

Comparative Analysis on Taxation of Multinationals

January 2020



Ministry of Finance
Korte Voorhout 7
2511 CW Den Haag

January 2020

Dear Mr. Fuhler, dear Mr. Willemstein,

Following our conversations on the approach for a comparative analysis of the taxation of multinationals, we hereby provide you with the final version of the report.

The following jurisdictions are in scope of the comparative analysis: Austria, Belgium, France, Germany, Ireland, Japan, Luxembourg, Netherlands, Republic of Korea ('Korea'), Singapore, Spain, Sweden, Switzerland, United Kingdom of Great Britain and Northern Ireland ('UK') and the United States of America ('US').

The comparative analysis provides an overview of the measures listed for further research by the 'Commissie belastingheffing multinationals' in the 'Voorstel vergelijkend internationaal onderzoek'. Based on the provided list of the measures, we have prepared a questionnaire that we have requested our colleagues in the above-mentioned jurisdictions to complete. This questionnaire was completed by our colleagues in September 2019 and we have included their response in this report. Information is provided for the calendar year 2019. Any relevant information the jurisdictions had available on changes for 2020 has also been included in the report.

Based on the information received, we have prepared an executive summary in Chapter 1, which allows for an easy comparison of the tax measures applicable in the Netherlands with the measures applicable in other countries. In Chapter 2, the completed questionnaire per jurisdiction is included (in alphabetical order). Please note that Chapter 1 only provides a high-level overview of the measures included in the analysis and is meant to provide visual insight in the position of the Netherlands compared to the other jurisdictions. Chapter 1 should always be read in conjunction with the detailed information in Chapter 2.

This report has been reviewed by the International Bureau of Fiscal Documentation ('IBFD'); additional information provided by the IBFD has been inserted in *Italic* and with a reference to the source in Chapter 2.

The 'Dienstverleningsovereenkomst ARVODI-2018' with reference '201850016.093.012' is applicable to our performed activities and this report.

Best regards,

Edwin Visser and Femke van Dijk

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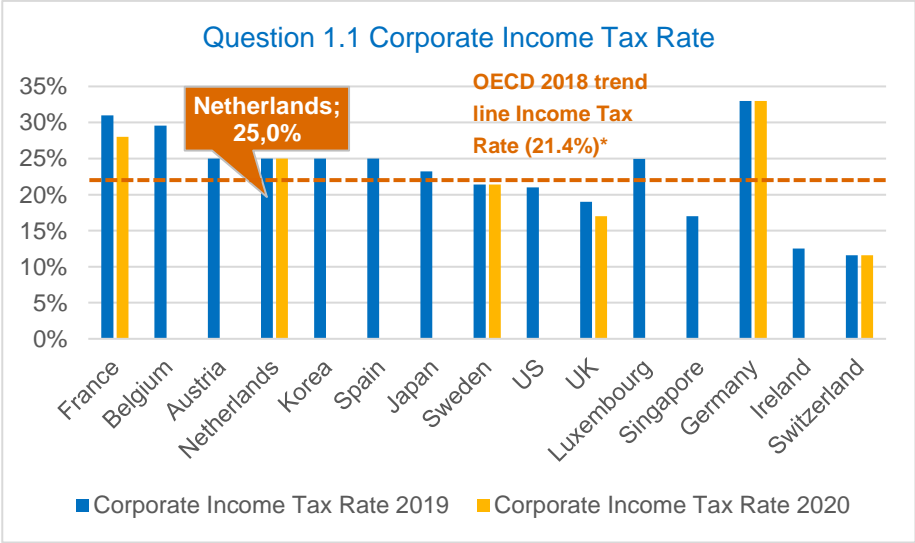
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1. Executive Summary per tax measure

Please note that Chapter 1 only provides a high-level visualisation of the measures included in the analysis and should be read in conjunction with the detailed information in Chapter 2.

1.1. Overview corporate income tax rates per jurisdiction for 2019 and 2020

The 'Corporate Income Tax Rate' chart shows the 2019 rates, and the 2020 rates for jurisdictions which have confirmed their rates. Rates include surcharges and for instance trade tax in Germany.



*Source: <https://www.oecd.org/tax/corporate-tax-remains-a-key-revenue-source-despite-falling-rates-worldwide.htm>

The table below shows that only Ireland does not apply the Corporate Income Tax rate to capital gains in 2019.

| Question 1.2 Capital Gain Tax | |
|---|--|
| Different rates applicable for regular profit and capital gains | No difference between regular profit and capital gains rates |
| Ireland – 33% | Austria |
| | Belgium |
| | France |
| | Germany |
| | Japan |
| | Luxembourg |
| | <u>Netherlands</u> |
| | Korea |
| | Singapore |
| | Spain |
| | Sweden |
| | Switzerland |
| | UK |
| | US |

1.2. Substance Requirements

In the table below, the substance test of the jurisdictions has been divided over three categories that are based on the perspective of the Dutch substance test. Jurisdictions are categorized as light, medium or extensive.

* The light substance test refers to no or light substance requirements.

** The medium substance test refers to moderate substance requirements, on which guidance is derived from case law.

*** The extensive substance test refers to substance requirements similar to the Dutch substance requirements or to other substance rules that are considered compulsory under legal regulations.

Question 2.2 Substance Test

| Light* substance test | Medium** substance test | Extensive*** substance test |
|-----------------------|-------------------------|-----------------------------|
| Austria | Ireland | Belgium |
| France | Luxembourg | Germany |
| Japan | Korea | <u>Netherlands</u> |
| Singapore | Switzerland | |
| Spain | | |
| UK | | |
| US | | |

Sweden has no substance rules.

1.3. Transfer Pricing Related Modalities

Dutch tax law provides that transactions between affiliated companies need to be in accordance with the OECD's arm's-length principle. Transactions that do not meet this principle are adjusted (upward and downward) and followed by secondary adjustments in the form of deemed dividend distributions or informal capital contributions through the chain. Acquired assets are booked at Fair Market Value for Dutch tax purposes, which is not dependent on a corresponding exit taxation in the transferring jurisdiction.

All compared jurisdictions commit to the arm's-length principle.

In table 3.2, all jurisdictions are listed that allow for a step-up. For all these jurisdictions no corresponding taxation is required. The jurisdictions at the right of the table do not allow for a step-up.

In Belgium, rules are introduced to allow for a step-up in cases covered by EU ATAD per 1 January 2019.

Question 3.2 Step-up Methodology

| Step-up to fair market value | No step-up to fair market value |
|------------------------------|---------------------------------|
| Austria | Belgium |
| Germany | France |
| Ireland | Japan |
| Korea | Singapore |
| Luxembourg | Sweden |
| <u>Netherlands</u> | UK |
| Spain | |
| Switzerland | |
| US | |

The table below shows an overview of jurisdictions that allow for a step-up to Fair Market Value that have a concept of deemed capital contribution and jurisdictions that allow for a step-up to Fair Market Value that have no concept of deemed capital contribution.

Question 3.3 Deemed Capital Contribution

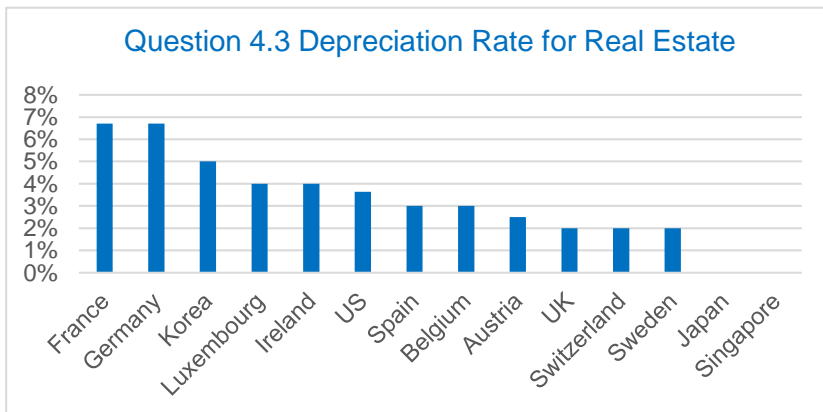
| Jurisdiction has concept of deemed capital contribution | Jurisdiction has no concept of deemed capital contribution |
|---|--|
| Germany | Austria |
| Korea | Ireland |
| Luxembourg | Spain |
| <u>Netherlands</u> | |
| US | |

Belgium, France, Japan, Singapore, Sweden and the UK do not allow for a step-up to FMV.

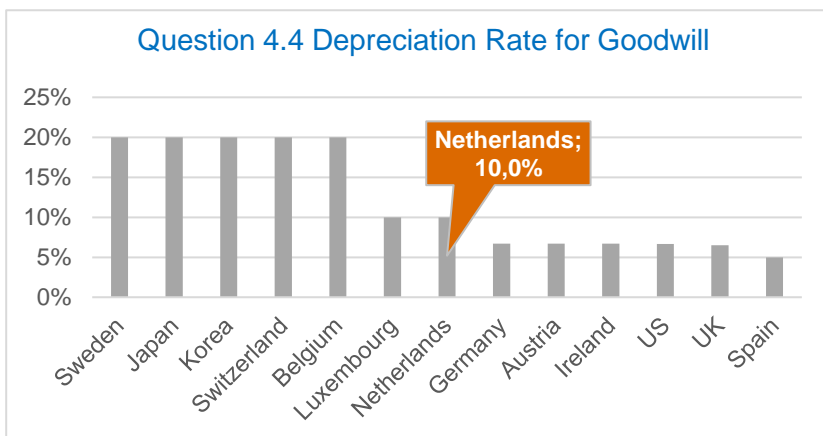
Switzerland allows for a step-up on a case by case basis.

1.4. Depreciations

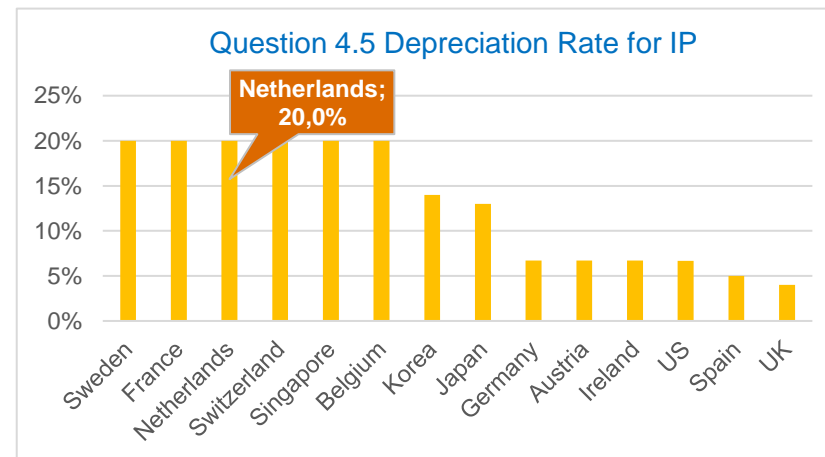
In the bar charts below, the depreciation rates for the various jurisdictions are listed for real estate, goodwill and intellectual property. Table 4.6 shows whether in a jurisdiction any sort of random depreciation can be applied. Please note that in table 4.3 – 4.5, if varying rates apply, only the lowest applicable rate is shown. Detailed rates can be found in Chapter 2.



Real estate depreciation in **the Netherlands** is allowed up to the property's official fair market value for tax purposes ('WOZ-waarde'). In Japan a straight-line method is applied and in Singapore the economic lifetime of the real estate determines the depreciation.



France and Singapore do not have goodwill depreciation rules.



IP depreciation rules are not applicable in Luxembourg.

Question 4.6 Random Depreciation in general

| Random Depreciation applicable | Random Depreciation not applicable |
|--------------------------------|------------------------------------|
| Austria | Germany |
| Belgium | Sweden |
| France | Switzerland |
| Ireland | |
| Japan | |
| Korea | |
| Luxembourg | |
| Netherlands | |
| Singapore | |
| Spain | |
| UK | |
| US | |

1.5. Interest Deduction Limitation

The Netherlands has two specific interest deduction limitation rules and one general interest deduction limitation rule. The GAAR (general anti-avoidance rule) has thus far not been commonly applied in Dutch tax practice to deny the deduction of interest, although there are several examples.

The specific rules target intra-group interest payments relating to certain non-businesslike ‘tainted’ (base eroding) payments to low-taxed affiliates and long-term non-arm’s-length payments (art. 10a Dutch Corporate Income Tax Act 1969). The specific interest deduction limitation rules do not per se target interest related to the acquisition of exempt assets, but there may be a correlation as such interest payments may under circumstances be considered base eroding. Restricted interest deduction under these specific rules cannot be carried back or forward.

As of 1 January 2019, the earnings stripping rule disallows interest deduction for net interest expenses above 30% of EBITDA of the taxpayer with a franchise of EUR 1m per year. The restricted interest deduction under this rule can be carried forward indefinitely. Unutilized EBITDA cannot be carried forward. There are no specific exceptions under the general interest deduction limitation rule.

The following compared jurisdictions have specific interest deduction limitation rules:

1. Austria: anti-base erosion rules targeting payments to low-taxed related parties and the acquisition of exempt assets;
2. Belgium: 5:1 debt-to-equity ratio for certain base eroding payments on loans concluded prior to 17 June 2016;
3. France: thin-cap rules and anti-base erosion rules targeting payments to low-taxed related parties;
4. Germany: anti-base erosion rules targeting hybrid partnerships;
5. Ireland: specific rules targeting certain non-businesslike base-eroding payments;
6. Japan: thin-cap rules;
7. Korea: thin-cap rules;

8. Luxembourg: 85:15 debt-to-equity ratio for the financing of participations and an interest deduction limitation for charges related to exempt income up to the amount of exempt income received during the year with a recapture for years without exempt income;
9. Singapore: anti-base erosion rules targeting interest expenses relating to exempt assets;
10. Spain: acquisition debt rules;
11. Sweden: anti-base erosion rules targeting payments to low-taxed related parties;
12. Switzerland: thin-cap rules;
13. US: deferral/disallowance provisions.

Question 5.2 Other Limitation of Interest Deduction

| Other applicable limitations of interest deduction applicable | No other limitations of interest deduction applicable |
|---|---|
| Austria | Ireland |
| Belgium | |
| France | |
| Germany | |
| Japan | |
| Korea | |
| Luxembourg | |
| Netherlands | |
| Singapore | |
| Spain | |
| Switzerland | |
| Sweden | |
| UK | |
| US | |

As included in table 5.1, the following compared jurisdictions have general interest deduction limitation rules:

1. Belgium: 30% EBITDA with EUR 3m franchise, unlimited carry-forward of restricted expenses and certain exceptions apply;
2. France: 30% EBITDA with EUR 3m franchise, unlimited carry-forward of restricted expenses, five years carry-forward of unutilized EBITDA and certain exceptions apply;
3. Germany: 30% EBITDA with EUR 3m franchise, unlimited carry-forward of restricted expenses, five years carry-forward of unutilized EBITDA and certain exceptions apply;
4. Japan: 20% of adjusted income;
5. Korea: 30% of adjusted income;
6. Luxembourg: 30% EBITDA with EUR 3m franchise, unlimited carry-forward of restricted expenses and certain exceptions;
7. Spain: 30% EBITDA with EUR 1m franchise, unlimited carry-forward of restricted expenses, five years carry-forward of unutilized EBITDA and certain exceptions apply;
8. Sweden: 30% EBITDA with SEK 5m and six years carry-forward of restricted interest expenses;
9. UK: 30% EBITDA with GBP 2m franchise, five years carry-forward of restricted expenses and certain exceptions apply; and,
10. US: 30% EBITDA/EBIT with unlimited carry-forward of restricted interest expenses.

Austria, Ireland, Singapore and Switzerland do not have a general interest deduction limitation rule in 2019. Ireland may introduce a 30% EBITDA rule per 1 January 2020 or 1 January 2021 in order to comply with ATAD I. The European Commission has started an infringement procedure against Austria.

Apart from the specific and general interest deduction limitation rules, the following jurisdictions may typically apply the GAAR on artificial transactions: Luxembourg, UK, Spain, Switzerland, although more jurisdictions have a GAAR and may in theory apply the GAAR to deny interest deduction on this basis (Austria, Belgium, France, Germany, Ireland, Netherlands, Singapore and Sweden).

Question 5.1 Earning Stripping / 30% EBITDA

| Earning stripping / 30% EBITDA applicable | Earning stripping / 30% EBITDA not applicable |
|---|---|
| Belgium | Austria |
| France | Ireland |
| Germany | Singapore |
| Japan | Switzerland |
| Korea | |
| Luxembourg | |
| <u>Netherlands</u> | |
| Spain | |
| Sweden | |
| UK | |
| US | |

Question 5.3 Interest Expense Deductibility for Acquisition of Exempt Assets

| Interest expenses that are directly linked to tax exempt income are as a general rule deductible | Interest expenses that are directly linked to tax exempt income are as a general rule non-deductible |
|--|--|
| Belgium | Austria** |
| France | Japan |
| Germany | Luxembourg |
| Ireland | Singapore |
| <u>Netherlands</u> | |
| Spain* | |
| Sweden | |
| UK | |
| US | |

* The GAAR may be applied and evidence for valid economic reasons may be requested

** As an exception to this general rule, interest expenses arising from an acquisition of a participation are deductible

No specific rules apply in Korea, since there are no (participation) exemption regimes. Switzerland applies a case-by-case assessment.

Question 5.4 Specific Anti Avoidance Rules (SAAR)

| Specific anti avoidance rules applicable | No specific anti avoidance rules applicable |
|--|---|
| Austria* | Korea |
| Belgium | Luxembourg |
| France | Singapore |
| Germany | |
| Ireland | |
| Japan | |
| <u>Netherlands</u> | |
| Spain | |
| Sweden | |
| Switzerland | |
| UK | |
| US | |

* In Austria, the combination of a thin-cap rule and anti-base erosion rule is qualified as SAAR.

1.6. Royalty's

The table below shows whether jurisdictions have a limitation on the deductibility of royalties. From the jurisdictions in scope there are no tax rate-based royalty deduction limitation rules (Question 6.1).

Question 6.1 Royalty Deduction Amount Limitation

| Royalty deduction limitation based on amount | No royalty deduction limitation based on amount |
|--|---|
| Austria | France |
| Germany | Belgium |
| | Ireland |
| | Japan |
| | Korea |
| | Luxembourg |
| | <u>Netherlands</u> |
| | Singapore |
| | Spain |
| | Sweden |
| | Switzerland |
| | UK |
| | US |

1.7. Head Office Costs

Head office costs are in principle deductible in all jurisdictions, insofar the costs are at arm's length. In general, transfer pricing standards are followed, which include that subsidiaries should be charged arm's length fees for head office services provided. We refer to Chapter 2 for country specific comments in respect of the deductibility of head office costs and the requirements for this (Question 7.1).

1.8. Innovation Box or Similar Tax Regimes

The Netherlands has an Innovation Box regime which provides for an effective tax rate of 7% on income derived from qualifying assets. The effective rate is expected to be increased to 9% per 1 January 2021. The Netherlands' Innovation Box has a modified nexus approach in line with OECD standards.

In chart 8.1, the effective rate of the Innovation Box or a comparable regime is listed for the jurisdictions that have such regime. For Korea, the effective rate is to be determined on a case by case basis as several rules and or complex calculation methods apply.

The compared jurisdictions generally apply the modified nexus approach, except for Korea and Japan. Switzerland will introduce an Innovation Box or a comparable regime per 1 January 2020 (effective rate: 10% -13%). This regime will apply the nexus approach.

The US apply a deduction for Foreign-Derived Intangible Income (FDII), which has similar goals as an innovation box.

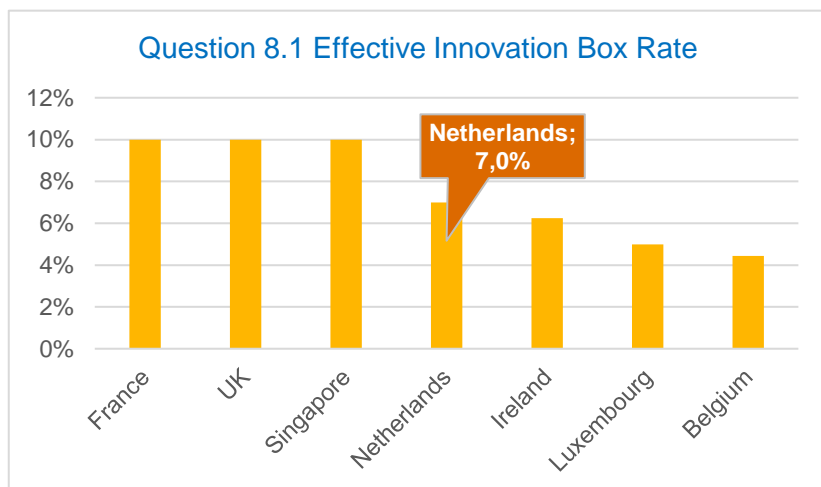


Table 8.3 provides an overview of whether the countries with an innovation box or comparable beneficial regime, also apply the modified nexus approach.

