock is valued at the lesser of cost or net realisable value. Consumable stores and work-in-progress on hand constitute trading stock. The LIFO stock valuation method is not acceptable for tax purposes in Zambia.

RESEARCH AND DEVELOPMENT EXPENDITURE

Qualifying expenditure and other expenditure of a capital nature, incurred in the charge year in carrying out scientific experiments or research relating to the business is allowed in full. Also allowed are contributions to a scientific and educational society or institution or like body approved by the Commissioner-General subject to stipulated conditions.

INTELLECTUAL PROPERTY

A deduction is allowed for the right of use of any patent, design, trade mark or copyright or for the use of other property which the Commissioner- General determines is of a like nature, where such right is used by that person for purposes of his business. The deduction allowed for any charge year shall not exceed the amount of the premium or like consideration divided by the number of years for which the right of use is granted.

SUBSIDIES

The income Tax Act provides for capital allowances only for capital expenditure actually incurred. If the taxpayer is able to recover part of this expenditure from subsidy or grant from public funds the capital allowances will be calculated on the net amount.

INTEREST AND FINANCE CHARGES

Interest incurred in the production of income is a deductible expense. Interest of a revenue nature incurred within 18 months prior to the commencement of trade is deductible in the year in which business commences. Interest of a capital nature is not deductible but ranks for capital allowances as part of the cost of capital expenditure.

TAX LOSSES

Subject to certain anti-avoidance provisions, tax losses are carried forward to the following year provided such losses may not be carried forward for a period of more than 5 years in any other case and 10 years for hydro and thermal power generation and mining operations. Losses carried forward can only be deducted from income of the same source.

INTEREST RECEIVED

Interest received (or accrued) is included in the gross income. Normally interest is regarded as having accrued at the date on which it becomes due as income of the charge year in which that date occurs. If the interest, for some reason, remains unpaid in the year in which it was due and payable, it should nevertheless, still be assessed in that year. The taxpayer can claim, if he can prove to the satisfaction of the Commissioner-General, unpaid interest.

FOREIGN SOURCED INCOME

Foreign interest and dividends received by resident individuals and companies are subject to tax in Zambia. However, this general principle may be overridden by the provisions of a Double Tax Treaty or certain unilateral relief provisions contained in the Zambian tax legislation.

INCENTIVES

Only businesses granted licences under the Zambia Development Agency Act No 11 of 2006 after 11 October 2013 up to 31 December 2017 in a priority sector or operating in Multi-Facility Economic Zones (MFEZ) or Industrial Parks qualify for incentives. The incentives available are:

	Income Tax	WHT on Dividends
• Rural manufacturing enterprises – first five years from commencement	0%	0%
• Enterprises in priority sector (MFEZ/Industrial Park) - first five years from commencement	0%	0%

MINING TAX RATES

Category	Charge year		
	2018	2017	2016
Mining - Base Metals/Gemstones/Precious Metals	Nil	Nil	Nil
Other Mining operations	30%	30%	30%

Mineral royalty rates:

(A) Copper	
Norm Price Range	**Mineral Royal Rate**
Less than USD 4,500	4%
USD 4,500 but less than USD 6,000	5%
USD 6,000 and above	6%

(B) Other Minerals	
Description	**Mineral Royalty Value**
Base Metals (Other than Copper)	5% on norm value
Energy and Industrial Minerals	5% on gross value
Gemstones	6% on gross value
Precious Metals	6% on norm value

Capital allowances deductions:			
Mining equipment and related capital expenditure (*claim when asset is brought into use)	Not applicable	N/A	N/A
Commercial motor vehicles and other plant and machinery	Not applicable	N/A	N/A
Non-commercial motor vehicles	Not applicable	N/A	N/A
Carry forward of tax losses:			
Mining operations	Not applicable	N/A	N/A
Prospecting and exploration	Not applicable	N/A	N/A
Other special incentives:			
Import duty on certain mining equipment	Rebate	Rebate	Rebate
Vat deferment scheme	Yes	Yes	Yes
Other rates:			
Withholding tax on dividends	0%	0%	0%

Category	Charge year		
	2018	2017	2016
Withholding tax on management fees to non-residents	20%	20%	20%
Export duty on Copper and Cobalt concentrates	10%	10%	10%
Export duty on all other unprocessed or semi processed mineral ores	10%	10%	10%
Thin capitalisation threshold	3;1	3;1	3;1

Taxation of hedging income	35%	35%	35%
Property transfer tax on sale or transfer of mining right	10%	10%	10%
Transfer pricing rules on interest payments made by mining companies to apply	Yes	Yes	Yes

C. FOREIGN TAX RELIEF

Tax credits are granted in respect of foreign taxes paid on foreign income in accordance with unilateral provisions contained in the Income Tax Act and numerous Double Tax Treaties. Where income is sourced in Zambia, no foreign tax credit will be allowed.

D. CORPORATE GROUPS

Group taxation is not applicable. However, corporate rules exist which provide relief in respect of transactions between group companies and between founding shareholders and their company. The relief provisions deal with the following transactions:

- Asset-for-share transactions;
- Intra-group transactions;
- Unbundling transactions;
- Transactions relating to liquidation, winding-up or deregistration; and,
- Amalgamation transactions.

Briefly, the corporate rules provide for the following tax relief in respect of the above-mentioned transactions, provided certain requirements are met:

- Property Transfer Tax (PTT).

E. RELATED PARTY TRANSACTIONS

The Commissioner-General of the Zambia Revenue Authority is empowered to make adjustments to cross-border transactions between related parties that are not conducted on arm's length terms. While no specific thin capitalisation rules apply, the normal arm's length transfer pricing principle applies in respect of loans as well. However, for mining companies the Debt to Equity Ratio of 3:1 thin capitalisation principle applies. There are also limitations on certain deductions on transactions between related parties.

F. EXCHANGE CONTROL

There are no exchange control regulations under the liberalised Zambian economy. No restrictions on the repatriation of profits or investment capital. However, evidence of tax payments should be produced before repatriation as well as meeting anti money laundering regulations.

G. PERSONAL INCOME TAX

Zambia operates a resident-basis system of taxation. Zambian resident individuals are therefore subject to tax on their worldwide income irrespective of the source of the income, except for certain exclusions. Non-resident individuals, subject to certain exclusions, are subject to tax on their Zambian-sourced income.

A natural person will be regarded as a resident for tax purposes if he is ordinarily resident in Zambia or where the person is not ordinarily resident in Zambia but spends more than 183 days in Zambia in a tax year (the physical test). The tax rates applicable to natural persons for the year ending 31 December 2018 are:

Income Tax Bands Per Annum	**Rate**
First ZMW 39,600	0%
Above ZMW 39,600 up to ZMW 49,200	25%
Above ZMW 49,200 up to ZMW 74,400	30%
Above ZMW 74,400	37.5%

Rental income earned by an individual is taxed at 10% and that is the final tax.

N.B Skill Development Levy introduced at the rate of 0.5% on Gross Emoluments.

H. TREATY AND NON-TREATY WITHHOLDING TAX RATES

The withholding tax rates applicable to payments to non-residents on dividends, interest, royalties and management and consultancy fees under the various Double Tax Treaties are as follows:

	Dividends (%)	Interest (%)	Royalties (%)	Management Fees (%)
Botswana	5/7[2]	10	10	10
Canada	15	15	15	0
China	5	10	5	0
Denmark	15	10	15	0
Finland	5/15[2]	15	5/15	0
France	0	0	0	0
Germany	5/15[2]	10	10	0
India	5/15[3]	10	10	10
Ireland	0	0	0	0
Italy	5/15[2]	10	10	0
Japan	0	10	10	0
Kenya	0	15	20	20
Mauritius	5/15[2]	10	5	0
Netherlands	5/15[2]	10	10	0
Netherlands (new treaty)[5]	5/15[6]	10	7.5	0
Norway	15	10	15	0
Romania	10	10	15	0
Seychelles	5/10[2]	5	10	20
South Africa	15	15	20	20
Sweden	5/15[2]	10	10	0
Switzerland	0[1]	0[1]	0[1]	20
Tanzania	0[1]	0[1]	0[1]	20
Uganda	0[1]	0[1]	0[1]	20
United Kingdom	5/15[4]	10	10	0