Question 8.3 Modified Nexus Approach

| Modified nexus approach | Modified nexus approach not applicable |
|-------------------------|--|
| Belgium | Korea |
| France | Japan |
| Ireland | US |
| Luxembourg | |
| Netherlands | |
| Singapore | |
| Spain | |
| UK | |

The following jurisdictions do not have an innovation box or comparable beneficial regime: Austria, Germany, Sweden and Switzerland.

1.9. Participation Exemption

The Netherlands has a participation exemption regime that generally exempts all income derived from qualifying participations of at least 5% and covers dividends, capital gains and foreign exchange results. Conditions for qualifying participations are generally that the participation is not held as a portfolio investment and/or is sufficiently taxed. There is no holding period.

Korea is the only compared jurisdictions that does not have a participation exemption regime. Korea does apply a credit for foreign taxes.

Question 9.1 Participation Exemption

| Participation exemption applicable | No participation exemption |
|------------------------------------|----------------------------|
| Austria | Korea |
| Belgium | |
| France | |
| Germany | |
| Ireland | |
| Japan | |
| Luxembourg | |
| Netherlands | |
| Singapore | |
| Spain | |
| Sweden | |
| Switzerland | |
| UK | |
| US | |

The following compared jurisdictions have a full participation exemption:

1. Austria: no ownership or holding requirement for domestic participations and a 10% ownership and one year holding requirement for foreign participations;
2. Belgium: 10% ownership or acquisition value of EUR 2.5m with a one year holding period;
3. Ireland: 5% ownership with a one year holding period;
4. Luxembourg: 10% ownership or acquisition value of EUR 1.2m for dividends and EUR 6m for capital gains with a one year holding period;
5. Singapore: specific rules apply which may have the effect of a full participation exemption;
6. Spain: 5% ownership or acquisition value of € 20m with a one year holding period;
7. Sweden: one year holding period for listed shares;
8. Switzerland: 10% ownership or acquisition value of CHF 1m;
9. UK: no ownership or holding requirement for dividends and a 10% ownership and one year holding period in the past six years for capital gains on trading companies; and,
10. US: 10% ownership and generally one year holding period (the US dividends-received-deduction does not cover capital gains).

The following compared jurisdictions have a partial participation exemption:

1. Germany: 95% exemption with specific rules for corporate income tax and trade tax purposes;
2. France: 95% exemption 5% ownership; and
3. Japan: 95% exemption for foreign sourced dividends in case of 25% ownership and six months holding period.

Table 9.3 lists whether the participation exemption is applicable on final liquidation losses.

Question 9.3 Participation Exemption and allowance for Final Liquidation Losses

| Participation exemption and allowance for final liquidation losses | Participation exemption and disallowance of final liquidation losses |
|--|--|
| Austria | Ireland |
| Belgium | Japan |
| France | <u>Netherlands</u> |
| Germany | |
| Luxembourg | |
| Singapore | |
| Spain | |
| Sweden | |
| Switzerland | |
| UK | |
| US | |
| Korea does not have a participation exemption regime. | |

CFC-rules

The Netherlands has CFC rules in place, targeting certain categories of non-distributed passive income. A CFC is a direct or indirect controlling participation, generally defined as an interest of at least 50% in a low-taxed (lower than 9%) or blacklisted jurisdiction. The Netherlands has its own blacklist. Certain exceptions apply for operational CFCs. Measures to avoid double taxation apply.

The following compared jurisdictions have a CFC rule:

1. Austria: 50% interest, effective taxation of less than 12.5% and targeting certain categories of passive income;
2. Belgium: 50% interest, effective taxation of less than half of the Belgian taxation and targeting artificially shifted Belgian results;
3. France: 50% interest, effective taxation of less than 50% of the French taxation;
4. Germany: 50% interest, effective taxation of lower than 25% and targeting certain categories of passive income;
5. Ireland: 50% interest, effective taxation of less than half of the Irish taxation and targeting artificially shifted Irish results;
6. Japan: 50% interest, effective taxation of less than 20%;
7. Korea: 10% interest, effective taxation of less than 15%;
8. Luxembourg: 50% interest, effective taxation of less than half of the Luxembourg taxation and targeting artificially shifted Luxembourg results;
9. Spain: 50% interest, effective taxation of less than 75% of the Spanish tax and targeting certain categories of income which are artificially shifted from Spain;
10. Sweden: 25% interest, effective taxation of less than 55% of the Swedish taxation;
11. UK: diverted profits tax targeting artificially shifted UK results; and,
12. US: detailed rules apply.

Question 9.4 Controlled Foreign Company

| Controlled foreign company rules Applicable | No controlled foreign company rules Applicable |
|---|--|
| Austria | Singapore |
| Belgium | Switzerland |
| France | |
| Germany | |
| Ireland | |
| Japan | |
| Korea | |
| Luxembourg | |
| <u>Netherlands</u> | |
| Spain | |
| Sweden | |
| UK | |
| US | |

1.10. Loss Compensation

The below table refers to questions 10.2 and 10.3 and lists per jurisdiction what the terms are for compensation of losses carried forward and losses carried back.

Question 10.2 & 10.3 Loss Compensation

| Jurisdiction | Years carried forward | Years carried back |
|--------------------|-----------------------|--------------------|
| Austria | Indefinitely | Not applicable |
| Belgium | Indefinitely | Not applicable |
| France | Indefinitely | 1 |
| Germany | Indefinitely | 1 |
| Ireland | Indefinitely | 1 |
| Japan | 10 | Not applicable |
| Korea | 10 | Not applicable |
| Luxembourg | 17 | Not applicable |
| <u>Netherlands</u> | 6 | 1 |
| Singapore | Indefinitely | 1 |
| Spain | Indefinitely | Not applicable |
| Sweden | Indefinitely | Not applicable |
| Switzerland | 7 | Not applicable |
| UK | Indefinitely | 1 |
| US | Indefinitely | Not applicable |

Group Relief Regime

The Netherlands has a group taxation regime which provides for a full consolidation of the included entities ('fiscal unity'). The regime provides for an interest threshold of 95%. The assets and activities of all included entities are attributed to the parent company of the fiscal unity as a consequence of the consolidation. The included entities are treated as a single taxpayer for Dutch corporate income tax purposes. The Dutch fiscal unity regime is likely to be substantially revised in the coming years.

The following compared jurisdictions also have a form of group relief regime:

1. Austria: result pooling with 50% interest threshold;
2. Belgium: group contribution with 90% interest threshold;
3. France: result pooling with 95% interest threshold;
4. Germany: result pooling with 50% interest threshold;
5. Ireland: group contribution with 75% interest threshold;
6. Japan: carry forward of pre-consolidation losses of subsidiary into consolidated tax group;
7. Korea: consolidation with 100% interest threshold;
8. Luxembourg: result pooling with 95% interest threshold;
9. Singapore: group contribution with 75% interest threshold;
10. UK: group contribution with 75% interest threshold;
11. Spain: partial consolidation with 75% interest threshold;
12. Sweden: group contribution with 90% interest threshold;
13. US group contribution with 80% threshold.

Switzerland is the only jurisdiction that does not have a form of group relief regime.

Question 10.4 Group Relief Regime

| Group relief regime applicable | No group relief regime applicable |
|--------------------------------|-----------------------------------|
| Austria | Switzerland |
| Belgium | |
| France | |
| Germany | |
| Ireland | |
| Japan | |
| Korea | |
| Luxembourg | |
| Netherlands | |
| Singapore | |
| Spain | |
| Sweden | |
| UK | |
| US | |

1.11. ATAD 1/ ATAD 2 / BEPS

Question 11.1 General Anti Avoidance Rules (GAAR)

| General anti avoidance rules applicable | No general anti avoidance rules |
|---|---------------------------------|
| Austria | Japan |
| Belgium | Korea |
| France | US |
| Germany | |
| Ireland | |
| Luxembourg | |
| <u>Netherlands</u> | |
| Singapore | |
| Spain | |
| Sweden | |
| Switzerland | |
| UK | |

Question 11.2 Targeted Anti Abuse Rule (TAAR)

| Targeted anti abuse rules applicable | No targeted anti abuse rules |
|--------------------------------------|------------------------------|
| Austria | Korea |
| Belgium | Luxembourg |
| France | Switzerland |
| Germany | |
| Ireland | |
| Japan | |
| <u>Netherlands</u> | |
| Singapore | |
| Spain | |
| Sweden | |
| UK | |
| US | |

Question 11.3 Reservations for the Application of the Multilateral Instrument

| Reservations for the application of the multilateral instrument applicable | Multilateral instrument not applicable |
|--|--|
| Austria | US |
| Belgium | |
| France | |
| Germany | |
| Ireland | |
| Japan | |
| Korea | |
| Luxembourg | |
| <u>Netherlands</u> | |
| Singapore | |
| Spain | |
| Sweden | |
| Switzerland | |
| UK | |

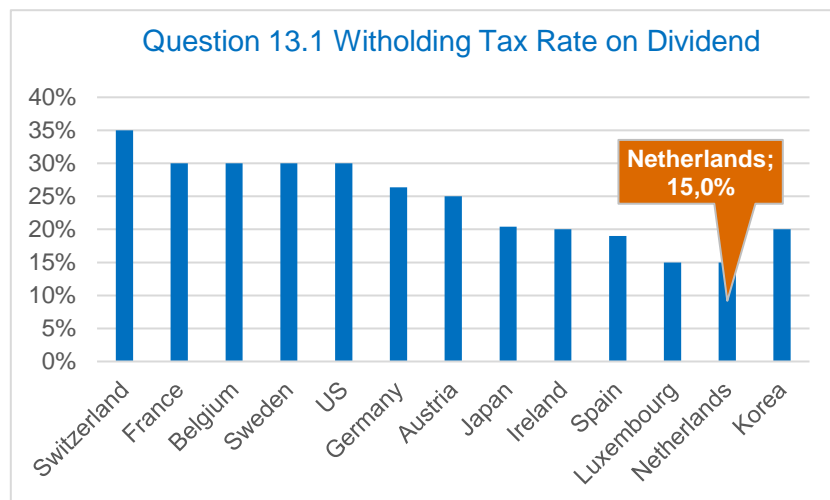
Question 11.3 Reservations for the Application of the Multilateral Instrument

Reservations made by countries to (part of) articles under the MLI

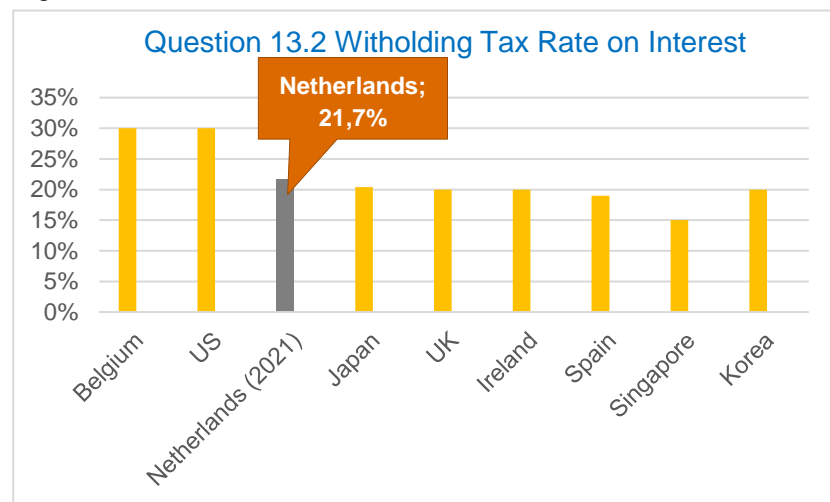
| Articles | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 28 | 35 | 36 |
|---------------------------|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| Austria | X | X | | | | X | X | | X | X | X | X | X | X | | | X | | | | | | | | | | |
| Belgium | | X | | | | | X | X | | X | | X | | | | | X | | | | | X | | X | | | |
| France | X | X | X | | | | | X | X | | | X | | | | | X | | | | | | | | X | | X |
| Germany | X | X | | X | X | X | | | X | X | X | X | X | X | X | | X | | | | X | | | X | X | | |
| Ireland | X | X | | | | | X | X | X | X | | X | | | X | | X | | | | | | | | X | | X |
| Japan | X | X | | X | | X | | | X | | | X | | | | | X | | | | X | | | X | X | | |
| Korea | X | X | X | | | X | X | X | X | X | X | X | X | | | X | X | X | X | X | X | X | X | X | | | |
| Luxembourg | X | X | X | X | X | X | X | X | X | X | X | X | X | | | | X | | | | | X | | X | X | | |
| <u>Netherlands</u> | X | | | | | | | | X | | | X | | | | | | | | | | | | X | | | |
| Singapore | X | X | X | | | X | X | X | X | X | X | X | X | X | | | X | | | | X | | | | X | | X |
| Spain | X | X | | X | X | | | | X | | | X | | X | X | | X | | | | | | | | X | X | X |
| Sweden | X | X | X | | | X | X | X | X | X | X | X | X | | X | | X | | | | X | | | X | X | X | |
| Switzerland | X | X | X | | | X | X | X | X | X | X | X | X | X | | | X | | | | | X | | X | X | X | |
| UK | X | | | | | X | X | X | | X | | X | | | | | | | | | | | | X | | | |

The US is not a signatory to the Multilateral Instrument.

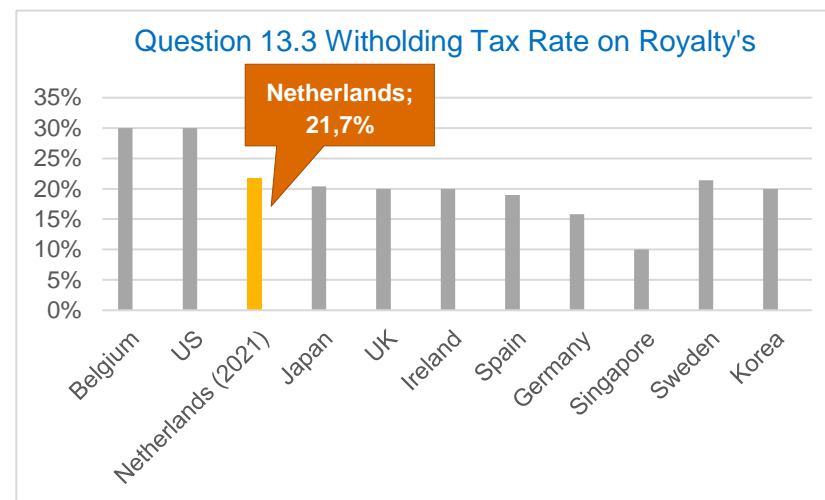
1.12. Withholding Taxes



Korea, Singapore, and the UK have no withholding tax on dividends regime.



Austria, France, Germany, Luxembourg, **Netherlands** (per 1 January 2021, interest payments to low-taxed and blacklisted jurisdictions will be subject to source taxation of 21.7%), Sweden and Switzerland have no withholding tax on interest regime.



Austria, France, Korea, Luxembourg, **Netherlands** (per 1 January 2021, royalty payments to low-taxed and blacklisted jurisdictions will be subject to source taxation of 21.7%), Sweden and Switzerland have no withholding tax on royalty's regime.

2. Detailed Information by Country



2.1. Austria

| # | Measures | 2019 |
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| 1 | Tax rate | |
| 1.1 | What is the corporate income tax rate in your jurisdiction and do brackets apply? | The general CIT rate is 25% for taxable income. For companies in a tax-loss or low-income position, a minimum CIT applies. This minimum taxation is EUR 1,750 for a GmbH and EUR 3,500 for an AG. |
| 1.2 | Do different rates apply for regular profit and capital gains? If yes, what are these rates? | No. Capital gains are subject to the general CIT rate. |
| 2 | Substance | |
| 2.1 | What are the substance requirements in your jurisdiction? | The substance requirements that should be met by a company established in Austria are the following: <ul style="list-style-type: none"> - the company is registered in Austria (i.e. the legal seat is in Austria), or the company has its place of effective management in Austria; - the 'place of effective management' is located where the day-to-day management of the company is actually carried out. There are special substance requirements that have to be met if the exemption from Austrian WHT on dividend payments to EU parent companies should apply. These requirements are as follows: <ul style="list-style-type: none"> - the company does not only execute asset management; - the company has its own employees; - the company has its own office facilities. |
| 2.2 | Could you indicate whether the substance test in your jurisdiction can be considered light or extensive? | Compared to the substance test of the Netherlands, Austria would be considered to have a light substance test. |
| 2.3 | What is the effect of substance on specific tax rules, e.g. for which rules is substance relevant in what way? | The special substance requirements are relevant for the exemption from Austrian WHT of dividend payments to foreign EU companies. If the holding company cannot prove to have substance the profits from participations will be taxed and the foreign EU company can apply for a refund of Austrian WHT. |
| 3 | Transfer pricing related modalities | |
| 3.1 | How are non-businesslike transactions corrected in your jurisdiction? | Non-businesslike transactions are corrected to arm's length standards. In principle, transactions that do not follow the arm's length principle are corrected at the level of the Austrian entity via TP receivables. However, a TP receivable can only be assessed, if the foreign group company accepts a corresponding TP liability and that the repayment plan of the TP liability by the foreign group company is plausible. In case the assessment of a TP receivable is not possible, the difference between the actual price and the arm's length price is treated as a hidden profit distribution and therefore not deductible for tax purposes (up-stream and side-stream scenarios). In such a case the Austrian entity will also be held liable for non-withheld Austrian WHT (with the possibility for the foreign group company to apply for a refund under the PSD/DTT). In case of down-stream scenarios (e.g. Austrian parent sells product at a too low price to its subsidiary) the transaction will be qualified as hidden contribution. The consequence of the hidden contribution is an upward profit adjustment to the arm's length price with a corresponding increase of the book value of the participation. |

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| 3.2 | Does your jurisdiction allow for a step-up to FMV, if an asset is transferred for a lower value? | Yes. Assets are taken into account at FMV. Such transactions between a parent company and subsidiary will be qualified as hidden profit distribution/hidden contribution, resulting in a step-up to FMV at the level of the Austrian entity. |
| 3.3 | If there is a step-up, does this depend on a potential exit-taxation/pick-up in another jurisdiction and how is the difference treated (deemed capital contribution in the receiving entity)? | No. There are no requirements relating to the treatment in other jurisdictions |
| 4 | Depreciations | |
| 4.1 | Please elaborate on the depreciation regimes for: | The main rule for depreciation is over the economic lifetime of an asset. The following caps do apply for the maximum depreciation per annum. |
| 4.2 | • Business assets | Only the straight-line method is accepted for tax purposes, whereby the cost is evenly spread over the useful life of an asset. If the asset is put into operation after the 30th of June it is only possible to depreciate half the annual amount at the end of the year. |
| 4.3 | • Real estate (used within the company or by a third party) | Buildings used as business assets are depreciated at a rate of up to 2.5%, irrespective of the use of the building. The exception is buildings for residential use, which are depreciated at a rate of up to 1.5%. A shorter operating life is accepted if supported by an expert opinion. |
| 4.4 | • Goodwill | Goodwill arising in the course of an asset deal for tax purposes must be amortised over 15 years (2.5%). Goodwill arising from share deals or as a result of a corporate merger cannot be amortised. |
| 4.5 | • IP (both purchased and self-developed) | Trademarks are usually amortised over 15 years (2.5%). Purchased intangibles have to be amortised over their useful lives. Self-developed intangible assets must not be capitalised. |
| 4.6 | • If available, random depreciation (i.e. accelerated/decelerated depreciation under set circumstances) | In Austria it is possible to depreciate assets immediately and completely if they cost less than € 400. The depreciation on cars is at least 8 years for tax purposes. |
| 5 | Interest deduction limitations | |
| 5.1 | Please describe your earnings-stripping/30% EBITDA rule, the parameters and scope and effective date in your jurisdiction (if applicable). | No 30% EBITDA rule is in place. An infringement proceeding has been initiated by the European Commission. |
| 5.2 | Are any other interest deduction limitation provisions applicable (e.g. thin cap rule, anti-base erosion) | There are no explicit tax regulations available under Austrian tax law stipulating the minimum equity required by a company ('thin capitalisation rules'). Basically, group financing has to comply with general arm's-length requirements. Therefore, an Austrian group entity being financed by an affiliated entity must be able to document that it would have been able to obtain funds from third-party creditors under the same conditions as from an affiliated financing entity. Therefore, the appropriate ratio between an Austrian company's equity and debt will mainly depend on the individual situation of the company (profit expectations, market conditions, etc.) and its industry. Nonetheless, the fiscal authorities in administrative practice (i.e. no 'safe-harbour' rule) tend to accept a debt-to-equity ratio of approximately 3:1 to 4:1. However, the debt-to-equity ratio accepted by tax authorities also strongly depends on the average ratio relevant for the respective industry sector. If an inter-company loan is not accepted as debt for tax purposes, it is reclassified into hidden equity and related interest payments into (non-deductible) dividend distributions. If the interest expense arises from a loan granted by another company in the group and this foreign company in the end pays less than 10% taxes on the interest income, than this interest expense is not deductible in Austria (§ 12 (1) Z 10 KStG). |
| 5.3 | To what extent are interest expenses deductible if the funds are used for the | Interest expense that is directly linked to tax exempt income is not deductible (§ 12 (2) KStG). As an exemption to this general rule, interest expenses arising from an acquisition of a participation is deductible (§ 11 (1) Z 4 KStG). |

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| | acquisition of exempt assets (e.g. participations eligible for the participation exemption)? | However, interest expenses arising from an acquisition of an intra group participation are not deductible (§ 12 (1) Z 9 KStG). |
| 5.4 | Does your jurisdiction have a Specific Anti-Abuse Rule which may limit interest deduction? | <p>There are no explicit tax regulations available under Austrian tax law stipulating the minimum equity required by a company ('thin capitalisation rules'). Basically, group financing has to comply with general arm's-length requirements. Therefore, an Austrian group entity being financed by an affiliated entity must be able to document that it would have been able to obtain funds from third-party creditors under the same conditions as from an affiliated financing entity. Therefore, the appropriate ratio between an Austrian company's equity and debt will mainly depend on the individual situation of the company (profit expectations, market conditions, etc.) and its industry. Nonetheless, the fiscal authorities in administrative practice (i.e. no 'safe-harbour' rule) tend to accept a debt-to-equity ratio of approximately 3:1 to 4:1. However, the debt-to-equity ratio accepted by tax authorities also strongly depends on the average ratio relevant for the respective industry sector. If an inter-company loan is not accepted as debt for tax purposes, it is reclassified into hidden equity and related interest payments into (non-deductible) dividend distributions.</p> <p>If the interest expense arises from a loan granted by another company in the group and this foreign company in the end pays less than 10% taxes on the interest income, than this interest expense is not deductible in Austria (§ 12 (1) Z 10 KStG).</p> |
| 6 | Royalties | |
| 6.1 | Is there a limitation on the deductibility of royalties (e.g. in amount or rate)? | <p>No.</p> <p>Arm's length royalties are in principle deductible. However, if the recipient of the royalties is part of the group and pays less than 10% tax on the royalty income in his country of residence, the related expenses are not deductible in Austria.</p> |
| 7 | Head office costs | |
| 7.1 | Are head office costs deductible? | <p>Yes.</p> <p>Arm's length head office costs that were incurred for an Austrian subsidiary are deductible for Austrian tax purposes. These services for an Austrian subsidiary have to be differentiated from so-called "Shareholder Activities". Costs for services rendered in the shareholders' interest are not deductible at the level of the Austrian subsidiary (no on-charging of these costs permitted). The following costs can not be charged onwards to the Austrian subsidiary (exemplary list): costs of the management/supervisory board insofar as these costs do not relate to activities directly carried out for the subsidiary; costs relating to the legal organisation of the group as a whole; costs incurred by the group parent company for its statutory reporting obligations concerning the economic situation of the group companies; the costs of the management and organization of the group, costs for the determination of the group policy; costs incurred in connection with the acquisition of the group company; "imposed services", which are not required by the Subsidiary (e.g. obligation to participate in a new software system).</p> |
| 7.2 | How does the deductibility of head office costs relate to the participation exemption in your jurisdiction, i.e. is there an interaction? | As long as head office costs are deductible, there is no interaction with the participation exemption regime (full exemption remains available). |
| 7.3 | How are head office costs typically on-charged in your jurisdiction, e.g. management agreement and what kind of allocation key is acceptable? | Intragroup transactions need to be substantiated with transfer pricing documentation. The appropriate remuneration needs to be determined on the basis of a transfer pricing analysis. |
| 7.4 | What are the TP requirements relating to head office costs? What kind of remuneration is acceptable? | Arm's length remunerations are acceptable (if not shareholder activities). |

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| 8 | Innovation box and comparable beneficial regimes | |
| 8.1 | What is the effective rate under your innovation box or a comparable beneficial regime? | Austria has no 'patent box regime'. There is a research premium of 14% in place that will be credited by the financial authority. The base of this percentage are the expenses of the research project. The expenses can only include remuneration for researcher, expenses and investments, interest and overhead expenses directly attributable to the research. |
| 8.2 | What conditions apply for the application of the innovation box or another comparable regime (e.g. request for special status, variation in application per type of license/right)? | For the application of the research premium the following conditions apply: <ul style="list-style-type: none"> - the research has to be done in a scientific manner; - the purpose of the research has to be an increase in knowledge; - the research has to be performed by an Austrian company or permanent establishment or can be assigned by an Austrian company or permanent establishment to a company in the European Union; - If the research is assigned to another company: - the companies cannot belong to the same tax group and the assignor can't control the researching company; - the maximum base of the premium will be limited to € 1,000,000 per year; - the assignor also has to prove that they informed the researching company of their usage of the premium and that the researching company cannot claim the premium itself. |
| 8.3 | Is the modified nexus approach applied? If applicable, per what date? | Not applicable. |
| 9 | Exemption of profits from participations | |
| 9.1 | To what types of profit does the exemption regime apply? E.g. regular dividends, capital gains, etc. | <p>Dividends received from an Austrian company at the corporate shareholder level are generally excluded from the tax base (no minimum stake, no minimum holding period). This tax exemption refers to domestic dividends only, not to capital gains or losses.</p> <p>Portfolio dividends (i.e. dividends from an investment below 10%) received from corporations located in member states of the European Union, as well as dividends from corporations that are located in those EEA and third countries with which Austria has concluded a comprehensive agreement on mutual assistance regarding the exchange of information, are generally exempt from CIT. However, under special circumstances, a switch-over to the credit method has to be considered. Moreover, the dividend must not be deductible for tax purposes in the source state in order to be tax exempt at the level of the Austrian recipient (valid for substantial investments and portfolio dividends).</p> <p>Dividends received from a foreign company are also tax exempt at the corporate shareholder level if the Austrian company holds at least 10% of the issued share capital for a minimum holding period of one year (international participation exemption). Furthermore, both capital gains and capital losses derived from shares qualifying for the international participation exemption are tax neutral. This means a deduction of capital losses is no longer available. However, the parent company (in the tax return of the year of acquisition) can exercise an (irrevocable) option for each single participation acquired to treat both capital gains and capital losses as taxable (spread of losses and depreciations over a period of seven years). The option refers to capital gains (losses) only and does not affect the tax treatment of ongoing dividend distributions.</p> <p>In the case of presumed tax abuse, the participation exemption for dividends and capital gains is replaced by a tax credit (switch-over-clause).</p> |
| 9.2 | Is there full or partial exemption (if partial, to what extent)? | Full exemption. |
| 9.3 | Does the regime also apply to final liquidation losses? | In principle yes, liquidation losses cannot be deducted if they arise from an exempt participation (international participation exemption). However, it is possible to deduct actual and final asset losses. These losses have to be reduced by any tax-free dividends accruing during the last five financial years preceding the financial year in which the liquidation was opened or the insolvency occurred. |

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| 9.4 | Do controlled foreign company (CFC) rules apply? | <p>Yes.</p> <p>The Annual Tax Act 2018 implementing the ATAD was published in the Austrian Federal Law Gazette on 14 August 2018 and includes the introduction of a CFC rule. The CFC rule applies to financial years beginning after 31 December 2018.</p> <p>Generally, the scheme of the implemented CFC rule widely follows the wording of the ATAD. The rule covers foreign CFCs directly or indirectly owned by the Austrian corporate shareholder (broadly speaking 50% threshold). Austria follows the categorical/entity approach and covers all passive income items mentioned in the directive (interest income, royalty income, dividend income, finance lease income, etc.). The CFC rule applies if the effective tax burden regarding the passive income of the foreign CFC does not exceed 12.5% (meaning that even subsidiaries in EU-countries like Cyprus, Ireland, Hungary, and Bulgaria are targeted by the rule). The scheme results in a tax-wise allocation of the low-taxed passive income item to the Austrian corporate shareholder (allowing a credit of the foreign tax levied at the level of the CFC).</p> <p>With respect to the member state options included in the ATAD, Austria applied the safeguard clause ('bona-fide clause') also to CFCs resident or situated in third countries. Furthermore, a de-minimis exception in case the passive income of the foreign CFC is below one-third of its overall income is foreseen.</p> |
| 10 | Loss compensation | |
| 10.1 | What is the type (e.g. operational losses, holding losses, other) and the maximum amount of losses that can be compensated? | Tax loss carry-forwards generally can be offset against taxable income only up to a maximum of 75% of the taxable income for any given year. Some exceptions apply (i.e. in connection with tax groups, in the case of liquidations or the recapture taxation of foreign losses), allowing a company to charge tax loss carry-forwards available against 100% of annual taxable income. |
| 10.2 | How many years can be carried forward? | Tax losses can be carried forward indefinitely. However, tax loss carry-forwards generally can be offset against taxable income only up to a maximum of 75% of the taxable income for any given year. Some exceptions apply (i.e. in connection with tax groups, in the case of liquidations or the recapture taxation of foreign losses), allowing a company to charge tax loss carry-forwards available against 100% of annual taxable income. |
| 10.3 | How many years can be carried back? | The Austrian tax law does not provide for a carry-back of tax losses. |
| 10.4 | Are any group relief regimes in place? | <p>Yes.</p> <p>Two or more companies can form a tax group, provided the parent company directly or indirectly owns more than 50% of the shares in the subsidiaries. The tax group also can include foreign group members. However, the scope of foreign tax group members is limited to corporations being resident in EU member states and in states that have entered into a comprehensive administrative assistance arrangement with Austria.</p> <p>Within a tax group, all of the taxable results (profit and loss) of the domestic group members are attributed to their respective group parent. From foreign tax group members, tax losses in the proportion of the shareholding quota are attributed to the tax group parent. The foreign tax loss has to be calculated in accordance with Austrian tax law. However, it is capped with the amount actually suffered based on foreign tax law. Starting in 2015, ongoing tax losses from foreign group members can only be recognised to the extent of 75% of the profit of all domestic group members (including the group leader). The remaining loss surplus may be carried forward by the group parent.</p> |
| 11 | ATAD 1 / ATAD 2 / BEPS | |
| 11.1 | Is there a general anti-abuse rule (GAAR)? | <p>Yes.</p> <p>The general anti-abuse rule in Austria is § 22 BAO. It may result in a transaction being re-characterized if (a) the sole</p> |

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| | | purposes of a structure is to save taxes and has no other business reasons and (b) the structure is in breach with the object and purpose of the law. |
| 11.2 | Is there a targeted anti-abuse rule (TAAR)? | Yes. Targeted anti-abuse rules include non-deductibility interest under certain conditions. |
| 11.3 | Does your jurisdiction have any reservations for application of the multilateral instrument (MLI)? | Yes. Austria has made reservations to article 3, 4, 8, 9, 11, 12, 13, 14, 15, 16 and 19. The OECD overview of reservations made by Austria can be found under the following link: http://www.oecd.org/tax/treaties/beps-mli-position-austria.pdf |
| 12 | Special regulations or taxes (insofar there is a material impact on the tax position) | |
| 12.1 | Is some form of equity deduction, e.g. notional interest deduction in place? | No. |
| 12.2 | Are any special credits in place for IP-costs of for example wage costs? | No. |
| 12.3 | Is an accumulated earnings tax in place? | No. |
| 12.4 | Are any digital taxes in place? | No. |
| 12.5 | Are any investment deduction measures in place? | No. |
| 12.6 | Is some sort of (R&D)-wage credit in place? | Yes. R&D costs are fully deductible at the time they accrue. An R&D premium of 14% (i.e. R&D expenses x 14% = R&D premium) may be claimed for R&D activities performed in Austria. In order to receive the current R&D premium of 14%, an expert report (issued by the Austrian research promotion organisation [FFG]) is required that confirms the nature of the expenses in question as R&D expenses. The definition of privileged R&D expenses is taken from the Frascati Manual. The R&D premium is also available in case of contract R&D; however, R&D incentives cannot be claimed by both principal and agent (the agent is just able to apply for the premium if the principal does not). In case of contract R&D, the privileged R&D costs are capped at EUR 1 million per year. |
| 12.7 | Are there any other sector-specific direct tax measures, e.g. a banking tax, tax on rents, etc. | Yes. Austrian tax law provides for stability fee for financial institutions, for which 0.024% is charged based on balance sheet totals of over EUR 300 million to € 20 billion and 0.029% on balance sheet totals over € 20 billion. |
| 13 | Withholding taxes | |
| 13.1 | Is there a withholding tax on dividend? If yes, please provide rates. | 25% WHT for resident taxpayers and non-resident taxpayers (0% WHT if dividends are paid to domestic and EU resident corporate shareholders holding at least 10% of the share capital of the Austrian subsidiary). If the shareholders are individuals, the WHT is 27.5%. |
| 13.2 | Is there a withholding tax on interest? If yes, please provide rates | 0% |

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| 13.3 | Is there a withholding tax on royalties? If yes, please provide rates | 0% WHT for resident taxpayers. 20% WHT for non-resident taxpayers (unless reduced under the EU Interest & Royalty Directive). |
| 13.4 | How is the taxable base for the withholding tax determined? | Gross amount. |
| 13.5 | Does the withholding tax provide for any exemptions? If yes, describe the exemptions. | Yes, please refer to section 13.1. |
| 13.6 | Do anti-abuse provisions apply with regard to withholding taxes (e.g. in national law or treaties)? | <i>IBFD:</i> Yes. <i>Anti-abuse rules apply in respect of the domestic rules. Tax treaties may contain anti abuse-provisions, such as a Limitations on Benefits-clause or a Principle Purpose Test.</i> |

| # | Measures | Any changes expected in the near future (i.e. up to and including 2020) |
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| 12 | Special regulations or taxes (insofar there is a material impact on the tax position) | |
| 12.4 | Are any digital taxes in place? | The legislation on digital tax was passed on 19 September 2019. It will be executed for digital services provided after 31 December 2019. The tax base will be the income deducted by the cost of preliminary work executed by independent suppliers and the tax will be 5%. |

2.2. Belgium



| # | Measures | 2019 |
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| 1 | Tax rate | |
| 1.1 | What is the corporate income tax rate in your jurisdiction and do brackets apply? | <p>The general CIT rate is 29%, which is in addition subject to a surcharge of 2% (crisis tax). This results in a total tax rate of 29.58%.</p> <p>A reduced rate of 20% applies for SMEs (20.4% including surcharge) for profits up to € 100,000, unless:</p> <ul style="list-style-type: none"> - The company does not incur payroll expenses of at least € 45,000 for a director; or - The company is held in a corporate structure (i.e. by other companies); or - The company is a collective investment company. |
| 1.2 | Do different rates apply for regular profit and capital gains? If yes, what are these rates? | <p>No. In general capital gains are treated as regular income.</p> <p>Capital gains on qualifying shares realised without meeting a one-year holding requirement are taxed at 25.50% (25% plus a 2% crisis tax, which can be offset against available tax losses), provided certain conditions are met. Capital gains on qualifying shares realised when meeting all conditions are fully exempt. Capital gains on non-qualifying shares are subject to the 29.58% rate.</p> <p>A special assessment of 102% (100% plus a 2% crisis tax) is applicable to so-called 'secret commissions', which are expenses of which the beneficiary is not identified properly by means of proper forms timely filed with the Belgian tax authorities.</p> |
| 2 | Substance | |
| 2.1 | What are the substance requirements in your jurisdiction? | <p>The substance requirements that should be met by a company established in Belgium are the following:</p> <ul style="list-style-type: none"> - The day-to-day operations are managed by qualified personnel located in Belgium (management participation, negotiation and signature of contracts, business risk management, making decisions on capital investments and funding, etc.). - The number of employees available in the company and their expertise are commensurate with the activities carried on by the company, i.e. experienced, qualified people. - The company has an address in Belgium and is registered with the central Belgian register of undertakings. - The company's (main) bank accounts are in Belgium. - Its administration and bookkeeping are maintained in Belgium. - All its books and records are archived in Belgium. - All correspondence with regard to its activities is addressed to, and sent from, the company. - E-mail correspondence regarding the company is sent from and to its unique e-mail address. (Merely) Forwarding e-mail correspondence to external management should be avoided. - It meets all its tax obligations. - It has a level of equity that is consistent with its activities. <p>In a series of published rulings, the Rulings Office also highlights certain of the above mentioned factors (depending on the case) it takes into consideration when determining a company's residence. Certain factors were also applied by the Court of appeal of Brussels in the Belgacom case dated 23 November 2017, in which the Court decided that a holding company established by a Belgian company in Luxemburg did not have its residence in Belgium.</p> |

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| 2.2 | Could you indicate whether the substance test in your jurisdiction can be considered light or extensive? | As Belgian legislation does not provide for any fixed criteria, it is not easy to assess the severeness of the Belgian substance test. Compared to the substance test of the Netherlands, Belgium may be considered to have an extensive substance test. In light of recent international developments (i.e. BEPS), the assessment of substance has become more strict, evolving to a more substance-over-form approach. |
| 2.3 | What is the effect of substance on specific tax rules, e.g. for which rules is substance relevant in what way? | Substance is relevant for ruling requests, since the transaction or situation with respect to income taxes should have economic substance in Belgium. Substance is also relevant for the assessment of tax residence, withholding tax, application of double tax treaties, etc. |
| 3 | Transfer pricing related modalities | |
| 3.1 | How are non-businesslike transactions corrected in your jurisdiction? | Intragroup transactions need to be at arm's length. The arm's-length principle is formally codified in the Belgian Income Tax Code (BITC). In addition, the tax authorities can make use of other, more general, provisions in the BITC to assess the arm's-length nature of transfer prices (e.g. the general rules on the deductibility of business expenses). The Belgian Income Tax Code (BITC) contains a formal codification of the arm's length principle, including provisions that tackle artificial inbound or outbound profit shifting. These are the so-called provisions on abnormal or gratuitous benefits, which are treated as follows: - An abnormal or benevolent advantage granted will be added back to the taxable basis of the Belgian entity (unless included in the Belgian taxable basis of the beneficiary) and will generally be taxed at the general corporate income tax rate. - The Belgian entity is not allowed to off-set for example carry-forward and current year tax losses, dividends benefiting from the Belgian participation exemption regime, notional interest deduction or investment deductions against any abnormal or benevolent advantage received from a related Belgian or foreign entity. The abnormal or benevolent advantage received is considered as the minimum taxable basis. |
| 3.2 | Does your jurisdiction allow for a step-up to FMV, if an asset is transferred for a lower value? | As a general rule, no, unless for one of the exit-taxation cases defined in ATAD. Acquired assets are in principle booked under BGAAP at acquisition value. Tax law is based on BGAAP unless the law provides for a deviation. |
| 3.3 | If there is a step-up, does this depend on a potential exit-taxation/pick-up in another jurisdiction and how is the difference treated (deemed capital contribution in the receiving entity)? | No. Upon implementation of ATAD, a step-up has been introduced in the cases defined in ATAD (as from tax year 2020 for financial years starting as from 1 January 2019). The step-up itself does not depend on an exit-taxation in another jurisdiction, but the valuation of the FMV could be based on this exit-taxation. If there is a difference, it is not foreseen how it should be treated. Belgium provides for exit taxation rules (step-up) in line with ATAD. |
| 4 | Depreciations | |
| 4.1 | Please elaborate on the depreciation regimes for: | The main rule is that depreciation rates are based on the expected lifetime of the assets, which are normally agreed between the taxpayer with the tax authorities. However, for certain assets, rates are set by instructions of the Tax Authorities. The depreciation methods that are accepted by Belgian tax law are the straight-line method (linear method) and the double-declining balance method for tangible fixed assets, except for automobiles and operational lease assets. The double-declining method will be abolished per 2021. |
| 4.2 | • Business assets | Machinery and equipment has to be depreciated with 10%, 20% or 33% (depending on the type) per year. |
| 4.3 | • Real estate (used within the company or by a third party) | Commercial buildings will be depreciated with 3% per year and industrial buildings with 5% per year. |