Notes:

1. Tax-exempt in Zambia if subject to tax in the other state.
2. The 5% rate applies if the beneficial owner is a company which holds directly at least 25% of the capital of the dividend-paying company.
3. The 5% rate applies if the recipient is a company which owns at least 25% of the shares of the dividend-paying company during the period of 6 months immediately preceding the date of payment.
4. The 15% rate applies to dividends paid out of income (including gains) derived directly or indirectly from immovable property within the meaning of Article 6 by an investment vehicle which distributes most of this income annually and whose income from such immovable property is exempted from tax. The 5% rate applies in all other cases.
5. Effective from 1 January 2019.

6. The 5% rate applies if the beneficial owner is a company which holds directly at least 10% of the capital of the dividend-paying company or if the beneficial owner is a pension fund.

I. CHANGES TO TAX DUE DATES

Effective 1 January 2018, the due dates for tax payments and tax return submission have been changed as follows:

i. WHT from 10th to 14th of every month;

ii. Value Added Tax from 16th to 18th of every month.

ZIMBABWE

MEMBER FIRM

City	Name	Contact Information
Harare	Sydney Bvurere	+263 (4) 291 8460 +263 77 737 3214 sydney.bvurere@pkf.co.zw

BASIC FACTS

Full name:	Republic of Zimbabwe
Capital:	Harare
Main languages:	Shona, Ndebele, English and others
Population:	16.83 million (2018 estimate)
Monetary unit:	United States Dollar (USD) and others
Internet domain:	.zw
Int. dialling code:	+263

KEY TAX POINTS

- Resident companies and private business corporations are taxed on non-exempt income from a source within or deemed to be within Zimbabwe. Income from a foreign source attracts tax only if it falls within the specific provisions relating to deemed source.
- Normal tax is payable by Zimbabwean companies on their taxable income at the rate of 25%. A 3% AIDS levy is imposed on the tax chargeable giving an effective tax rate of 25.75%.
- Capital Gains Tax is levied on taxable gains from a source within Zimbabwe from the sale or deemed sale of immovable property and any marketable security (specified asset). Specified asset now includes trademarks, brands and any right to property (tangible or not tangible) for CGT with effect from 1 January 2017.
- VAT is imposed on all goods and services supplied by a registered operator at a standard rate of 15% with a few basics being exempt or zero rated.
- Zimbabwean resident individuals and corporates are subject to tax in Zimbabwe on foreign interest and dividends. Foreign dividends are subject to tax at a flat rate of 20%. Expatriates working in Special Economic Zones are subject to tax at a 15% flat tax rate on their remuneration.
- Tax credits are granted in respect of foreign taxes paid on foreign sources income in accordance with the Income Tax Act and numerous Double Tax Agreements. The new DTA with South Africa was ratified in March 2017 while ratification for the one with China is still outstanding.
- Group taxation is not applicable. However, corporate rules exist which provide relief in respect of transactions between group companies and between founding shareholders and their company.
- The Revenue Authority Commissioner is empowered to make adjustments to non-arm's length cross-border and local transactions and thin capitalisations between connected parties. Specific transfer pricing

rules have taken effect from 1 January 2016. There is a proposal to exclude locally contracted debt with unrelated parties from the thin capitalisation ratio of 3:1.