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| 4.4 | • Goodwill | Belgian accounting and tax laws allow amortisation of goodwill arising at the occasion of an asset deal. For Belgian tax purposes, the amortisation period, which depends on the elements included in the goodwill, is a minimum of five years, and the straight-line method must be applied. According to the Minister of Finance, 'clientele' (client lists) should be amortised over a period of 10 to 12 years. The aforesaid accounting and tax amortisation for goodwill is not available if tax-free mergers or de-mergers occur (i.e. they, among other things, follow the continuity principle from an accounting perspective). Self-created goodwill may not be depreciated. |
| 4.5 | • IP (both purchased and self-developed) | IP can be depreciated with 33.33% per year if related to R&D, otherwise with 20%. |
| 4.6 | • If available, random depreciation (i.e. accelerated/decelerated depreciation under set circumstances) | <p>Belgian tax law provides for a double-declining balance method in which case the annual depreciation may not exceed 40% of the acquisition value. The double-declining method may not be used for intangible fixed assets, automobiles, minibuses and automobiles used for mixed purposes, and for assets, the use of which has been transferred to a third party (e.g. operational leasing).</p> <p>Other special depreciation rules:</p> <ul style="list-style-type: none"> - Newly launched sea ships (depreciation in 8 years: 20% in the first year, 15% in the 2 following years and 10% in the remaining years) and other ships (10% per year); - Plant and machinery, with the exception of buildings used for scientific research (depreciation in 3 years, i.e. 33.33% per year); - Qualifying new assets acquired by companies in economic sectors of major importance to the Belgian economy (depreciation in 3 years, i.e. 33.33% per year); and - Costs of establishment, including costs related to the creation of a company (optional immediate depreciation under conditions). <p>For the year of acquisition of an asset, only the proportionate share of an annual depreciation calculation can be accepted as depreciation for income tax purposes for non-SMEs (in principle to be computed on a daily basis). In contrast, SMEs can deduct a full year of depreciation in the year of acquisition.</p> |
| 5 | Interest deduction limitations | |
| 5.1 | Please describe your earnings-stripping/30% EBITDA rule, the parameters and scope and effective date in your jurisdiction (if applicable). | <p>As from 2019 (tax year 2020), Belgian tax law provides for a 30% EBITDA-based rule in line with the EU ATAD I requirements. Exceeding borrowing costs will only be tax deductible up to the highest of (i) 30% of the taxpayer's tax EBITDA or (ii) EUR 3,000,000 (to be allocated across Belgian group entities – exact guidance on the allocation key still to be communicated).</p> <p>The exceeding borrowing costs are computed on a net basis and they take into account payments economically equivalent to interest (exact guidance still to be communicated – based on the Directive). Three types of loans are outside the scope of the exceeding borrowing cost computation: loans granted before 17 June 2016 without “fundamental modification” (grandfathering rule – still subject to old 5:1 thin cap rule), loans in relation to public-private cooperation projects, and loans granted between Belgian entities that are part of the same group.</p> <p>The exceeding borrowing costs that could not be deducted in the current taxable period can be carried forward for an unlimited time. Furthermore, upon certain conditions, taxpayers belonging to the same group also have the possibility to transfer unused EBITDA capacity to other group companies.</p> <p>The rule does not apply with respect to qualifying public private cooperation projects, which are entirely in the EU, nor on stand-alone companies and financial undertakings (including leasing and factoring companies, as well as companies which main activity is the financing of real estate through the issuance of real estate certificates).</p> |
| 5.2 | Are any other interest deduction limitation provisions applicable (e.g. thin cap rule, anti-base erosion) | <p>Yes.</p> <p>A 5:1 debt/equity ratio (no netting of interest) applies to (i) interest paid to beneficial owners located in tax havens and</p> |

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| | | (ii) intra-group interest paid pursuant to a loan agreement concluded prior to 17 June 2016 and not “fundamentally” modified since then. Bonds and other publicly issued securities are excluded from the 5:1 rule, as well as loans granted by financial institutions. |
| 5.3 | To what extent are interest expenses deductible if the funds are used for the acquisition of exempt assets (e.g. participations eligible for the participation exemption)? | These interest expenses are in principle deductible. |
| 5.4 | Does your jurisdiction have a Specific Anti-Abuse Rule which may limit interest deduction? | <p>Yes.</p> <p>Based on the general deductibility rule, Interest is tax deductible provided that:</p> <ul style="list-style-type: none"> - interest relates to the company's professional activities; - interest has been borne during the taxable period covered; - interest has been paid or incurred in order to acquire or maintain taxable income; - proper documentation is provided. <p>Interest paid to non-residents of a tax haven (not being subject to income taxes/being subject to a tax regime significantly more favourable than the tax regime on similar income in Belgium) is non-deductible, unless evidence of real and bona fide character plus arm's length character of interest can be provided.</p> |
| 6 | Royalties | |
| 6.1 | Is there a limitation on the deductibility of royalties (e.g. in amount or rate)? | <p>No.</p> <p>Arm's length royalties are in principle deductible.</p> |
| 7 | Head office costs | |
| 7.1 | Are head office costs deductible? | <p>Yes.</p> <p>There are no specific rules for head office costs. Arm's length head office costs - which are in line with the general deductibility rule (see above) - are in principle deductible.</p> |
| 7.2 | How does the deductibility of head office costs relate to the participation exemption in your jurisdiction, i.e. is there an interaction? | There is no interaction with the participation exemption regime. |
| 7.3 | How are head office costs typically on-charged in your jurisdiction, e.g. management agreement and what kind of allocation key is acceptable? | Intragroup transactions need to be substantiated with transfer pricing documentation. The appropriate remuneration needs to be determined on the basis of a transfer pricing analysis. |
| 7.4 | What are the TP requirements relating to head office costs? What kind of remuneration is acceptable? | Intragroup transactions need to be substantiated with transfer pricing documentation. The appropriate remuneration needs to be determined on the basis of a transfer pricing analysis. |
| 8 | Innovation box and comparable beneficial regimes | |
| 8.1 | What is the effective rate under your innovation box or a comparable beneficial regime? | The modified rules provide an 85% innovation income deduction of net income received and results in an effective taxation of 4.44% (being 15% x 29.58%) |

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| 8.2 | <p>What conditions apply for the application of the innovation box or another comparable regime (e.g. request for special status, variation in application per type of license/right)?</p> | <p>The innovation income deduction applies to income from:</p> <ul style="list-style-type: none"> - patents and supplementary protection certificates that have not been used for the sale of goods or services to independent parties before 1 January 2007. - breeders' rights requested or acquired as of 1 July 2016. - orphan drugs, i.e. a drug to treat rare diseases, (limited to first ten years) requested or acquired as of 1 July 2016. - data and market exclusivity granted by the competent authorities after 30 June 2016 (e.g. market exclusivity for orphan drugs or data exclusivity for reports with respect to pesticides, clinical studies of generic or animal drugs). - IP of copyrighted software resulting from a research or development project as defined for the purposes of the partial exemption of wage withholding tax for R&D and that has not yet generated income before 1 July 2016. <p>The qualifying income also includes capital gains derived from the sale of qualifying IP, embedded royalties and infringement compensations.</p> <p>For the first taxable period during which the IID (Innovation Income Deduction) will be applied, the (net) innovation income should be decreased by the overall expenditure incurred during (preceding) taxable periods ending after 30 June 2016. Alternatively, one can opt to spread this recapture on a straight-line basis during a period of a maximum of seven years. In the case that the qualifying IP right terminates or is alienated before the end of this seven-year period, a correction will apply in order to limit the IID actually applied to the amount that would have been applied if no spread recapture had been opted for.</p> <p>Furthermore, the qualifying income is calculated with the nexus formula, i.e. qualifying expenditure to develop IP asset/overall income to develop IP asset x overall income from IP asset. To provide some relief for the exclusion from qualifying expenditures of acquisition and group outsourcing costs, an uplift of 30% of qualifying expenditure is allowed.</p> <p>Excess innovation deduction that cannot be used due to insufficient taxable basis can be carried forward to be compensated with future taxable profits.</p> <p><i>IBFD: With effect from 2018, carried-forward innovation deduction may only be claimed on 70% of the taxable income exceeding EUR 1 million.</i></p> |
| 8.3 | <p>Is the modified nexus approach applied? If applicable, per what date?</p> | <p>Yes, effective per 1 July 2016. Subject to conditions, the (old) patent income deduction regime (only for cases in which the transitory regime applies) is grandfathered for five years to 30 June 2021.</p> |
| 9 | <p>Exemption of profits from participations</p> | |
| 9.1 | <p>To what types of profit does the exemption regime apply? E.g. regular dividends, capital gains, etc.</p> | <p>The dividend received deduction regime (100% DRD) and the exemption for capital gains on shares are subject to a (i) minimum participation condition and (ii) taxation condition.</p> <p>According to the minimum participation condition, the recipient company must have, at the moment of attribution, a participation of at least 10% or an acquisition value of at least € 2,500,000 in the capital of the distributing company. The beneficiary of the dividend must have been holding the full legal ownership of the underlying shares for at least one year prior to the dividend distribution or commit to hold it for a minimum of one year.</p> <p>The taxation condition, in summary, means that the dividend income received must have been subject to tax at the level of the distributing company and its subsidiaries if the former redistributes dividends received. The taxation condition is based on seven 'exclusion' rules and certain exceptions to these rules. Basically, the exclusion rules apply to the following:</p> <ul style="list-style-type: none"> - Tax haven companies, which are companies that are not subject to Belgian corporate income tax (or to a similar foreign tax) or that are established in a country where the common taxation system is notably more advantageous than in Belgium. Countries in which the minimum level of (nominal or effective) taxation is below 15% qualify as |

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| | | <p>tax havens for the application of the regime (a list of tainted countries has been published). The common tax regimes applicable to companies residing in the EU are, however, deemed not to be notably more advantageous than in Belgium.</p> <ul style="list-style-type: none"> - Finance, treasury, or investment companies (as defined by the tax legislation) that, although are subject in their country of tax residency to a corporate tax similar to that of Belgium as mentioned in the item above, nevertheless benefit from a tax regime that deviates from common law. - A Belgian real estate investment trust or foreign regulated investment trust that benefits from a substantially more advantageous tax regime than the Belgian tax regime. - Offshore companies, which are companies receiving income (other than dividend income) that originates outside their country of tax residency and in these countries such income is subject to a separate taxation system that deviates substantially from the common taxation system. - Companies having PEs that benefit globally from a taxation system notably more advantageous than the Belgian non-resident corporate taxation system. This exclusion is deemed not applicable to EU companies with an EU PE. - Intermediary holding companies, which are companies (with the exception of investment companies) that redistribute dividend-received income, which on the basis of regulations mentioned under the items above would not qualify for the DRD for at least 90% of its amount in case of direct holding. - Companies that have deducted these dividends from their profit or are able to deduct these dividends from their profit. - Companies that distribute dividends who are associated with a legal act or a set of legal acts of which the tax administration has demonstrated that this act or set of acts is artificial and was set up with the main objective (or one of the main objectives) to claim the deduction on dividends (envisaged by the DRD law), to waive from the collection of withholding taxes on this type of income, or to claim any other advantage of Directive 2011/96/EU in another EU member state. <p>While this is a summary of the exclusion rules, numerous exceptions to these exclusion rules exist and need to be analysed on a case-by-case basis.</p> |
| 9.2 | Is there full or partial exemption (if partial, to what extent)? | Full exemption. There is a proportional exemption in function of certain subject-to-tax rules in some very specific cases, for instance for dividends distributed by/capital gains realised on shares of DRD-investment companies. |
| 9.3 | Does the regime also apply to final liquidation losses? | <p>Yes.</p> <p>Losses on qualifying participations are as a main rule non-deductible, but if certain strict conditions are met, a final liquidation loss may be claimed.</p> <p>The liquidation losses may be claimed only up to the paid-up capital.</p> |
| 9.4 | Do controlled foreign company (CFC) rules apply? | <p>Yes.</p> <p>As of tax year 2020 (financial years ending 31 December 2019 and later), certain non-distributed income of a CFC will become taxable in Belgium at the level of the Belgian controlling taxpayer. A CFC is a low-taxed foreign company (or foreign PE) of which a Belgian taxpayer (alone or together with its associated enterprises) holds directly or indirectly more than 50% of the voting rights or the capital or is entitled to receive more than 50% of the profits of that entity. In addition, the CFC either is not subject to income tax under the applicable rules of its residence State or is subject to income tax that is less than half of the corporate income tax of the CFC computed based on Belgian rules.</p> <p>Based on the so-called transactional approach, non-distributed income of the CFC arising from (a series of) non-genuine arrangements put in place for the essential purpose of obtaining a tax advantage becomes taxable. This is the case to the extent that the CFC would not own the assets or would not have assumed the risks that generate all or</p> |

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| | | <p>part of its income if it had not been controlled by a company where the significant people functions that are relevant to those assets and risks are carried out and are instrumental in generating the CFC's income. Income that is not generated by assets or risks linked to the significant people functions carried out by the controlling company is out of scope.</p> <p>Measures to avoid double taxation are provided via a 100% dividends received deduction for distributed income or for non-exempt capital gains when the CFC is transferred provided that the income has already been subject to tax under the Belgian CFC rules.</p> <p>There is an obligation for the taxpayer to report the existence of a CFC whose profits are taxable in its hands.</p> |
| 10 | Loss compensation | |
| 10.1 | What is the type (e.g. operational losses, holding losses, other) and the maximum amount of losses that can be compensated? | Tax losses can, in principle, be carried forward without any limitation in time. However, as of tax year 2019 (financial years ending 31 December 2018 and later) a minimum tax base is introduced (so-called basket). There are no limits on certain deductions (such as the dividends received deduction, the innovation income deduction and the investment deduction). Other deductions may offset only 70% of the taxable amount exceeding € 1,000,000. These deductions include, amongst others, carried-forward losses. The remaining 30% will be fully taxable at the corporate income tax rate. |
| 10.2 | How many years can be carried forward? | Tax losses can be carried forward indefinitely. |
| 10.3 | How many years can be carried back? | No carry back (except for the agriculture sector) applies. |
| 10.4 | Are any group relief regimes in place? | <p>Yes.</p> <p>As of tax year 2020 (financial year ending 31 December 2019 and later) Belgian tax law provides for a group contribution regime, where Belgian companies are able to transfer taxable profits to other Belgian affiliated companies with the aim to offset these profits against current-year tax losses. A 90% direct shareholding between the companies (or via the EEA parent company) during the entire tax year is required, limiting the scope to the parent, subsidiary and sister companies and their Belgian permanent establishments. The measure is limited to group companies that have been affiliated for at least the last five successive calendar years. The group companies will compensate each other for the tax burden of the group contribution, as a result of which the tax consolidation will be financially neutral. The group contribution is deductible from the taxpayer's profits of the tax year provided that the profit is effectively included in the tax return of the receiving company and provided that the compensation has actually been paid. The group companies concerned have to conclude a "group contribution agreement" that meets the certain conditions. Under similar conditions, it should, in practice, also be possible to deduct "final losses" of a foreign subsidiary under the consolidation regime.</p> |
| 11 | ATAD 1 / ATAD 2 / BEPS | |
| 11.1 | Is there a general anti-abuse rule (GAAR)? | <p>Yes.</p> <p>Belgian tax law contains a GAAR (article 344, §1 BITC as modified by the Law of 29 March 2012) that allows the tax authorities to consider that certain legal actions (or a chain of legal actions) are not opposable to them where the tax authorities can demonstrate that there is a tax abuse (which – in short – involves not respecting the intention of the legislator), unless the taxpayer can prove that the choice for the legal action or the chain of legal actions is motivated by other reasons than tax avoidance.</p> <p>According to the Belgian tax authorities this GAAR does not have to be changed to implement the GAAR of ATAD.</p> |
| 11.2 | Is there a targeted anti-abuse rule (TAAR)? | <p>Yes.</p> <p>Several tax rules contain specific anti-abuse rules.</p> |

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| 11.3 | Does your jurisdiction have any reservations for application of the multilateral instrument (MLI)? | Yes. Belgium has made reservations to article 4, 9, 10, 12, 14, 19, 24 and 26. The OECD overview of reservations made by Belgium can be found under the following link: http://www.oecd.org/tax/treaties/beps-mli-position-belgium.pdf |
| 12 | Special regulations or taxes (insofar there is a material impact on the tax position) | |
| 12.1 | Is some form of equity deduction, e.g. notional interest deduction in place? | Yes. Belgian tax law provides for a notional interest deduction (NID) which is calculated over the incremental adjusted net accounting equity of a company (or a Belgian PE) over a period of 5 years. Specific rules apply for the calculation of the equity for the purposes of the NID. A notional deduction is allowed over the calculated equity at a fixed percentage determined by the Belgian authorities. The maximum fixed percentage is capped at 3% and may not increase more than 1% per year. The NID rate is 0.746% (0.726%) for tax year 2019 (2020) and a 0.5% increase applies for SMEs (1.246% for tax year 2019 and 1.226% for tax year 2020). |
| 12.2 | Are any special credits in place for IP-costs of for example wage costs? | Yes. Belgian law provides for an R&D tax credit and for a wage withholding tax exemption for R&D-activities. |
| 12.3 | Is an accumulated earnings tax in place? | No. |
| 12.4 | Are any digital taxes in place? | No. |
| 12.5 | Are any investment deduction measures in place? | Yes. Investment deduction applies for certain assets (different rates), among others for R&D (R&D tax credit, wage withholding tax exemption for R&D). |
| 12.6 | Is some sort of (R&D)-wage credit in place? | Yes. There is a wage withholding tax exemption for R&D. |
| 12.7 | Are there any other sector-specific direct tax measures, e.g. a banking tax, tax on rents, etc. | Yes. Belgian tax law provides for the following regimes: - Tonnage regime - Tax shelter for the film / theatre / gaming industry - Insurer's tax - Reduced taxable basis for investment companies and pension funds <i>IBFD: there is also:</i> - an annual bank tax - a special regime for the diamond sector |
| 13 | Withholding taxes | |
| 13.1 | Is there a withholding tax on dividend? If yes, please provide rates. | 30% (there are some exceptions). |
| 13.2 | Is there a withholding tax on interest? If yes, please provide rates | 30% (there are some exceptions). |
| 13.3 | Is there a withholding tax on royalties? If yes, please provide rates | 30% (there are some exceptions). |

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| 13.4 | How is the taxable base for the withholding tax determined? | <p>Gross amount.</p> <p>As far as foreign-source movable income is concerned, the gross amount of income is equal to the distributed amount of income decreased by any withholding tax levied in the source State of the income ('net-frontier income').</p> |
| 13.5 | Does the withholding tax provide for any exemptions? If yes, describe the exemptions. | <p>Yes.</p> <p>An exemption from Belgian WHT may apply, subject to the specific facts and circumstances of the case. In general, a dividend withholding tax exemption is foreseen for the distribution of profits made by a Belgian subsidiary to an EU parent company if both the parent and subsidiary have a legal form that is mentioned in the Annex to the EU Parent-Subsidiary Directive; if both are subject to corporate income tax; and if the parent company holds, during an uninterrupted period of at least one year, a shareholding of at least 10% in the capital of the distributing company (implementation of the EU Parent-Subsidiary Directive).</p> <p>The application of the Parent-Subsidiary Directive to dividend payments has been extended towards non-EU-resident companies: dividends distributed towards a country that has concluded a tax treaty with Belgium containing a qualifying exchange of information clause can be exempt from withholding tax, subject to the same conditions as laid down in the Parent-Subsidiary Directive. In addition, the subject-to-tax requirement does not apply with respect to dividend distributions between Belgian companies.</p> <p>Interest and royalty payments may be exempt under the EU Interest Royalty Directive (cf. list of company forms), subject to a 25% interest requirement and a one year holding period.</p> <p>Belgian tax law provides for a number of WHT reductions or exemptions in specific cases (e.g. interest on loans - not deposits - paid to Belgian companies or Belgian establishments of foreign companies are exempt from WHT and a DWHY exemption may apply further to the CJEU's Tate & Lyle judgement for dividends distributed by a Belgian company to non-resident minority corporate shareholders).</p> <p>Apart from the Belgian domestic rules, a double tax treaty may provide for a WHT reduction or exemption.</p> |
| 13.6 | Do anti-abuse provisions apply with regard to withholding taxes (e.g. in national law or treaties)? | <p>Yes.</p> <p>A specific GAAR applies based on the EU Parent Subsidiary Directive, which may deny a WHT exemption if the dividends originate from legal acts or a whole of legal acts that are artificial (i.e. no valid business reasons that reflect economic reality) and merely in place to obtain the withholding tax exemption. Apart from the specific GAAR for WHT purposes, the GAAR may also deny a WHT exemption. The GAAR provides that the tax authorities may consider that certain legal actions (or a chain of legal actions) are not opposable to them where the tax authorities can demonstrate that there is a tax abuse (which – in short – involves not respecting the intention of the legislator), unless the taxpayer can prove that the choice for the legal action or the chain of legal actions is motivated by other reasons than tax avoidance.</p> <p>Tax treaties may provide for certain anti-abuse provisions, such as a Principle Purpose Test.</p> |

| # | Measures | Any changes expected in the near future (i.e. up to and including 2020) |
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| 1 | Tax rate | |
| 1.1 | What is the corporate income tax rate in your jurisdiction and do brackets apply? | As of tax year 2021 (financial years ending 31 December 2020 and later), the standard corporate income tax rate is lowered to 25%, and the crisis tax of 2% will be abolished. The reduced rate remains 20%. |
| 1.2 | Do different rates apply for regular profit and capital gains? If yes, what are these rates? | As of tax year 2021 (financial years ending 31 December 2020 and after), non-qualifying shares will be subject to the 25% rate. |
| 4 | Depreciations | |
| 4.6 | If available, random depreciation (i.e. accelerated/decelerated depreciation under set circumstances) | The double-declining method will be abolished as of tax year 2021 (financial years ending 31 December 2020 and later). The exception for SMEs will be abolished as of tax year 2021 (financial years ending 31 December 2020 or later). |
| 8 | Innovation box and comparable beneficial regimes | |
| 8.1 | What is the effective rate under your innovation box or a comparable beneficial regime? | From 2020 the rate is 3.75%, being 15% of 25%. |

2.3. France



| # | Measures | 2019 |
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| 1 | Tax rate | |
| 1.1 | What is the corporate income tax rate in your jurisdiction and do brackets apply? | <p>The general CIT rate is 28% on taxable income up to EUR 500,000 and 31% on taxable income in excess.</p> <p>In addition, for companies whose corporate income tax liability (standard rate and reduced rate if applicable) exceeds EUR 763,000, a social surcharge of 3.3% is levied on the part of the corporate income tax which exceeds EUR 763,000.</p> <p>For major companies with a revenue in excess of EUR 250m, the CIT rate will be 33.33% for profits exceeding EUR 500,000 (profits up to EUR 500,000 are subject to 28% CIT rate). Reduced rates applies with respect to SMEs.</p> |
| 1.2 | Do different rates apply for regular profit and capital gains? If yes, what are these rates? | <p>No.</p> <p>Capital gains are generally taxable as regular income (regardless of the duration of ownership of the assets sold). However, a reduced rate of 10% (see innovation box, section 8 of the table) applies to capital gains on the disposal of patents or (only for SMEs) patentable inventions as well as software, income from the licensing of patents or patentable inventions and software. Capital losses on the disposal of patents or patentable inventions and software (either short-term losses or long-terms losses) are tax deductible at the standard CIT rate.</p> <p>Capital gains arising from the disposal of interests in (i) venture capital funds and (ii) venture capital companies are separated from ordinary profits and subject to a lower rate of 15%. This regime applies only if the shares or units in the vehicle have been held by the company for at least 5 financial years.</p> <p>Capital gains arising from the disposal of shares in companies listed on the stock exchange the capital of which are mainly composed of immovable property, that are held for at least 2 financial years, are separated from ordinary profits (and losses) and subject to a lower rate of 19%.</p> <p>Gains on the sale of shares in subsidiaries qualifying for the participation exemption regime held for at least two years benefit from a significant relief (88% of such capital gains are excluded from CIT, with the remaining 12% being taxed at the standard rate). Capital losses on items which qualify for the long-term capital gains regime are treated as long-term capital losses which can only be credited against long-term capital gains of the following 10 years (with some exceptions).</p> <p>Capital gains derived from the disposal of shares held in subsidiaries for less than two years are immediately taxable at the standard CIT rate.</p> |
| 2 | Substance | |
| 2.1 | What are the substance requirements in your jurisdiction? | <p>There are no general substance requirements in French tax regulations, other than those which may be provided in certain Double Tax Treaties (DTTs).</p> <p>French case law indicates a focus on the legal aspects (e.g. place of board of directors) or other aspects which may put emphasis on the place where decisions are prepared, made and implemented, looking on the operational side rather than on the legal side.</p> |

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| 2.2 | Could you indicate whether the substance test in your jurisdiction can be considered light or extensive? | Compared to the substance test of the Netherlands, France would be considered to have a light substance test. |
| 2.3 | What is the effect of substance on specific tax rules, e.g. for which rules is substance relevant in what way? | Substance is relevant for determining tax residency and place of effective management, as well as DTT benefits. Lack of substance may trigger the GAAR. |
| 3 | Transfer pricing related modalities | |
| 3.1 | How are non-businesslike transactions corrected in your jurisdiction? | Non-businesslike transactions are corrected to arm's length standards. A transfer pricing adjustment will lead to a CIT adjustment, a local tax (CVAE) adjustment, as well as a WHT (deemed dividend-adjustment plus late interest penalties) and in a number of cases bad faith penalties. |
| 3.2 | Does your jurisdiction allow for a step-up to FMV, if an asset is transferred for a lower value? | No. No step-up in basis value is allowed for a given asset. |
| 3.3 | If there is a step-up, does this depend on a potential exit-taxation/pick-up in another jurisdiction and how is the difference treated (deemed capital contribution in the receiving entity)? | No. |
| 4 | Depreciations | |
| 4.1 | Please elaborate on the depreciation regimes for: | The main rule for depreciation is over the economic lifetime of an asset. The following caps do apply for the maximum depreciation per annum. |
| 4.2 | <ul style="list-style-type: none"> • Business assets | <p>The depreciation of fixed assets has to be carried out component by component. The components of a fixed asset have to be depreciated separately according to their own lifetime. Special depreciation rule have been enacted for "green" road transportation equipment. Said rules apply until December 31, 2021.</p> <p>With the aim to facilitate the digitalisation of the French economy exceptional depreciation rules apply as of January 1st 2019 to investment in robots, 3D printers and other digital based equipment.</p> <p>A special depreciation regime is also available for green shipping in relation with investment made between 1 January 2019 and 31 December 2021.</p> <p>Declining-balance depreciation is allowed for certain new and renovated assets whose useful life is in excess of three years.</p> |
| 4.3 | <ul style="list-style-type: none"> • Real estate (used within the company or by a third party) | Straight line depreciation over the useful life of the premises. If, however, the useful life is less than 15 years, the double declining method can be used. |
| 4.4 | <ul style="list-style-type: none"> • Goodwill | Under current French tax rules, goodwill (e.g. clientele, trademarks) cannot be amortised. |
| 4.5 | <ul style="list-style-type: none"> • IP (both purchased and self-developed) | <p>With regard to intangibles:</p> <ul style="list-style-type: none"> - Patents can be depreciated over 5 years or quicker if the useful life would be shorter than 5 years - Trade marks are hardly depreciable for tax purposes. - Software can be depreciated over their expected useful life; in certain FY, the depreciation was allowed over 12 months. - Software developed by the tax payer, there is a choice to either treat all costs as a charge of the year they were incurred or as an intangible asset; in that case, it can be depreciated over its expected useful life. |

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| | | <p>For R&D projects, in general, the intangible assets are depreciated over the expected useful life or 5 years if the expected useful life cannot be determined.</p> <p>In all instances, there is a need that accounting wise, the investment be posted as an intangible asset in order then for a tax depreciation to be posted. If for accounting purposes, the investment is treated as a charge, the tax regime will be aligned with the accounting position.</p> |
| 4.6 | <p>• If available, random depreciation (i.e. accelerated/decelerated depreciation under set circumstances)</p> | <p>Concerning R&D and software expenses, a business may elect to immediately deduct costs incurred in R&D of software or to amortise their cost on a straight-line basis over a maximum period of five years.</p> <p>The cost of acquiring software may be written off on a straight-line basis over 12 months.</p> <p>A temporary investment incentive measure was introduced by the Finance Bill for 2016, enabling companies to claim an additional deduction equal to 40% of the asset investment, provided the investment meets the following three conditions:</p> <ul style="list-style-type: none"> - Conditions of the fiscal special depreciation regime (i.e. a new asset having a minimum useful life of three years). - Belonging to some limited categories defined by the government (industrial assets, such as plant machinery and equipment, manufacturing equipment, and research operations fittings). - Investments made between 15 April 2015 and 14 April 2016. <p>The Finance Bill for 2017 extended this incentive measure to companies that invest under the following three conditions:</p> <p>The investment has been firmly decided before 15 April 2017.</p> <ul style="list-style-type: none"> - The investing company has paid, before 15 April 2017, an instalment that amounts to at least 10% of the total investment cost. - The final acquisition of the investment occurs within a two-year period following the date of beginning of the purchase order. <p>No specific rules apply regarding deduction of start-up expenses, except the qualified expenses incurred in establishing the company (so called 'frais d'établissement'), which can be either deducted or depreciated over five years.</p> |
| 5 | Interest deduction limitations | |
| 5.1 | <p>Please describe your earnings-stripping/30% EBITDA rule, the parameters and scope and effective date in your jurisdiction (if applicable).</p> | <p><i>IBFD: The net financial expenses are now deductible up to EUR 3M or 30% of the tax group's 'tax' EBITDA, whichever is higher. Restricted interest expenses may be carried forward indefinitely. Unutilized EBITDA may be carried forward for five years. A group ratio escape applies.</i></p> |
| 5.2 | <p>Are any other interest deduction limitation provisions applicable (e.g. thin cap rule, anti-base erosion)</p> | <p>Yes.</p> <p><i>Restriction of interest deduction</i> A test applies for interest on loans to a (in)directly related company. Interest deduction are allowed only if the French borrower demonstrates that the lender is, for the current financial year, subject to a CIT on the interest that equals 25% or more of the CIT that would be due under French tax rules. When the lender is domiciled or established outside of France, the CIT determined under French law equals the tax liability that the lender would have owed on the interest had it been resident or domiciled in France.</p> <p><i>Additional limit on interest deduction</i> 25% of the net finance expenses of a company subject to French CIT is not deductible. This limit applies in addition to existing limits. In a tax group, this limit applies to the consolidated tax result of the group. A threshold of EUR 3 million</p> |

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| | | <p>applies. For taxpayers considered to be thinly capitalized (i.e. where the related party debt-to-equity ratio exceeds 1:5), the portion of deductible financial expenses is determined based on the following limitations: External debt: The 30% EBITDA test applies to the interest charges derived from external debt, determined as being the total interest multiplied by the amounts put at the disposal of the tax payer by third parties increased by 5 x equity/total amounts put at the disposal of the corporation.</p> <p>Related party debt: Interest on related party debt will be subject to stricter rules, with a 10% of tax EBITDA limitation applying to interest charges derived from related party debt, calculated as being the total interest multiplied by the amounts put at the disposal of the corporation by related parties/total amounts put at the disposal of the corporation</p> |
| 5.3 | To what extent are interest expenses deductible if the funds are used for the acquisition of exempt assets (e.g. participations eligible for the participation exemption)? | No specific limit applies. |
| 5.4 | Does your jurisdiction have a Specific Anti-Abuse Rule which may limit interest deduction? | <i>IBFD: Yes. Please refer to the provision mentioned in par. 5.2 above, and another limitation is the so-called Amendement Charasse.</i> |
| 6 | Royalties | |
| 6.1 | Is there a limitation on the deductibility of royalties (e.g. in amount or rate)? | <p>No.</p> <p>However, still a minimum taxation at the level of the recipient applies. Deduction of royalties paid to related parties are allowed only if the French licensee demonstrates that the licensor is, for the current financial year, subject to a CIT on the royalty that equals 25% or more of the CIT that would be due under French tax rules.</p> |
| 7 | Head office costs | |
| 7.1 | Are head office costs deductible? | <p>Yes.</p> <p>Arm's length head-office costs are deductible.</p> |
| 7.2 | How does the deductibility of head office costs relate to the participation exemption in your jurisdiction, i.e. is there an interaction? | There is no interaction. |
| 7.3 | How are head office costs typically on-charged in your jurisdiction, e.g. management agreement and what kind of allocation key is acceptable? | A cost plus method is commonly applied. Ideally, an allocation of specific costs to a specific party is the preferred approach. Nonetheless, an allocation based on revenue is defensible. More accurate allocation keys such as wages / number of staff, assets value, etc. are recommended. |
| 7.4 | What are the TP requirements relating to head office costs? What kind of remuneration is acceptable? | There are no specific regulations. Reference is made to the OECD TP guidelines, under which an allocation of costs based on the revenue is acceptable. France does not deviate from the OECD guidelines and thus a mark-up on total costs varying between 5 to 10% is a defensible approach. |
| 8 | Innovation box and comparable beneficial regimes | |
| 8.1 | What is the effective rate under your innovation box or a comparable beneficial regime? | Under certain conditions, income derived from the sale or license of patents or patentable inventions is taxed at a reduced CIT levied at the rate of 10%. |
| 8.2 | What conditions apply for the application of the innovation box or another comparable regime (e.g. request for special status, variation in application per type of license/right)? | <p>A reduced tax rate of 10% applies under restrictive conditions to proceeds from the:</p> <ul style="list-style-type: none"> - licensing (or sublicensing) of patents, industrial processes linked to patents and to software, held for at least two years, subject to certain conditions, and sale of patents, industrial processes linked to patents and to software, held for at least two years, subject to certain conditions. |

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| | | <ul style="list-style-type: none"> - The income subject to this patent box regime is a net income (gross minus related R&D expenses and after application of a nexus ratio). FTA detailed comments are still not published. <p>In other cases, royalties are subject to CIT at standard corporate income rate (plus an additional social contribution if relevant).</p> |
| 8.3 | Is the modified nexus approach applied? If applicable, per what date? | Yes, per 1 January 2019. |
| 9 | Exemption of profits from participations | |
| 9.1 | To what types of profit does the exemption regime apply? E.g. regular dividends, capital gains, etc. | French parent companies (i.e. companies incorporated in France and holding qualifying shares that represent at least 5% of the issued capital of subsidiaries, French or foreign) have the option of excluding 95% of the subsidiaries' net dividends from CIT (5% of charges and expenses must be added back to the parent company's taxable results). The French parent-subsidiary regime extends to certain shares without voting rights. |
| 9.2 | Is there full or partial exemption (if partial, to what extent)? | Partial. 95% is exempted. |
| 9.3 | Does the regime also apply to final liquidation losses? | Yes. Final liquidation losses may in certain specific circumstances be deductible, provided that certain strict conditions are met. |
| 9.4 | Do controlled foreign company (CFC) rules apply? | <p>Yes.</p> <p>The French CFC rules provide that:</p> <ul style="list-style-type: none"> - French corporations are required to include in their taxable income profits made by their more than 50% owned foreign subsidiaries and branches. The 50% holding is determined by direct and indirect control of shares and voting rights. - The minimum holding threshold has to be reduced to 5% if over 50% of the share capital of the foreign entity is indirectly held through French or foreign companies controlled by the French parent company. However, if the shares in the foreign entity are listed on a regulated market, the French tax authorities will have to demonstrate that the French parent company, together with other entities holding shares in such foreign entity, is acting in concert. - The CFC rules are only applicable if the foreign legal entity or PE which the French company owns the requisite percentage of shares is in a country with a privileged tax regime. A privileged tax regime is defined by the FTC as a tax regime in which a foreign jurisdiction subjects taxable income of a foreign entity to at least 50% or lower of the income tax liability that would have been incurred in France, had the activity of the foreign entity been performed in France. - Profits of the foreign entity that fall under the CFC rules are no longer taxed separately. They are now aggregated with the other taxable profits of the French parent company. Consequently, any tax losses incurred by the French parent company may be offset against the foreign entity's profits. - The French parent company can avoid the application of the CFC rules if it demonstrates that the foreign entity carries an effective trading or manufacturing activity, conducted from its country of establishment or registered office. Furthermore, the CFC rules, in principle, are not applicable with respect of foreign branches or subsidiaries located in another EU country. However, this exception is not applicable if the French tax authorities can demonstrate that the foreign entity located in another EU country constitutes an artificial arrangement, set up to circumvent French tax legislation. This concept is similar to the 'abuse of law' concept, although it does not have all the same characteristics. |
| 10 | Loss compensation | |

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| 10.1 | What is the type (e.g. operational losses, holding losses, other) and the maximum amount of losses that can be compensated? | Capital losses can only be used against capital gains within 10 years from their realisation. |
| 10.2 | How many years can be carried forward? | Tax losses can be carried forward indefinitely. Losses carried forward are available to offset the first EUR 1 million of taxable profits and 50% of taxable profits in excess of this. |
| 10.3 | How many years can be carried back? | Tax losses can be carried back for one year. Tax losses are available for carry-back to the fiscal year immediately preceding that in which the losses arise and up to a maximum of EUR 1 million. Any unused surplus will be carried forward and used as set out above. The election to carry back tax losses must be filed prior to the deadline for submission of the tax return for the loss-making period. |
| 10.4 | Are any group relief regimes in place? | Yes. French corporations and their 95% owned domestic subsidiaries may elect to file one single tax return, thus allowing the offset of losses of one group corporation against the profits of a related corporation. CIT is then levied on the aggregate income after certain adjustments for intra-group provisions (e.g. debt waivers, dividend distributions) have been made. |
| 11 | ATAD 1 / ATAD 2 / BEPS | |
| 11.1 | Is there a general anti-abuse rule (GAAR)? | Yes. France has a GAAR since 2019. If a company puts in place a non-genuine schemes with the main objective, or with one of its main objectives, to obtain tax advantages under applicable tax law, these advantages can be ignored by the tax authorities |
| 11.2 | Is there a targeted anti-abuse rule (TAAR)? | Yes. For deduction of interest and royalty expenses, a minimum taxation at the level of the recipient applies. Deduction of royalties paid to related parties are allowed only if the French licensee demonstrates that the licensor is, for the current financial year, subject to a CIT on the royalty that equals 25% or more of the CIT that would be due under French tax rules.. |
| 11.3 | Does your jurisdiction have any reservations for application of the multilateral instrument (MLI)? | Yes. France has made reservations to article 3~5, 10, 11, 14, 19, 28 and 36. The OECD overview of reservations made by France can be found under the following link: https://www.oecd.org/tax/treaties/beps-mli-position-france-instrument-deposit.pdf |
| 12 | Special regulations or taxes (insofar there is a material impact on the tax position) | |
| 12.1 | Is some form of equity deduction, e.g. notional interest deduction in place? | No. |
| 12.2 | Are any special credits in place for IP-costs of for example wage costs? | No. |
| 12.3 | Is an accumulated earnings tax in place? | No |
| 12.4 | Are any digital taxes in place? | Yes. As from January 1st 2019, a 3% digital tax applies to companies providing in France certain digital services, with global annual revenue in excess of Euro 750M and annual revenue in France in excess of Euro 25M. The tax applies in particular to the provision of a digital interface by means of electronic communications allowing to contact and interact with other users as well as services to advertisers of their agents aimed at placing targeted advertising messages on digital interface based on the interface user's data collected or generated through the case of such interface. Detailed regulations on this digital services tax are expected in coming months. |