- Income from royalties, dividends, interest, and similar income are subject to withholding taxes at source. Non-residents are subject to withholding tax on dividends, royalties, fees (including nonexecutive directors' fees) and remittances.
- Zimbabwean resident individuals are, save for certain exclusions, subject to tax on their income from a source within Zimbabwe. Non-resident individuals, subject to certain exclusions, are subject to tax on their Zimbabwe-sourced income only.
- There is a proposal for a tax amnesty on all tax heads for taxes that were still outstanding as at 1 December 2017. The amnesty is on the penalties and interest only. The proposal does not exclude taxpayers that were already under audit at that date. The amnesty is granted on condition that all the principal amount of the unpaid tax is paid by 30 June 2018.

A. TAXES PAYABLE

COMPANY TAX

A company is resident in Zimbabwe if it is incorporated, formed or established in Zimbabwe or has its place of effective management (day to day management) in Zimbabwe. Zimbabwe resident companies and private business corporations (companies) are taxed on non-exempt income from a source within or deemed to be within Zimbabwe. Income from a foreign source attracts tax only if it falls within the specific provisions relating to deemed source. The proposal to introduce a residence based tax system has been shelved for now.

Normal tax is payable by Zimbabwean companies on their taxable income at the rate of 25%. A 3% AIDS levy is imposed on the tax chargeable giving an effective tax rate of 25.75%.The Income tax rate on exporting companies is reduced according to levels of exports: 20% for those exporting 30% to 40%of their products; 17.5% for those exporting 41% to 50%; and 15% for those exporting 51% and above. The reduction was effective from 1 January 2015. The tax is payable by both public and private companies as well as private business corporations.

The tax year usually runs from 1 January to 31 December, although different balance dates are available in certain circumstances. Tax is payable in four quarterly instalments (QPD's) on the 25th of March, 25th of June, 25th of September and 20th of December by which dates 10%, 25%, 30% and 35% of the tax liability for the year must be paid respectively. Small to medium size enterprises without organised records and with annual turnover below USD 60,000 may pay presumptive taxes instead of normal tax. Presumptive taxes are periodic taxes, absolute figures or percentage-based, which are levied on certain specified business operations, usually undertaken by small and medium size enterprises.

Mining companies are, in addition to their specific corporate rates of tax, subject to a royalty calculated on the gross sales relating to the transfer of mineral resources. The royalty is calculated using different percentages applicable to each type of mineral. The percentages range from 1% on base metals to 15% on precious stones.

TRUSTS

Zimbabwe trusts pay tax at the same rate as companies (25% on each dollar of taxable income plus a 3% AIDS levy on the tax chargeable). This rate is apparently, the same as the one applicable to an individual's trade and investment income. There are no personal credits to a trust created in terms of the will of a deceased taxpayer. In cases where the income of a trust that is ordinarily resident in Zimbabwe includes foreign interest or dividends, such income is taxable (dividends at 20% flat rate). Relief is granted for foreign tax suffered.

PARTNERSHIPS

Partnerships are not separate legal entities. This means they have no existence separate from the individual partners that comprise them. Taxable income for the partnership is computed jointly and then shared between the partners according to the agreed ratios and each partner is then subject to tax on his share of profits as trade income.

CAPITAL GAINS TAX (CGT)

CGT is levied on taxable gains from a source within Zimbabwe from the sale or deemed sale of immovable property and any marketable security (specified asset) according to the Capital Gains Tax Act. Non-residents are only subject to CGT on any direct or indirect interest or right in or to immovable property situated in Zimbabwe. CGT is triggered on the disposal or deemed disposal of an asset which includes but is not limited

to any event, act, forbearance or operation of law that results in the creation, variation, or transfer of a specified asset, subject to any exclusions and exemptions. Liability of the tax arises regardless of the date of acquisition of the specified asset. In certain circumstances, elections to defer liability are available.

In regard to assets acquired after 1 February 2009, a taxable gain is calculated by taking the difference between the proceeds received on disposal of the asset and the cost of the asset plus any additions, inflation allowance, direct selling expenses, bad debts and certain legal costs incurred in CGT appeals to courts. The all items consumer price index (CPI) is used as the base for the inflation allowance. A capital loss results where the costs exceed the proceeds on disposal. CGT is a separate tax and any amounts included as income or deductions in the calculation for income tax are excluded from CGT. A flat rate of 20% is applicable on the gain.

As for assets acquired before 1 February 2009, the selling price is deemed to be the capital gains and a flat rate of 5% is applicable on this gain. Capital gains from marketable securities listed on the Zimbabwe Stock Exchange are subject to a final withholding tax of 1%. A withholding tax of 5% applies on private securities while a rate of 15% applies on gains from immovable property. This withholding tax is credited on assessment.

CGT now covers any right or title to property that is required to be registered, tangible or not tangible (mineral rights, brands, trademarks, industrial designs etc) with effect from 1 January 2017.

BRANCH PROFITS TAX

Like resident companies, branches of non-resident companies are subject to the standard corporate income tax rate of 25% (+3% AIDS levy). There is no branch remittance tax in Zimbabwe.

VALUE ADDED TAX

VAT is imposed on all goods and services supplied by a registered operator at a standard rate of 15%. Exports and some specified goods and services are zero-rated while a few goods and services are exempt. Un-beneficiated chrome is subject to VAT at the rate of 20% upon export. With effect from 1 January 2014 un-beneficiated hides are subject to VAT at the rate of 15%. The proposed rate of export tax on un-beneficiated platinum ranges between 0% and 5% depending on whether one invests in plant for processing, smelting and refining the ore respectively with effect from 1 January 2018. There is also a proposal to charge export tax on dimensional stones at 0%, 2.5% and 5% for cut and polished, cut only and uncut respectively with effect from 1 January 2018. Compulsory VAT registration is triggered when the value of taxable supplies in a 12 month period reaches or is expected to exceed USD 60,000.

FRINGE BENEFITS TAX

Employees are taxed on the value of fringe benefits as determined in the Income Tax Act. The fringe benefits are added to the taxable income of the individual and tax is levied at the tax rates applicable to natural persons.

STAMP DUTY

Stamp Duty is levied on specified instruments and transfer of immovable property. The specified instruments include bonds, brokers' notes, off-market share transfers, cheques and policies of insurance. Transfer Duty is imposed on the transfer of immovable property at the following rates:

Details	Duty (USD)
For transfers of up to USD 5,000 - for every USD 100 or part thereof	1
For transfers between USD 5000 and USD 20,000 - for every USD 100 or part thereof	2
For transfers between USD 20,000 and USD 100,000 - for every USD 100 or part thereof	3
For transfers in excess of USD100 000 – for every USD 100 or part thereof	4

OTHER TAXES

These include, amongst others, Customs and Excise duties, carbon tax, and skills and standards development levies.

B. DETERMINATION OF TAXABLE INCOME

The taxable income of a company is determined by deducting exempt income and expenditure incurred for the purposes of trade or in the production of income and other allowable expenses and allowances from the company's income.

Capital receipts are subject to CGT. Expenditure is allowed to the extent that it is of a revenue nature.

CAPITAL ALLOWANCES

BUILDINGS, PLANT, MACHINERY AND EQUIPMENT

Asset	Special Initial Allowance (%)	Wear & Tear Allowance (%)	Notes
Industrial Buildings	25	5	1,6
Farm improvements	25	5	1, 4
Commercial buildings		2,5	
Railway lines	25	5	1
Staff housing	25	5	1, 2
Motor vehicles	25	20 up to 33,33	1, 3, 5
Articles, implements, machinery		10	5

Notes:

1. The SIA is granted in the year of purchase in relation to movables and in the year of construction in respect of immovable or year in which the asset is first used. In subsequent years accelerated W&T is allowed on original cost. Companies operating in Special Economic Zones will claim their SIA over 3 years, 50% in the first year and 25% in each of the subsequent years.
2. As from 1 January 2009 the amount qualifying for the allowances in respect of each unit of staff housing was set at USD 10,000 (only available to units the cost of which does not exceed USD 25,000).
3. Allowances on “passenger” motor vehicles restricted to a cost of USD 10,000 for vehicles purchased on or after 1 January 2009.
4. Includes permanent schools, nursing homes, hospitals and clinics (with effect from 1 January 2009 any part of the cost in excess of USD 10,000 of such permanent schools, nursing homes, hospitals and clinics will be disregarded).
5. W&T on all movables is generally on a reducing balance basis while that on immovable is on straight line basis (on cost).
6. Includes hotels with liquor and casino licenses.
7. SIA for business operating in Special Economic Zones is 50% with the remaining 50% being allowed as Wear Tear in two equal instalments in the following two years.

STOCK / INVENTORY

All trading stock on hand at the end of the tax year must be added to income while all trading stock on hand at the beginning of the year ranks as a deduction. Trading stock is valued at the lesser of cost or net realisable value. Consumable stores and work-in-progress on hand constitute trading stock. The LIFO method of valuing trading stock is not permitted.

RESEARCH AND DEVELOPMENT EXPENDITURE (R&D)

Qualifying expenditure incurred by the taxpayer during the year of assessment in carrying out experiments and research relating to his trade, other than capital expenditure on plant, machinery, land or premises or on the acquisition by the taxpayer of rights, whether for the purpose of his trade or otherwise is allowed in full. However, contributions to such expenditure by another taxpayer are allowed to that other taxpayer with some restrictions.

EXPORT - MARKET DEVELOPMENT EXPENDITURE

Exporters can claim as a deduction the amount of any export-market development expenditure incurred during the year of assessment, together with an amount equal to 100% of such expenditure. The term "export market development expenditure" means expenditure, not being expenditure of a capital nature, that is proved to the satisfaction of the Commissioner to have been incurred wholly or exclusively for the purpose of seeking opportunities for the export of goods from Zimbabwe or of creating or increasing the demand for such exports and includes expenditure for any one or more of the following purposes:

(1) Research into, or the obtaining of information relating to, markets outside Zimbabwe;

(2) Research into the packaging or presentation of goods for sale outside Zimbabwe;

(3) Advertising goods outside Zimbabwe or otherwise securing publicity outside Zimbabwe for goods;

(4) Soliciting business outside Zimbabwe or participating in trade fair;

(5) Investigating or preparing information, designs, estimates or other material for the purpose of submitting tenders for the sale or supply of goods outside Zimbabwe;

(6) Bringing prospective buyers to Zimbabwe from outside the country; and,

(7) Providing samples of goods to persons outside Zimbabwe.

INTELLECTUAL PROPERTY

The deduction of expenditure, in any single year, incurred for the right of use of an invention, patent, copyright, knowledge or other property of a similar nature or design or other property of a similar nature is not permitted to exceed an amount determined by dividing the total premium by the number of years representing the duration of the agreement. If the agreement is for a duration of more than ten years, or the duration is indefinite, then the duration is deemed to be ten years.

INTEREST AND FINANCE CHARGES

Interest incurred in the production of income is a deductible expense. Interest incurred prior to the commencement of trade is deductible in the year in which trade commences. However, interest incurred during building operations on a loan used for building purposes is capitalised and ranks for capital allowances as part of the cost of the building. Interest expenditure is adjusted for thin capitalisation rules. Pre-incorporation expenditure is not deductible.

TAX LOSSES

Subject to certain anti-avoidance provisions, tax losses are carried forward to the following year provided such losses may not be carried forward for a period of more than six years, except for losses from mining operations. Losses from trading operations cannot be offset with employment income.

INTEREST RECEIVED

Interest received (or accrued) is included in gross income to the extent that such interest has not been subjected to withholding tax at source. Bank interest is subject to withholding tax at source.

FOREIGN SOURCED INCOME

Zimbabwean resident individuals and corporates are subject to tax in Zimbabwe on foreign interest and dividends. Foreign dividends are subject to tax at a flat rate of 20%. However, this general principle may be overridden by the provisions of a double taxation agreement or certain unilateral relief provisions contained in the Zimbabwe tax legislation.