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| 12.5 | Are any investment deduction measures in place? | Yes. A special depreciation rule has been enacted for "green" road transportation equipment. Said rules apply until December 31, 2021. |
| 12.6 | Is some sort of (R&D)-wage credit in place? | No. |
| 12.7 | Are there any other sector-specific direct tax measures, e.g. a banking tax, tax on rents, etc. | Yes. French tax regime provides for the following regimes: - Tonnage tax regime; - Financial transaction tax. |
| 13 | Withholding taxes | |
| 13.1 | Is there a withholding tax on dividend? If yes, please provide rates. | 30% French domestic law reduces the WHT rate from 30% to 21% for individuals who are resident in another EU member state, in Iceland, or in Norway. <i>IBFD: No withholding tax applies on domestic dividends. In the situation of corporate and individual non-resident shareholders a distinction must be made. Dividends paid to non-resident companies are subject to a 30% withholding tax, and special rates may apply for dividends paid to foreign UCITS or non-profit organizations (pension funds included). For non-resident individuals, the rate is 12.8% regardless the residence (except for Non-cooperative states). For resident individuals, the rate is 30%.</i> |
| 13.2 | Is there a withholding tax on interest? If yes, please provide rates | 0% |
| 13.3 | Is there a withholding tax on royalties? If yes, please provide rates | 28%. The withholding tax on royalties is levied at the same rate as the CIT. |
| 13.4 | How is the taxable base for the withholding tax determined? | Gross amount. |
| 13.5 | Does the withholding tax provide for any exemptions? If yes, describe the exemptions. | Yes. A double tax treaty may provide for a WHT reduction or exemption. <i>IBFD: Domestic law provides for exemption for UCITS or non-profit organizations.</i> |
| 13.6 | Do anti-abuse provisions apply with regard to withholding taxes (e.g. in national law or treaties)? | Yes. For deduction of interest and royalty expenses, a minimum taxation at the level of the recipient applies. Deduction of royalties paid to related parties are allowed only if the French licensee demonstrates that the licensor is, for the current financial year, subject to a CIT on the royalty that equals 25% or more of the CIT that would be due under French tax rules. Payments to jurisdictions listed as Non-cooperative states are subject to a 75% final withholding tax. |

| # | Measures | Any changes expected in the near future (i.e. up to and including 2020) |
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| 1 | Tax rate | |
| 1.1 | What is the corporate income tax rate in your jurisdiction and do brackets apply? | For 2020, 2021 and 2022, the standard rate will be 28%, 26,5% and 25% respectively for all companies. Brackets no longer apply. |
| 13 | Withholding taxes | |
| 13.3 | Is there a withholding tax on royalties? If yes, please provide rates. | The withholding tax on royalties is levied at the same rate as the CIT and will therefore change with the CIT rate for 2020, 2021 and 2022 accordingly. |

2.4. Germany



| # | Measures | 2019 |
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| 1 | Tax rate | |
| 1.1 | What is the corporate income tax rate in your jurisdiction and do brackets apply? | <p>The general CIT rate is 15%, which is in addition subject to a surcharge of 5.5% (solidarity surcharge). This results in a total tax rate of 15.825%.</p> <p>In addition, Germany has a trade tax, which is a combination of a uniform tax rate of 3.5% (base rate) and a municipal tax rate (Hebesatz) depending on where the branches of the business are located. Municipalities with at least 80,000 inhabitants levy a trade tax at a rate of between 12.67% (Hebesatz of 360%) and 20.3% (Hebesatz of 580%). The lowest possible trade tax rate is 7% (Hebesatz of 200%).</p> <p>The basis for the trade tax is the adjusted profit for CIT purposes, i.e. 25% of all financing costs over EUR 100,000, including the implicit financing costs in leasing, rental, and royalty payments, are added back to taxable income.</p> <p>If the basis for the two taxes is identical (unlikely in practice), this would for example lead to an overall burden on corporate profits of approximately 33% in Munich, 32% in Frankfurt and 30% in Berlin.</p> |
| 1.2 | Do different rates apply for regular profit and capital gains? If yes, what are these rates? | <p>No.</p> <p>Capital gains are subject to the general CIT rate.</p> |
| 2 | Substance | |
| 2.1 | What are the substance requirements in your jurisdiction? | <p>There are no general substance requirements in German tax law, but rather there are several individual tax regulations which contain certain substance requirements. These regulations are in particular:</p> <ul style="list-style-type: none"> (i) the German anti-treaty/directive shopping rules that are relevant when claiming a reduced WHT rate on dividend, interest or royalty payments (ii) the Cadbury Schweppes exemption which is relevant in case a taxpayer claims that passive low-taxed income of a EU/EEA subsidiary shall not be included in its taxable income under German CFC rules. <p>The requirements are different for each of the regulations. There is no clear legal definition of such substance requirements. Therefore, the substance requirements are - to some extent - subject to interpretation.</p> |
| 2.2 | Could you indicate whether the substance test in your jurisdiction can be considered light or extensive? | Although there is no clear legal definition of substance, the substance requirements and the interpretation of the requirements under certain tax regulations should be considered extensive. |
| 2.3 | What is the effect of substance on specific tax rules, e.g. for which rules is substance relevant in what way? | Substance is relevant for claiming reduced WHT rates on dividend, interest or royalty payments, and for claiming that passive low-taxed income of EU/EEA subsidiaries shall not be included under German CFC rules. |
| 3 | Transfer pricing related modalities | |
| 3.1 | How are non-businesslike transactions corrected in your jurisdiction? | Based on German tax law, if transactions within the group are not arm's length, an adjustment takes place of taxable income in case of a deemed distribution or a deemed contribution. |
| 3.2 | Does your jurisdiction allow for a step-up to FMV, if an asset is transferred for a lower value? | <p>Yes.</p> <p>If an asset is transferred to a related party below market value (arm's length price), the above-mentioned corrections clauses apply.</p> <p>At the level of a German entity acquiring an asset at a value below FMV, this should result in the asset being shown at FMV.</p> |

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| 3.3 | <p>If there is a step-up, does this depend on a potential exit-taxation/pick-up in another jurisdiction and how is the difference treated (deemed capital contribution in the receiving entity)?</p> | <p>Yes.</p> <p>In case a German corporation acquires an asset from its shareholder at a purchase price below FMV, this should result in a deemed contribution to the extent the purchase price is lower than FMV and the German corporation should show the asset at its FMV regardless of whether there was any (exit) taxation at the level of the shareholder or not.</p> <p>However, such step-up should only be tax neutral in case there was a corresponding taxation at the level of the shareholder. Otherwise, the step-up would create fully taxable income at the level of the German corporation.</p> <p>In case a German corporation acquires an asset from its subsidiary at a purchase price below FMV, this should result in a deemed dividend and be treated as dividend income at the level of the German shareholder. Subject to certain conditions, an (effective) 95% exemption is available for dividend income realized by a German corporation. However, for CIT purposes, such exemption requires that there was a corresponding income adjustment at the level of the subsidiary. Otherwise, the deemed dividend would be fully taxable at the level of the German shareholder. Those correspondence principle rules also include complex rules for non-arm's length transactions between sister companies.</p> <p>The principles of the deemed contribution only apply to contributable assets.</p> |
| 4 | Depreciations | |
| 4.1 | Please elaborate on the depreciation regimes for: | The main rule for depreciation is over the economic lifetime of an asset. The following applies for the maximum depreciation per annum. |
| 4.2 | <ul style="list-style-type: none"> • Business assets | <p>Depreciation on movable fixed assets is generally calculated based on the straight-line method over the asset's anticipated useful life. Depreciation takes the residual value of the asset into account only if it is material, with any gains on a sale being treated as normal business income.</p> <p>Alternatively, in the case of movable fixed assets for which it is economically justified, depreciation can be carried out "in accordance with the output" of the asset (e.g. along with working hours of machinery). Certain assets worth less than EUR 800 can be fully depreciated in the year of acquisition. Alternatively, certain assets acquired in one fiscal year worth less than EUR 1,000 each can be pooled together as a compound item and depreciated over five fiscal years.</p> |
| 4.3 | <ul style="list-style-type: none"> • Real estate (used within the company or by a third party) | Buildings are depreciated based on a variety of straight-line or reducing-rate systems designed to reach a full write-down between 25 and 50 years, depending on the age of the building, the usage and whether the taxpayer acquired or built the building himself. |
| 4.4 | <ul style="list-style-type: none"> • Goodwill | Goodwill recognized upon an acquisition of a business is amortized over 15 years. "Self-developed" goodwill cannot be recorded in the tax balance sheet and therefore, there is no amortization. |
| 4.5 | <ul style="list-style-type: none"> • IP (both purchased and self-developed) | Acquired intangibles are amortised straight-line over their estimated useful lifetime. Self-developed intangibles cannot be recorded in the tax balance sheet. Expenses incurred in connection with self-developed intangible assets are generally immediately deductible for German income tax purposes. In practice, the useful lifetime of acquired corporate brands or trademarks is often considered to be 15 years (based on the tax amortization period for goodwill). |
| 4.6 | <ul style="list-style-type: none"> • If available, random depreciation (i.e. accelerated/decelerated depreciation under set circumstances) | There is no "random depreciation". It is possible to reflect an impairment of an asset in addition to the regular depreciation/amortization in case of a permanent devaluation of the asset. |
| 5 | Interest deduction limitations | |
| 5.1 | Please describe your earnings-stripping/30% EBITDA rule, the parameters and scope and effective date in your jurisdiction (if applicable). | Based on the German tax law, interest expenses of a "German business" cannot be deducted for CIT and Trade Tax purposes to the extent the "net interest expense" exceeds 30% of the taxable income before interest, taxes, depreciation and amortization ("tax EBITDA"). Net interest expense are interest expenses exceeding the interest |

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| | | <p>income. The 30% limitation only captures the excess of interest expenses over interest income.</p> <p>Interest expenses that cannot be deducted due to the interest cap in one year are carried forward without limitation and can be deducted in future periods, again subject to the interest capping rule. The same applies for a tax EBITDA which is not fully utilized in one year with the exception that it can only be carried forward for a period of five FYs.</p> <p>Carried forward interest is subject to the German change of control rules. In case of a harmful shareholder change based on the change of control rules, the interest carried forward would forfeit. A tax EBITDA carried forward may forfeit proportionally in case of a transfer of the business.</p> <p>The interest capping rules provide for 3 exceptions – so called “escape clauses”:</p> <ul style="list-style-type: none"> (i) The net interest expense of a German business is less than EUR 3m; (ii) A company is not or only partly a member of a group of companies; (iii) The German business meets the “equity test” (i.e. the equity ratio of the German business under review as of the end of the previous FY is equal or higher than the equity ratio of the worldwide consolidated group. An equity ratio that is not 2% lower than that of the group is not harmful. <p>If one of the three escape clauses is fulfilled with respect to the relevant German business in one year, the 30% interest cap does not apply.</p> |
| 5.2 | Are any other interest deduction limitation provisions applicable (e.g. thin cap rule, anti-base erosion) | <p>Yes.</p> <p>There is a regulation that disallows a deduction of expenses for partnerships (e.g. interest expenses) because of cross-border hybrid mismatch structures.</p> <p>For TT purposes, 25% of the (gross) deductible interest expense need to be added back to the TT income subject to a 100,000 EUR threshold for interest expense and a portion of certain other expense (royalties, rent expense, etc.) resulting in effectively, only 75% of the interest being deductible for Trade Tax purposes.</p> |
| 5.3 | To what extent are interest expenses deductible if the funds are used for the acquisition of exempt assets (e.g. participations eligible for the participation exemption)? | No specific limit applies. The regular interest deduction limitation rules apply. |
| 5.4 | Does your jurisdiction have a Specific Anti-Abuse Rule, which may limit interest deduction? | There is a regulation that disallows a deduction of expenses for partnerships (e.g. interest expenses) because of cross-border hybrid mismatch structures. |
| 6 | Royalties | |
| 6.1 | Is there a limitation on the deductibility of royalties (e.g. in amount or rate)? | <p>Yes.</p> <p>Following (and beyond) the OECD recommendations on Action 5 of the Base Erosion and Profit Shifting (BEPS) Project, Germany has introduced a restriction on the deductibility of certain royalty payments to related parties applicable from 2018 onwards to counter so-called harmful preferential tax regimes.</p> <p>According to the royalty limitation rules, expenses arising after 31 December 2017 for the assignment of use or the right to use rights, in particular of copyrights and industrial property rights, in trade, technical, scientific and similar know-how, knowledge, and skills (e.g. plans, designs, processes), may not be a deductible business expense or may only be partially deductible. The limitation will apply where:</p> <ul style="list-style-type: none"> - The recipient of the income from the assignment of rights is a related party; |

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| | | <ul style="list-style-type: none"> - Vis-à-vis the debtor the income in the hands of the (direct or indirect) recipient is subject to a special preferential regime, which does not correspond to the OECD Modified Nexus Approach; and, - The income received for the assignment of the rights is taxed at a rate less than 25% (low taxation) at the level of the (direct or indirect) recipient. <p>If the conditions of the provision are met, the expenses in question will qualify as non-deductible expense to the extent that the taxation at the level of the recipient of the income is below 25%, i.e. the non-deductible portion of expenses is calculated as follows: $(25\% - \text{Income tax burden in } \%) / 25\%$.</p> |
| 7 | Head office costs | |
| 7.1 | Are head office costs deductible? | <p>Yes.</p> <p>A German corporation can claim a deduction for remuneration, such as interest charges (subject to the interest limitation rules), service fees, and royalties (subject to the royalty limitation rule), paid to the head office (shareholder) or foreign affiliates, provided the amounts are at arm's length. Detailed provisions covering both form and substance define this. In particular, all services must be covered by prior written agreement, and it is also necessary to conclude agreements for the purchase and sale of goods in writing where this would be usual between third parties (e.g. for quantity rebates on sales). The substance test must be satisfied, both as to value for money and as to business relevance. Thus, the manager of a German subsidiary must be able to show an adequate business benefit from a related-party transaction. These and all other aspects of inter-company (related-party) trading fall under strict and extensive documentation requirements, breach of which can lead to serious penalties. On-charged shareholder costs (shareholder activities) are non-deductible if these solely result from ownership interest (i.e. monitoring of the investment). See also below.</p> |
| 7.2 | How does the deductibility of head office costs relate to the participation exemption in your jurisdiction, i.e. is there an interaction? | No interaction. |
| 7.3 | How are head office costs typically on-charged in your jurisdiction, e.g. management agreement and what kind of allocation key is acceptable? | To the extent that the head office costs serve the primary interests of the head office in its function as a shareholder, these costs have to be borne by the shareholder and cannot be on-charged. Head-office costs for services provided to the benefit of a German entity shall to the extent possible be charged based on the direct method (i.e. if the costs for the service can be directly determined from the cost accounting or the head office employees track the hours spent for activities to the benefit of the German entity and apply an appropriate hourly rate). If the direct method is not possible or too burdensome (e.g. because some services are provided to the benefit of multiple entities at the same time), an indirect cost recharging based on allocation keys is possible. Such an allocation key should be in line with the cause of costs and the benefits received. In practice, allocation keys such as sales, assets, number of employees, number of users of IT tools or a combination thereof is used. The taxpayer should be able to explain why the specific allocation key was selected and is deemed appropriate. |
| 7.4 | What are the TP requirements relating to head office costs? What kind of remuneration is acceptable? | The services supplied to the recipient needs to pass the benefit test which means that an unrelated party would have agreed to pay for such a service. In addition, the cost base of the service which is supplied needs to be properly documented and in case that services are charged indirect (via allocation keys), such allocation keys need to be reasonable and properly documented. In case that services are charged with a mark-up, this mark-up needs to be documented and benchmarked; for so-called low value adding services, documentation requirements are reduced (simplified benefit test, general mark-up of 5%). |
| 8 | Innovation box and comparable beneficial regimes | |
| 8.1 | What is the effective rate under your innovation box or a comparable beneficial regime? | Not applicable. |

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| 8.2 | What conditions apply for the application of the innovation box or another comparable regime (e.g. request for special status, variation in application per type of license/right)? | Not applicable. |
| 8.3 | Is the modified nexus approach applied? If applicable, per what date? | Not applicable. |
| 9 | Exemption of profits from participations | |
| 9.1 | To what types of profit does the exemption regime apply? E.g. regular dividends, capital gains, etc. | <p>Dividends received on significant holdings are exempt from CIT and TT. Portfolio dividends are taxable. For CIT and TT purposes, different qualified portfolio holdings are applicable. With respect to CIT, a minimum shareholding of at least 10% is required and must be met at the beginning of the calendar year. For TT purposes, additional or rather different requirements need to be fulfilled (e.g. an active income criterion for certain foreign-source dividends, whereby this regulation was judged by the ECJ as being in breach of European law) and different rules apply for German-source and foreign-source dividend income from shareholdings of at least 15% (or 10% insofar as the Parent/Subsidiary Directive is applicable).</p> <p>For CIT purposes, 5% of the tax-free gross dividend is added back to taxable income as non-deductible business expenses. For dividends exempted for CIT as well as for TT purposes, the taxable amount of 5% of the dividends for CIT purposes is also taxable for TT purposes.</p> <p>It should be noted that the 95% effective exemption for CIT purposes applies only if the dividends have not reduced the income of the distributing entity.</p> <p>Capital gains from the sale of investments in other corporations are exempt from CIT and TT. Corresponding losses are not deductible. However, 5% of the capital gains are added back to taxable income as non-deductible. No minimum participation requirement.</p> <p>Note: for example, banks and other financial enterprises do not enjoy this exemption on dividends or capital gains from securities held for trading</p> |
| 9.2 | Is there full or partial exemption (if partial, to what extent)? | <p>Partial exemption.</p> <p>Generally, a 5% add-back applies, i.e., 95% exemption</p> |
| 9.3 | Does the regime also apply to final liquidation losses? | <p>Yes.</p> <p>Final liquidation losses may in certain specific circumstances be deductible, provided that certain strict conditions are met.</p> |
| 9.4 | Do controlled foreign company (CFC) rules apply? | <p>Yes.</p> <p>Pursuant to the German CFC taxation rules regulated in the Foreign Tax Act (FTA - Außensteuergesetz), certain low-taxed (less than 25%) income, referred to as passive income generated by a CFC, shall be subject to German tax at the level of the German shareholder, provided the CFC is deemed to be a so-called intermediate company (Zwischengesellschaft) and the German control criterion is fulfilled (broadly speaking a 50% interest).</p> <p>Passive income generated by a CFC that qualifies as an intermediate company will be attributed to the German shareholder regardless of whether it is actually distributed or not (CFC income). The CFC income is subject to German CIT and TT.</p> <p>EU/EEA subsidiaries will not be qualified as an intermediate company if a so-called motive test is fulfilled (i.e. the</p> |

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| | | German shareholders prove that the specific income is derived from a genuine economic activity performed in the state of residence of the CFC). |
| 10 | Loss compensation | |
| 10.1 | What is the type (e.g. operational losses, holding losses, other) and the maximum amount of losses that can be compensated? | The loss relief brought forward claimable in any one year is limited to EUR 1 million plus 60% of current year income exceeding that amount. |
| 10.2 | How many years can be carried forward? | Tax losses can be carried forward indefinitely. |
| 10.3 | How many years can be carried back? | For CIT, there is an optional carry-back to the previous year of up to EUR 1 million. No carry-back is possible for Trade Tax purposes. |
| 10.4 | Are any group relief regimes in place? | <p>Yes.</p> <p>If a parent holds more than 50% of the voting rights in a subsidiary having its place of management in Germany, the two may conclude a formal court-registered profit and loss pooling agreement (PLPA), which must be concluded for a period of at least five years. If certain other conditions are fulfilled, the parent and subsidiary can form an income tax group (Organschaft). Effectively, the annual results of an Organschaft are pooled at the level of the parent. The tax group subsidiary itself is only subject to tax with respect to 20/17 of any compensation payments made to outside minority shareholders, if applicable. Profits and losses within a group can therefore be offset, but there is no provision for the elimination of profits from intra-group transactions for tax purposes. It should also be noted that negative income of the parent or of the subsidiary incurred within an Organschaft is excluded from offset in the same or another year if a foreign country takes such loss into account in the taxation of an Organschaft member, or of any other entity.</p> <p>The main conditions for a tax group for CIT/TT purposes are:</p> <ul style="list-style-type: none"> - The parent must hold a majority in the voting stock of the subsidiary without interruption from the beginning of its business year for which the tax group is intended to become effective for the first time. - The parent of an Organschaft must be an individual, a trading partnership, or a non-tax exempt corporation, association, or estate. - The investment in the subsidiary must, from a functional point of view, be attributable to a German branch of the parent, and the income of the branch must be subject to German tax and not be exempt under a double tax treaty. - The subsidiary must be a corporation having its place of management in Germany and its registered seat in an EU/EEA member state. - The parent and the subsidiary must have concluded a qualifying profit and loss pooling agreement (PLPA) with a minimum term of five years. The PLPA needs to be properly executed in each financial year, i.e. the subsidiary must transfer its entire German GAAP profit to the parent under the PLPA. Respectively, the parent must compensate the losses of the subsidiary. |
| 11 | ATAD 1 / ATAD 2 / BEPS | |
| 11.1 | Is there a general anti-abuse rule (GAAR)? | <p>Yes.</p> <p>Under the general anti-abuse rule in Sec. 42 General Tax Act ("GTC"), German tax provisions cannot be circumvented by an abuse of legal forms. According to Sec. 42 GTC, a transaction will be qualified as abusive for German tax purposes, if the taxpayer chooses an inappropriate legal structure which results in a tax advantage not intended by law as compared to an appropriate legal structure. There is no abuse if the taxpayer can demonstrate that the legal structure was chosen on grounds of business (non-tax) reasons which are significant under the overall circumstances.</p> <p>Sec. 42 GTC constitutes the general anti-abuse provision for German tax purposes. Additional special anti-abuse-</p> |

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| | | <p>rules (e.g. anti-treaty/directive shopping rules, etc.) are determined in various other German tax statutes. If a certain German tax law contains a special anti-abuse-rule and the prerequisites of this rule are fulfilled, the legal consequences of this rule will apply as they take precedence over the more general rules of Sec. 42 GTC.</p> <p>In addition, please note the determination whether any of a chosen step is appropriate will not only have to be done on the level of the single legal step if several single legal steps are based on an overall planning. In such cases the Federal Fiscal Court takes an overall and economic view at the business plan as a whole (so-called step plan-doctrine).</p> |
| 11.2 | Is there a targeted anti-abuse rule (TAAR)? | <p>Yes. There are targeted anti-abuse rules (e.g. anti-treaty/directive shopping rules, etc.)</p> <p><i>IBFD: There are quite some TAARs under German law, which could be mentioned in addition; e.g.: Section 50d(11) of the EStG provides for a restriction of the application of the participation exemption under tax treaties for hybrid legal entities. The provision is designed to deny the participation exemption privilege to domestic companies when receiving foreign source dividends in as far as individual taxpayers may benefit from this privilege by way of using a domestic hybrid legal entity such as a limited partnership with shares or a non-typical silent partnership. Accordingly, a tax exemption for dividends derived from a qualifying participation under a tax treaty shall only be available for dividends that are attributable to a corporate entity under domestic law. The participation exemption shall not be available in respect of dividends that are attributable to individuals under domestic law.</i></p> |
| 11.3 | Does your jurisdiction have any reservations for application of the multilateral instrument (MLI)? | <p>Yes. Germany has made reservations to articles 3, 4, 6, 7, 8, 11–17, 19, 23, 26 and 28.</p> <p>The OECD overview of reservations made by Germany can be found under the following link: http://www.oecd.org/tax/treaties/beps-mli-position-germany.pdf</p> |
| 12 | Special regulations or taxes (insofar there is a material impact on the tax position) | |
| 12.1 | Is some form of equity deduction, e.g. notional interest deduction in place? | No |
| 12.2 | Are any special credits in place for IP-costs of for example wage costs? | No. |
| 12.3 | Is an accumulated earnings tax in place? | No |
| 12.4 | Are any digital taxes in place? | No. |
| 12.5 | Are any investment deduction measures in place? | <p>Yes.</p> <p>Small and medium-sized enterprises can claim an investment deduction ("Investitionsabzugsbetrag"). The "Investitionsabzugsbetrag" allows up to 40 percent of the expected investment costs for a planned acquisition/production of depreciable movable fixed assets to be deducted for tax purposes in a fiscal year prior to the acquisition/production of the asset. Since the tax book value (basis for depreciation) is reduced accordingly in the year of acquisition/production of the respective asset, the "Investitionsabzugsbetrag" only creates a tax deferral (i.e. liquidity and interest advantages).</p> |
| 12.6 | Is some sort of (R&D)-wage credit in place? | No |
| 12.7 | Are there any other sector-specific direct tax measures, e.g. a banking tax, tax on rents, etc. | Yes. |

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| | | Direct tax incentives are offered in very limited circumstances (e.g. special depreciations and investment deductions) and are not "sector-specific". Regulations such as the "tonnage tax" (income determination for sea shipping industry) or the determination of profits for smaller agricultural and forestry enterprises according to average rates can represent a certain ("sector-specific") tax relief in practice. |
| 13 | Withholding taxes | |
| 13.1 | Is there a withholding tax on dividend? If yes, please provide rates. | 26.375% (including solidarity surcharge). A reduction to 15.825% is possible for distributions to corporations subject to the requirements of the German anti-treaty/directive shopping rules being met. |
| 13.2 | Is there a withholding tax on interest? If yes, please provide rates | Generally, there is no WHT on interest payments on regular loans. Exceptions apply for interest on profit-sharing loans and debt instruments convertible into equity. The WHT rate is 26.375% (including solidarity surcharge). Further, non-resident taxation applies (assessment, no WHT) on interest on loans (directly / indirectly) secured by German real estate, ships entered into a German register or comparable assets. |
| 13.3 | Is there a withholding tax on royalties? If yes, please provide rates | 15.825% (including solidarity surcharge) |
| 13.4 | How is the taxable base for the withholding tax determined? | Gross amount. |
| 13.5 | Does the withholding tax provide for any exemptions? If yes, describe the exemptions. | Yes. An exemption from dividend and royalty WHT may generally apply for EU associated companies that are eligible for the EU Parent Subsidiary Directive or the EU Interest Royalty Directive. Apart from the German domestic rules, a double tax treaty may provide for a WHT reduction or exemption. |
| 13.6 | Do anti-abuse provisions apply with regard to withholding taxes (e.g. in national law or treaties)? | Yes. Anti-abuse rules apply in respect of the domestic rules. Tax treaties may contain anti abuse-provisions, such as a Limitations on Benefits-clause or a Principle Purpose Test. |

| # | Measures | Any changes expected in the near future (i.e. up to and including 2020) |
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| 2 | Substance | |
| 2.1 | What are the substance requirements in your jurisdiction? | <p>The German government is working on a German CFC reform. It is expected that changes may become effective per 2020 or 2021.</p> <p>The European Court of Justice has concluded that the German anti-treaty/directive shopping rules violate EU law. As a result of this judgment, the Federal Ministry of Finance has issued a decree which provides for simplifications of the substance requirements in cases of the EU Parent-Subsidiary Directive. Therefore, it is expected that there could be a revision of this provision.</p> |
| 5 | Interest deduction limitations | |
| 5.1 | Please describe your earnings-stripping/30% EBITDA rule, the parameters and scope and effective date in your jurisdiction (if applicable). | Impact of ATAD I on the German interest capping rules need to be monitored. ATAD I may extend scope of German interest capping rules to certain financing costs in the future. |
| 11 | ATAD 1 / ATAD 2 / BEPS | |
| 11.2 | Is there a targeted anti-abuse rule (TAAR)? | As part of the implementation of ATAD 2 it is expected that a general rule disallowing the deduction of interest in case of a non-inclusion/non-taxation at the level of the lender will be introduced with effect as from 1 January 2020. |
| 12 | Special regulations or taxes (insofar there is a material impact on the tax position) | |
| 12.6 | Is some sort of (R&D)-wage credit in place? | A draft bill for a research and development (R&D) subsidy is under discussion. According to the present plan, a tax-free subsidy of 25% of salaries and wages for R&D purposes should be granted up to a limit of EUR 500,000 per annum. |
| 13 | Withholding taxes | |
| 13.6 | Do anti-abuse provisions apply with regard to withholding taxes (e.g. in national law or treaties)? | For 2020, A revision of the anti-abuse provision in national law with regard to WHT is expected. |

2.5. Ireland



| # | Measures | 2019 |
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| 1 | Tax rate | |
| 1.1 | What is the corporate income tax rate in your jurisdiction and do brackets apply? | The general CIT rate is 12,5% for trading income, and 25% for non-trading income. |
| 1.2 | Do different rates apply for regular profit and capital gains? If yes, what are these rates? | <p>Yes.</p> <p>Capital gains are taxed at 33% with a lower rate of 20% for gains up to EUR 1m under certain conditions, or 12.5% with regard to exit tax.</p> <p>Disposals of a material interest in a qualifying offshore fund are subject to CGT at a rate of 40%. An interest in an offshore fund will be a material interest if, at the time the person acquired it, it would be reasonable to consider that at some time during the next 7 years that person would be able to realise the value of the interest, either by way of transfer, surrender or in any other manner. A qualifying offshore fund is a distributing fund which is certified by Irish Revenue. To secure approval as a distributing fund the fund must apply to the Revenue for "distributor" status. The fund has to satisfy a range of conditions in order to be certified.</p> |
| 2 | Substance | |
| 2.1 | What are the substance requirements in your jurisdiction? | <p>In Ireland to be able to apply the 12,5% CIT rate, a company must carry on a trade in Ireland. A "trade" is not extensively defined in Irish legislation. The concept of "trading" is generally understood to refer to the carrying on of a business, or the engaging in activities, on a regular or habitual basis with a view to realising a profit.</p> <p>Due to the lack of any detailed legislative guidance, it has been left to the courts to decide, on a case by case basis, whether a particular activity constitutes the carrying on of a trade for tax purposes. In many cases, the key principles can be traced back to the six "badges of trade" laid down by the 1955 UK Royal Commission on the Taxation of Profits and Income. Although these badges of trade and the factors and principles enunciated in such (mainly) UK cases are not binding in Ireland, in practice the Irish courts regard them as a persuasive authority.</p> <p>In general, a company should be regarded as trading provided it has / will have:</p> <ul style="list-style-type: none"> - active management and suitably qualified supporting employee(s); - operational activities on a daily basis; and - physical office premises and supporting infrastructure (e.g. systems, procedures and controls) to enable it to operate. <p>With regard to being tax resident in Ireland, a company incorporated in Ireland or managed and controlled in Ireland should be regarded as Irish tax resident, unless it is regarded as tax resident in another jurisdiction due to the operation of a double tax treaty.</p> <p>The case law interpretation of central management and control is, in broad terms, directed at the highest level of control of the business of a company, and is to be distinguished from the place where the main operations of a business are to be found. As a general rule, the location of directors' meetings is treated as the location of central</p> |

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| | | management and control, provided that the major business and policy decisions affecting the company are taken at those meetings and the directors are not merely rubber stamping decisions taken elsewhere. |
| 2.2 | Could you indicate whether the substance test in your jurisdiction can be considered light or extensive? | Compared to the substance test of the Netherlands, Ireland would be considered to have a medium substance test. |
| 2.3 | What is the effect of substance on specific tax rules, e.g. for which rules is substance relevant in what way? | Substance is relevant in determining the corporation tax rules and tax rate applicable to a company. As noted above, substance is required in order to be regarded as a trading company. Trading companies are in general taxable on their trading profits at 12.5%. In general, companies that have passive income with little or no substance are taxable at 25% on the gross income without deduction of expenses. |
| 3 | Transfer pricing related modalities | |
| 3.1 | How are non-businesslike transactions corrected in your jurisdiction? | For Irish tax purposes, it must be ensured that the conditions of all trading transactions between related parties are in line with the arm's length principle. In case of non-arm's length transactions, based on Irish transfer pricing legislation the Irish Revenue Authority may either: <ul style="list-style-type: none"> - Deny the tax deduction of part of the interest incurred by the Irish which would be considered as excessive; or - Add back to the Irish company taxable income the difference between the rate received within the cash pooling arrangement and the rate considered as "arm's length" by the Irish tax authorities. |
| 3.2 | Does your jurisdiction allow for a step-up to FMV, if an asset is transferred for a lower value? | Yes. Transfers of assets between related companies are reconsidered to take place at FMV (where group relief provisions do not apply). In such case, this may result in a step-up to FMV for the acquiring entity. |
| 3.3 | If there is a step-up, does this depend on a potential exit-taxation/pick-up in another jurisdiction and how is the difference treated (deemed capital contribution in the receiving entity)? | No. This does not depend on potential exit taxation/pick-up in another jurisdiction. |
| 4 | Depreciations | |
| 4.1 | Please elaborate on the depreciation regimes for: | Under Irish law, allowances apply for assets of a company. |
| 4.2 | • Business assets | For plant and machinery, fixtures and fittings, 12,5% allowances are available over 8 years |
| 4.3 | • Real estate (used within the company or by a third party) | For industrial buildings, 4% allowances are available over 25 years |
| 4.4 | • Goodwill | Allowances may be available where the goodwill relates to qualifying IP, as described below. |
| 4.5 | • IP (both purchased and self-developed) | Legislation provides for a tax deduction for capital expenditure incurred by a company, which is carrying on a trade, on the acquisition of qualifying IP assets. The definition of IP assets is widely drafted and includes the acquisition of, or the licence to use, the following: <ul style="list-style-type: none"> - Patents and registered designs. - Trademarks and brand names. - Know-how (broadly in line with the OECD model tax treaty definition of know-how). - Domain names, copyrights, service marks, and publishing titles. - Authorisation to sell medicines, a product of any design, formula, process, or invention (and rights derived from research into these). - Applications for legal protection (e.g. applications for the grant or registration of brands, trademarks, patents, copyright, etc.). - Expenditure on computer software acquired for commercial exploitation. - Customer lists acquired, other than 'directly or indirectly in connection with the transfer of a business as a going concern'. - Goodwill, to the extent that it relates directly to the assets outlined above. |

Capital allowances will be available at the same rate as the depreciation/amortisation charge for financial accounting purposes. Alternatively, the company may elect to claim allowances over a period of 15 years.

A shorter write-off period of eight years has also been retained for acquired software rights under the existing capital allowances regime where the rights are not acquired for commercial exploitation (i.e. were acquired for end use by the company).

Capital allowances on capital expenditure incurred on qualifying IP are available for offset against income generated from exploiting qualifying IP assets, up to a maximum deduction of 80% of the relevant IP profits. The remaining 20% is taxable at the 12.5% corporation tax rate on the basis that the company is carrying on a trade.

However, any IP amortisation that is not claimed in a year (i.e. an excess amortisation charge over the 80% qualifying profits in a year) can be carried forward for offset against the relevant trading IP profits of a company in future years.

No allowances available for self-developed IP but see Knowledge Development Box regime below. R&D credit. A tax credit of 25% applies to the full amount of R&D expenditure incurred by a company. This credit is in addition to the normal 12.5% revenue deduction available for the R&D expenditure thereby resulting in an effective corporation tax benefit of 37.5%.

A separate R&D tax credit is available in respect of expenditure incurred on the construction or refurbishment of a qualifying R&D building. In order to qualify, 35% of the building must be used for qualifying R&D activities, and this threshold is measured over a four-year period. This is of particular assistance where R&D is carried on in a manufacturing environment. The credit available is equal to 25% of the expenditure incurred on the construction or refurbishment of a qualifying building, and the qualifying amount is restricted according to the R&D use. A full volume basis applies to the R&D tax credit for expenditure incurred on qualifying R&D buildings.

The R&D tax credit is available for offset against the current year corporation tax liability of the company in the first instance. Any excess can be carried back for offset against the prior-year corporation tax liability to generate a tax refund, and any further excess can be monetised over a three-year cycle. The amount that can be monetised is limited to the greater of the corporation tax payable by the company in the preceding ten years (subject to an adjustment dependent upon previous claims) or the payroll tax liabilities of the company for both the period in which the R&D expenditure is incurred and the prior year (subject to an adjustment dependent upon previous claims).

In addition, companies may account for the R&D tax credit through their profit and loss account or income statement in arriving at the pre-tax profit or loss. This immediately impacts the unit cost of R&D, which is the key measurement used by multinational corporations when considering the locations of R&D projects. Companies that are in receipt of an R&D tax credit have the option, in certain instances, to reward key employees through an alternative use of that credit. In effect, the company may surrender a portion of their R&D credit (that could otherwise have been used to reduce corporation tax) to 'key employees' to reduce their effective rate of tax to 23% (the average effective rate of tax for such employees would typically be in excess of 40% in the absence of such R&D tax credit). In order to qualify as a 'key employee', the individual must perform 50% or more of their employment duties on qualifying R&D activities.

The R&D regime caters for pre-trading expenditure incurred on qualifying R&D activities. Where a company incurs R&D expenditure but has not yet commenced to trade, an R&D claim in this regard must be made within 12 months from the end of the accounting period in which the company first commences to trade.

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| | | <p>Sub-contracted R&D costs of up to the 15% of qualifying in-house R&D expenditure incurred by a company or EUR 100,000 (whichever is greater) can qualify for the R&D tax credit.</p> <p>Payments to third level institutions of up to 5% of qualifying in-house R&D expenditure incurred by a company or EUR 100,000 (whichever is greater) can qualify for the R&D tax credit.</p> <p>It should be noted that expenditure incurred on the acquisition of intangible assets that qualify for capital allowances under the IP regime and expenditure incurred in registering/applying for legal protection for intangible assets that are developed as a result of R&D activities do not qualify for the R&D credit.</p> |
| 4.6 | • If available, random depreciation (i.e. accelerated/decelerated depreciation under set circumstances) | A 100% first-year capital allowance is available in respect of expenditures incurred on certain approved energy-efficient equipment up to 31 December 2020. |
| 5 | Interest deduction limitations | |
| 5.1 | Please describe your earnings-stripping/30% EBITDA rule, the parameters and scope and effective date in your jurisdiction (if applicable). | <p>There is no 30% EBITDA rule or thin cap rule, however the Irish tax rules:</p> <ol style="list-style-type: none"> 1) Only allow for deductions in a trading scenario for interest that provides a benefit to the business activities of the company; 2) Include comprehensive provisions to reclassify certain related party interest as disallowable distributions; 3) Prevent deductibility of interest by trading companies where there is an arrangement to transfer certain group assets to an Irish company using a loan provided by a group company (so called “debt push down” strategies); 4) Contain complex provisions that primarily only allow the deductions of non-trading interest in genuine third party acquisition scenarios, or where the external lending is used to fund trading or property investment activities; 5) Limit the application of the securitisation regime to genuine investment platforms. |
| 5.2 | Are any other interest deduction limitation provisions applicable (e.g. thin cap rule, anti-base erosion) | Yes. |
| 5.3 | To what extent are interest expenses deductible if the funds are used for the acquisition of exempt assets (e.g. participations eligible for the participation exemption)? | <p>Yes.</p> <p>Where certain conditions are met, these interest expenses are deductible.</p> |
| 5.4 | Does your jurisdiction have a Specific Anti-Abuse Rule which may limit interest deduction? | Yes, please refer to question 5.1. |
| 6 | Royalties | |
| 6.1 | Is there a limitation on the deductibility of royalties (e.g. in amount or rate)? | <p>No.</p> <p>No limitations apply, however a withholding tax of 20% may apply where certain conditions are not fulfilled. Deductions for amounts in relation to patent royalties are deductible on a paid basis, other royalties are deductible being deductible on an accrued basis. Deduction is subject to the application of the transfer pricing rules discussed above.</p> |
| 7 | Head office costs | |
| 7.1 | Are head office costs deductible? | Yes. Deductions for expenses of management may be available where certain conditions are satisfied (e.g. the company must be a qualifying investment company whose business consists wholly or mainly of the making of investments and the principal part of whose income is derived from the making of investments). |