INCENTIVES

The following table indicates applicable normal tax rates of 25% and indicates the existing tax holiday schemes in the form of reduced tax rates.

INCOME TAX RATES

Years ending 31 December 2018 and 2017

	Notes	2018	2017
Companies and Trusts	1	25%	25%
Mining companies and mining trusts		25%	25%
Approved BOOT and BOT projects	2	0%	0%
Industrial Park Developer	3	0%	0%
Licensed investor	3	0%	0%
Special Mining Lease		15%	15%
Pension Funds		15%	15%
Operator of a tourist facility	3	0%	0%
Manufacturing company exporting 30% or more	1	20%, 17.5%, 15%	20%, 17.5%, 15%

Notes:

1. Subject to 3% Aids levy giving effective rates of 25.75%; 20.60%; 15.45% and 18.03%. The rates for exporting companies are determined by the following levels of exports:
   (a) Export 30% to 40% of products - 20%
   (b) Export 41% to 50% of products - 17.5%
   (c) Export 51% and above of products - 15%
2. The 0% rate applies for the first five years and then a 15% rate applies in the next five years and 25% rate thereafter.
3. The 0% rate applies for the first five years and a 15% rate applies thereafter. Licensed investor includes businesses operating in a Special Economic Zone (SEZ) as well. The structures to approve SEZ projects are still not yet in place.

C. FOREIGN TAX RELIEF

Tax credits are granted in respect of foreign taxes paid on foreign sources income in accordance with unilateral provisions contained in the Income Tax Act and numerous Double Tax Agreements. Where income is sourced in Zimbabwe, no foreign tax credit will be allowed.

D. CORPORATE GROUPS

Group taxation is not applicable. However, corporate rules exist which provide relief in respect of transactions between group companies and between founding shareholders and their company. The relief provisions deal with the following transactions:

- Asset-for-share transactions;
- Intra-group transactions;
- Unbundling transactions;
- Transactions relating to liquidation, winding-up or deregistration; and,
- Amalgamation transactions.

Briefly, the corporate rules provide for the following tax relief in respect of the above mentioned transactions, provided certain requirements are met:

- CGT;
- Stamp Duty;
- Income tax, specifically with respect to capital allowances claimed, recoupment of capital allowances and the transfer of trading stock; and
- VAT.

E. RELATED PARTY TRANSACTIONS

The Commissioner for the Zimbabwean Revenue Authority is empowered to make adjustments to nonarm's length cross-border transactions and thin capitalisations between connected parties. The new transfer pricing rules extend this to local transactions as well. There are also limitations on certain deductions and allowances on transactions between connected parties.

F. WITHHOLDING TAXES

Income from royalties, dividends, interest, and similar income are subject to withholding taxes at source. Non-residents are subject to withholding tax on dividends, royalties, fees and remittances. Zimbabwean resident individuals are subject to withholding tax at source on dividends and bank interest. Royalties paid by companies operating in SEZs are exempt from withholding tax.

Zimbabwean resident companies are not subject to dividend withholding tax on dividends paid by local companies but their bank interest is subject to withholding tax. The rate of withholding tax is 15% in all cases except for dividends from securities listed on the Zimbabwe Stock Exchange for which the rate is 10%.

G. EXCHANGE CONTROL AND INDIGENISATION

Subject to certain limited exclusions, Zimbabwean residents are subject to exchange controls. Currently the exchange controls have been tightened up due to shortage of foreign currency to the extent that exportation of dividends and profits is not the priority. Imports are the priority. Non-residents are excluded from the ambit of exchange controls except when it comes to investing in securities listed on the Zimbabwe Stock Exchange.

The Zimbabwean Authorities have now relaxed the controls over ownership of companies in almost every sector, except for platinum and diamond mining industries. The target in the platinum and diamond mining industries remains that each local company should be owned 51% by indigenous persons and foreigners can own up to 49% only. Investors can negotiate their way through the Zimbabwe Investment Authority and their respective licensing Ministries.

H. PERSONAL INCOME TAX

Zimbabwean resident individuals are, save for certain exclusions, subject to tax on their income from a source within Zimbabwe. Non-resident individuals, subject to certain exclusions, are subject to tax on their Zimbabwe-sourced income only.

Employers with acceptable accounting records are allowed to use the Final Deduction System for their payroll tax. This system requires that the employers deduct the payroll tax accurately such that the individual employees do not have to submit income tax returns for their employment income to the tax authorities at the end of the year unless they have other income. The income tax rates applicable to natural persons for the tax year ending 31 December 2018 are:

Annual Taxable Income (USD)	Rate	Cumulative Tax Chargeable (USD)
Up to 3,600	0%	0
From 3,601 to 18,000	20%	2,880
From 18,001 to 36,000	25%	7,380
From 36,001 to 60,000	30%	14,580
From 60,001 to 120,000	35%	35,580
From 120,001 to 180,000	40%	59,580
From 180,001 to 240,000	45%	86,580
Above 240,000	50%	86,580 + 50%

Note: Husbands and wives are taxed separately. Taxable income from employment is arrived at after deducting pension and social security contributions and trade union subscriptions. An AIDS levy of 3% on tax chargeable is imposed after deduction of credits. The maximum effective rate is therefore 51.50%. The above rates apply only to remuneration from employment and pensions. Credits for medical expenses and medical aid contributions, physically disabled persons and elderly persons are granted with stipulated maxima.

Any taxable income for an individual which is received by or accrues to him from any trade investment or other activity (excluding employment or pension) is taxed at a flat rate of 25%. The 3% AIDS levy is also applicable to the tax on this income, giving an effective rate of 25.75%.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

The Income Tax Act subjects a number of payments to withholding tax at source. These are as follows:

	Dividends		Interest[8] (%)	Royalties (%)	Fees (%)
	Individuals, companies (%)	Qualifying companies (%)			
Non-treaty countries					
Companies	15	0/10	0	15	
Individuals	0/10/15	--	0	15	
Treaty countries:					
Botswana	10	5[1]	10	10	10
Bulgaria	20	10[1]	0	10	10
Canada	20	10[2]	0	10	10
China4	7.5	2.5[3]	0	7.5	0
France	20	10[1]	0	10	10
Germany	20	10[1]	0	7.5	7.5
Kuwait	10	0/5[5]	0	10	0
Malaysia	20	10[6]	0	10	10
Mauritius	20	10[2]	0	15	15
Netherlands	20	10[1]	0	10	10
Norway	20	15[1]	0	10	10
Poland	15	10[1]	0	10	0
South Africa (new treaty)[7]	10	5[1]	0	10	5
Sweden	20	15[1]	0	10	10
United Kingdom	20	5[2]	0	10	10

Notes:

1. The reduced rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the paying company.
2. The reduced rate applies if the beneficial owner is a company which controls directly or indirectly at least 25% of the voting power of the paying company.
3. The reduced rate applies if the beneficial owner is a company which controls directly or indirectly at least 25% of the paying company.
4. Effective 1 January 2017.
5. The 5% rate applies if the beneficial owner is a company which controls directly or indirectly at least 10% of the capital of the paying company. The 0% rate applies if the dividends are paid to the Kuwaiti Government, Central Bank etc.
6. The reduced rate applies if the recipient is a company (other than a partnership) which holds directly at least 15% of the capital of the paying company.
7. Effective date: 1 February 2017 (withholding taxes); 1 January 2017 (Zimbabwe)/1March 2017 (South Africa) for other tax matters.
8. Interest payments to non-residents are exempt from withholding tax. The domestic 0% rate therefore prevails for all countries listed.
9. Withholding rates not covered under the tax treaty so the domestic rates are applicable.

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