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| 7.2 | How does the deductibility of head office costs relate to the participation exemption in your jurisdiction, i.e. is there an interaction? | No interaction |
| 7.3 | How are head office costs typically on-charged in your jurisdiction, e.g. management agreement and what kind of allocation key is acceptable? | Head office costs may be on charged via cost share agreements, typically on a cost plus basis depending on the type of cost. |
| 7.4 | What are the TP requirements relating to head office costs? What kind of remuneration is acceptable? | There are no specific requirements for head office costs, Sweden follows OECD Guidelines and adheres to the arm's length principle. |
| 8 | Innovation box and comparable beneficial regimes | |
| 8.1 | What is the effective rate under your innovation box or a comparable beneficial regime? | The effective rate under the Irish knowledge development box is 6,25% |
| 8.2 | What conditions apply for the application of the innovation box or another comparable regime (e.g. request for special status, variation in application per type of license/right)? | A company must carry on qualifying R&D activities in the EEA which give rise to a qualifying asset (Patents or Copyrighted Software) and the qualifying asset is exploited as part of an Irish trade. |
| 8.3 | Is the modified nexus approach applied? If applicable, per what date? | Yes, applies to accounting periods commencing on or after 1 January 2016 and before 1 January 2021. No announcement has been made with regard to the extension of the provisions for the knowledge development box. |
| 9 | Exemption of profits from participations | |
| 9.1 | To what types of profit does the exemption regime apply? E.g. regular dividends, capital gains, etc. | <p>A participation exemption is available to Irish resident companies on the disposal of a shareholding interest if:</p> <ul style="list-style-type: none"> - A minimum of 5% of the shares (including the right to profits and assets on winding up) is directly or indirectly held for a continuous 12-month period the shares have been held for a period of 12 months within which the date of the disposal falls or for a period of 12 months ending in the 24 months preceding the date of disposal - The company whose shares are sold is resident in an EU member state (including Ireland) or in a country with which Ireland has a DTT at the time of the disposal (this includes tax treaties that have been signed but not yet in force), and - A trading condition is met at the time of the disposal whereby either: (i) the business of the company whose shares are disposed of consists wholly or mainly of the carrying on of one or more trades or (ii) taken together, the businesses of the Irish holding company and all companies in which it has a direct or indirect 5% or more ownership interest consist wholly or mainly of the carrying on of one or more trades. <p>If the Irish holding company is unable to meet the minimum holding requirement but is a member of a group (that is, a parent company and its 51% worldwide subsidiaries), the gain arising on the disposal should still be exempt if the holding requirement can be met by including holdings of other members of the group. The Irish company may be exempt from capital gains tax on a disposal of shares even if it does not directly hold a significant shareholding. The exemption also applies to a disposal of assets related to shares, such as options and convertible debt. However, it does not apply to a sale of either shares or related assets that derive the greater part of their value (more than 50%) from Irish real property, minerals, mining rights, and exploration and exploitation rights in a designated area. Shares deriving their value from non-Irish real property, minerals, and mining rights qualify for exemption if the other conditions are met.</p> |

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| | | Capital losses arising on the disposal of a shareholding where a gain on disposal would be exempt under the participation exemption are not deductible. |
| 9.2 | Is there full or partial exemption (if partial, to what extent)? | Full exemption. |
| 9.3 | Does the regime also apply to final liquidation losses? | Yes. The regime applies to gains on disposal of qualifying shares due to liquidation. If the participation exemption applies, final liquidation losses are not deductible. |
| 9.4 | Do controlled foreign company (CFC) rules apply? | Yes. Irish tax law provides that a CFC may be present where a resident company has control of a subsidiary (the CFC), i.e., more than 50% of the share capital, voting power. Under these rules, the Irish company is taxed over undistributed income of the CFC, if there is a non-genuine arrangement in place for the essential purpose of avoiding tax (the CFC charge). The income should be attributable to activities of significant people functions (SPFs) performed in Ireland by the Irish company or a connected company in Ireland. Capital gains are generally excluded from the CFC charge. Certain exceptions apply, e.g., when the CFC is subjected to a tax which is at least 50% of the Irish taxation. |
| 10 | Loss compensation | |
| 10.1 | What is the type (e.g. operational losses, holding losses, other) and the maximum amount of losses that can be compensated? | Trading losses and capital losses can be compensated. Trading losses can be set back against the trading profits of the preceding tax period of equal length or set against non-trading income on a value basis. Unutilised losses can be carried forward. |
| 10.2 | How many years can be carried forward? | Tax losses can be carried forward indefinitely for trading losses and capital losses. |
| 10.3 | How many years can be carried back? | Tax losses can be carried forward for one year for ongoing trading losses and three years for final losses (i.e., when activities cease). |
| 10.4 | Are any group relief regimes in place? | Yes. <i>Group for trading-income</i> The concept of 'fiscal unity' or consolidated group tax does not exist in Ireland. However, trading losses as computed for tax purposes may be offset on a current-period basis against taxable profits of another group company. As with loss relief in a single company, the amount of losses required to shelter the income is dependent on the tax rate that would have been applied to the income in the absence of the loss relief. A group consists of a parent company and all of its 75% subsidiaries, with all group members being tax resident in Ireland, in another EU member state, in an EEA state with which Ireland has a DTT, or in another country with which Ireland has a DTT. It is also possible to trace through companies quoted on certain recognised stock exchanges (or 75% subsidiaries of companies so quoted). Non-Irish members may only surrender losses from activities that would, if profitable, be subject to Irish tax. <i>Group for capital gain-income</i> Relief from capital gains tax is available on intra-group transfers of capital assets. Where a capital asset is transferred from a resident company to another resident company in a 75% group, no capital gains tax charge arises. A group, for capital gains tax purposes, consists of a principal company and its 75% subsidiary companies. A 75% subsidiary is defined by reference to the beneficial ownership of ordinary share capital, owned either directly or indirectly. A capital gains tax group can include companies resident in an EU member state or an EEA DTT country for the purpose of analysing the beneficial ownership of a company. It also is possible for an Irish resident company and an Irish branch of an EEA company in the same group to transfer |

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| | | capital assets without crystallising a capital gains charge, provided the asset transferred remains within the scope of the charge to Irish capital gains tax. Under circumstances, a claw-back applies. |
| 11 | ATAD 1 / ATAD 2 / BEPS | |
| 11.1 | Is there a general anti-abuse rule (GAAR)? | Yes. Irish tax law provides that, where a person enters into a transaction that could reasonably be considered (based on certain specified factors) to be a tax avoidance transaction, that person will be denied the benefit of any tax advantage arising from that transaction. |
| 11.2 | Is there a targeted anti-abuse rule (TAAR)? | Yes. There are a number of targeted anti-abuse rules in Irish tax legislation, in many cases denying a tax deduction or relief where the transaction is not entered into for bona fide commercial purposes. |
| 11.3 | Does your jurisdiction have any reservations for application of the multilateral instrument (MLI)? | Yes. Ireland has made reservations to article 3, 4, 9~12, 14, 17, 19, 28 and 36. The OECD overview of reservations made by Ireland can be found under the following link: http://www.oecd.org/tax/treaties/beps-mli-position-ireland-instrument-deposit.pdf |
| 12 | Special regulations or taxes (insofar there is a material impact on the tax position) | |
| 12.1 | Is some form of equity deduction, e.g. notional interest deduction in place? | No |
| 12.2 | Are any special credits in place for IP-costs of for example wage costs? | Yes. <i>IBFD: A tax credit equal to 25% of qualifying expenditure on R&D in excess of an amount of baseline expenditure. The tax credit is available to companies carrying on a trade within the charge to Irish tax that are engaged in in-house qualifying R&D undertaken within Ireland or the EEA. If the R&D company is not carrying on a trade, it may nevertheless be in a position to claim the relief if it is part of a trading group (see above for group relief). In the case of Irish resident companies, the relief is only available if such expenditure is not otherwise eligible for fiscal benefit (including tax depreciation) in any other territory. No relief is given in respect of royalty payments if these are exempt from Irish tax in the hands of the recipient. No relief is available to the extent that the relevant expenditure is grant-aided within Ireland or any other EU Member State.</i> The R&D tax credit is available for offset against the current year corporation tax liability of the company in the first instance. Any excess can be carried back for offset against the prior-year corporation tax liability to generate a tax refund, and any further excess can be monetised over a three-year cycle. The amount that can be monetised is limited to the greater of the corporation tax payable by the company in the preceding ten years (subject to an adjustment dependent upon previous claims) or the payroll tax liabilities of the company for both the period in which the R&D expenditure is incurred and the prior year (subject to an adjustment dependent upon previous claims). A separate R&D tax credit is available in respect of expenditure incurred on the construction or refurbishment of a qualifying R&D-building. In order to qualify, 35% of the building must be used for qualifying R&D activities, and this threshold is measured over a four-year period. This is of particular assistance where R&D is carried on in a manufacturing environment. The credit available is equal to 25% of the expenditure incurred on the construction or refurbishment of a qualifying building, and the qualifying amount is restricted according to the R&D use. A full volume |

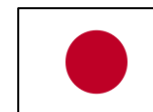
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| | | <p>basis applies to the R&D tax credit for expenditure incurred on qualifying R&D buildings.</p> <p>In addition, companies may account for the R&D tax credit through their profit and loss account or income statement in arriving at the pre-tax profit or loss. This immediately impacts the unit cost of R&D, which is the key measurement used by multinational corporations when considering the locations of R&D projects. Companies that are in receipt of an R&D tax credit have the option, in certain instances, to reward key employees through an alternative use of that credit. In effect, the company may surrender a portion of their R&D credit (that could otherwise have been used to reduce corporation tax) to 'key employees' to reduce their effective rate of tax to 23% (the average effective rate of tax for such employees would typically be in excess of 40% in the absence of such R&D tax credit). In order to qualify as a 'key employee', the individual must perform 50% or more of their employment duties on qualifying R&D activities.</p> |
| 12.3 | Is an accumulated earnings tax in place? | No |
| 12.4 | Are any digital taxes in place? | No. |
| 12.5 | Are any investment deduction measures in place? | No. |
| 12.6 | Is some sort of (R&D)-wage credit in place? | <p>Yes.</p> <p>Companies that are in receipt of an R&D tax credit as described in question 12.2, have the option, in certain instances, to reward key employees through an alternative use of that credit. In effect, the company may surrender a portion of their R&D credit (that could otherwise have been used to reduce corporation tax) to 'key employees' to reduce their effective rate of tax to 23% (the average effective rate of tax for such employees would typically be in excess of 40% in the absence of such R&D tax credit). In order to qualify as a 'key employee', the individual must perform 50% or more of their employment duties on qualifying R&D activities.</p> |
| 12.7 | Are there any other sector-specific direct tax measures, e.g. a banking tax, tax on rents, etc. | <p>Yes.</p> <p>Irish tax law provides for the following regimes.</p> <p><i>Tonnage Tax</i> Tonnage Tax is a way for qualifying shipping companies to calculate their shipping related profits for corporation tax purposes. The shipping related profits are calculated based on the tonnage of the ships used in the company's shipping trade. A qualifying shipping company must:</p> <ul style="list-style-type: none"> - pay corporation tax - operate qualifying ships - carry on the strategic and commercial management of the qualifying ships in Ireland. <p>A qualifying ship is a vessel that is large enough to use for commercial operation. The ship will have to be certified as seaworthy. Shipping related profits calculated using the Tonnage Tax method are taxed at the 12.5% rate of CT</p> <p><i>Real Estate Investment Trusts</i> A company which is either a REIT (particular conditions apply) or a member of a group REIT is not chargeable to corporation tax on income from its property rental business. Equally, it is not chargeable to capital gains tax accruing on the disposal of assets of its property rental business. However, if a REIT or group REIT acquires an asset and following that acquisition, develops that asset to the extent that the cost of development exceeds 30% of the market value of the asset at the time the development commenced and the asset is then disposed of within 3 years of completion of the development, then, the corporation tax and capital gains tax exemptions applicable to the REIT or group REIT, as the case may be, no longer apply. A REIT or group REIT will be charged to corporation tax if it makes a distribution of less than 85% of its annual property income.</p> |

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| | | <p><i>IBFD:</i></p> <p><i>Start-up companies:</i> An exemption applies to new companies which commence a trade in any of the tax years 2009-2024 inclusive in respect of certain trading income and trade-related capital gains. Full exemption from corporation tax is granted where the total amount of corporation tax payable by the company for an accounting period in relation to the income and gains of the new trade would otherwise be a sum not in excess of EUR 40,000. Marginal relief is granted where the total amount of corporation tax would otherwise amount to between EUR 40,000 and EUR 60,000. The exemption is available for a period of 3 years from the commencement of the new trade, and separate exemptions are available for each new trade.</p> |
| 13 | Withholding taxes | |
| 13.1 | Is there a withholding tax on dividend? If yes, please provide rates. | 20% |
| 13.2 | Is there a withholding tax on interest? If yes, please provide rates | 20% |
| 13.3 | Is there a withholding tax on royalties? If yes, please provide rates | 20% |
| 13.4 | How is the taxable base for the withholding tax determined? | Gross amount. |
| 13.5 | Does the withholding tax provide for any exemptions? If yes, describe the exemptions. | <p>Yes.</p> <p>An exemption from dividend WHT may apply, if the recipient of the dividend is either an Irish company or a non-Irish company eligible for the Parent-Subsidiary Directive (which in Ireland requires a 5% or greater shareholding). An exemption may further be available if the recipient of the distribution falls into one of the categories listed below (certain procedural requirements apply):</p> <ul style="list-style-type: none"> - Irish tax resident companies; - Non-resident companies that are resident in a country with which Ireland has a tax treaty or in another EU member state, where the company is not controlled by Irish residents; - Non-resident companies that ultimately are controlled by residents of a tax treaty country or another EU member state; - Non-resident companies whose principal class of shares is traded on a recognised stock exchange in a treaty country or another EU member state or on any other stock exchange approved by the Minister for Finance (or if recipient of the dividend is a 75% subsidiary of such a listed company); - Individuals who are resident in a tax treaty country or in another EU member state; - Certain pension funds, retirement funds, sports bodies, collective investment funds, and employee share ownership trusts. <p>An exemption from interest WHT may generally apply for payments made to companies resident in other EU member states or in treaty countries. Furthermore, payments made between associated companies may be exempt if the conditions of the EU Interest and Royalties Directive are met. There are other various specific exemptions set out in law including exemption for interest paid in respect of qualifying Eurobonds, wholesale debt instruments and payments to/from banks carrying on a banking business in Ireland amongst others.</p> <p>An exemption from royalty WHT may generally apply for royalties, other than patent royalties. In general, withholding tax on royalties does not apply to qualifying royalty payments made by a company in the ordinary course of its trade or</p> |

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| | | <p>business to a company resident in another EU Member State or in a treaty state (being a "treaty state" a state with which Ireland has signed a treaty that is not yet in force).</p> <p>Furthermore, the EU Interest and Royalties Directive may provide an exemption from WHT for payments between associated companies. Associated companies, for the purpose of this directive, are companies where one can directly control at least 25% of the voting power of the other or at least 25% of the voting power of both companies is directly controlled by a third company. In all cases, all companies must be resident in a member state of the European Union. Apart from the Irish domestic rules, a double tax treaty may provide for a WHT reduction or exemption.</p> |
| 13.6 | Do anti-abuse provisions apply with regard to withholding taxes (e.g. in national law or treaties)? | <p>No.</p> <p>However, there are specific conditions, which must be met in order to avail of an exemption from withholding taxes from dividends, interest or royalties. While these are not "anti-abuse" rules, they ensure that an exemption from withholding tax is only available in certain circumstances.</p> |

| # | Measures | Any changes expected in the near future (i.e. up to and including 2020) |
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| 3 | Transfer pricing modalities | |
| 3.1 | How are non-businesslike transactions corrected in your jurisdiction? | It is expected that Irish transfer pricing rules will be extended to apply to trading and non-trading transactions. This will apply to all companies with an accounting period beginning on or after 1 January 2020. Domestic law will make reference to the requirements under the 2017 OECD guidelines. |
| 5 | Interest deduction limitations | |
| 5.1 | Please describe your earnings-stripping/30% EBITDA rule, the parameters and scope and effective date in your jurisdiction (if applicable). | Ireland was required to have introduced the interest limitation rules from 1 January 2019. However, the position was adopted in Ireland that existing interest restriction rules were "equally effective" to Art.4 ATAD such that a later implementation date of 1 January 2024 could be availed of. This EU Commission disputed the Irish stance in late 2018 on the basis that the Irish rules did not apply a strict "ratio-based" restriction. In this regard a ration rule may be introduced either from 1 January 2020 or 1 January 2021. |
| 13 | Withholding taxes | |
| 13.1 | Is there a withholding tax on dividend? If yes, please provide rates. | According to the 2020 budget, the WHT rate is expected to increase to 25% as from 1 January 2020. |

2.6. Japan



| # | Measures | 2019 |
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| 1 | Tax rate | |
| 1.1 | What is the corporate income tax rate in your jurisdiction and do brackets apply? | <p>The general CIT rate is 23.2% on taxable income. A lower tax rate of 15% applies to income of small corporations up to a taxable income of JPY 8,000,000. In addition, a national local corporate tax applies with a fixed rate of 4.4% of corporate tax liabilities. This rate will increase to 10.3% from 1 October 2019.</p> <p>An enterprise is furthermore subject to an enterprise tax and an inhabitants tax.</p> <p>The total corporate income tax burden varies depending upon the size of a company's paid-in capital. Since enterprise tax is deductible, the effective tax rate is less than the total of the statutory rates of corporation tax, inhabitant's tax, and enterprise tax. For a large corporation operating in Tokyo, the effective tax rate could for example amount to 30.62%.</p> |
| 1.2 | Do different rates apply for regular profit and capital gains? If yes, what are these rates? | <p>No.</p> <p>Capital gains are subject to the general CIT rate.</p> |
| 2 | Substance | |
| 2.1 | What are the substance requirements in your jurisdiction? | Japanese tax law establishes that a company that is legally registered in Japan would be treated as a Japanese resident corporation, regardless of substance. However, if management and control is performed outside Japan, this would create a permanent establishment of the company outside Japan. |
| 2.2 | Could you indicate whether the substance test in your jurisdiction can be considered light or extensive? | Compared to the substance test of the Netherlands, Japan would be considered to have a light substance test. |
| 2.3 | What is the effect of substance on specific tax rules, e.g. for which rules is substance relevant in what way? | Substance is relevant for determining DTT benefits. |
| 3 | Transfer pricing related modalities | |
| 3.1 | How are non-businesslike transactions corrected in your jurisdiction? | <p>The Japanese tax authorities have broad discretion to assess transactions among related parties that are inconsistent with Japanese transfer pricing regulations.</p> <p>Among related entities, corporate "donations" (gratuitous payments to or from a corporation) are non-deductible to the paying corporation to the extent these donations exceed the deduction limit and must be treated as gain by the receiving corporation.</p> <p>Donations between domestic members of a 100% group will not give rise to deductions or taxable income to either the paying or receiving corporation.</p> |
| 3.2 | Does your jurisdiction allow for a step-up to FMV, if an asset is transferred for a lower value? | <p>No.</p> <p>An asset transferred at a lower value may be treated as partially a sale and partially a "donation", as described above.</p> |
| 3.3 | If there is a step-up, does this depend on a potential exit-taxation/pick-up in another jurisdiction and how is the difference treated | No. |

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| | (deemed capital contribution in the receiving entity)? | |
| 4 | Depreciations | |
| 4.1 | Please elaborate on the depreciation regimes for: | With regard to depreciation methods, a taxpayer may use a straight-line method or declining balance method over the lifetime of the asset, depending on the type of asset. one of the allowable methods for each of the type of depreciable property, except for buildings and structures and attachments to buildings. Tangible property is generally depreciated using either the straight-line method or the declining-balance method. Intangible property is generally amortized under the straight-line method. The lifetime of the asset follows from an ordinance of the Ministry of Finance. |
| 4.2 | • Business assets | Tangible property is generally depreciated using either the straight-line method or the declining-balance method. Intangible property is generally amortized under the straight-line method. |
| 4.3 | • Real estate (used within the company or by a third party) | Depreciation of buildings will depend, among other things, on the materials used in the structure. For selected structural improvements acquired on or after 1 April 2016, only the straight-line method will be permitted (i.e. the declining-balance accelerated depreciation method will no longer be allowed). |
| 4.4 | • Goodwill | Goodwill may be amortized and depreciated on a straight-line basis over five years. |
| 4.5 | • IP (both purchased and self-developed) | IP may be amortized and depreciated on a straight-line basis, however, it may also be immediately deducted as R&D-expense. The period for amortization or depreciation varies depending on nature of the purchased IP, however, typically it is five to ten years. |
| 4.6 | • If available, random depreciation (i.e. accelerated/decelerated depreciation under set circumstances) | Various types of accelerated depreciation are available under the Special Taxation Measures Law, depending on the asset/circumstances. |
| 5 | Interest deduction limitations | |
| 5.1 | Please describe your earnings-stripping/30% EBITDA rule, the parameters and scope and effective date in your jurisdiction (if applicable). | Under the 2019 Tax Reform, the earnings stripping rule was revised to align with BEPS Action 4. The deductible portion of a corporation's net interest expense to a related party as well as to the third party is restricted to 20% of the adjusted income. The net interest is calculated as interest expense less corresponding interest income. Interest expense does not include: (i) interest expenses on specified bonds (issued to limited number of unrelated parties and not in public); (ii) interest payments subject to Japanese taxation or paid to qualifying public service corporations; and (iii) interest on back-to-back repos. The adjusted income is defined as taxable income, adding back interest expense and depreciation expense, but excluding extraordinary income or loss. No group escape provision applies. |
| 5.2 | Are any other interest deduction limitation provisions applicable (e.g. thin cap rule, anti-base erosion) | Yes. Interest paid on debt to controlling foreign shareholders is disallowed to the extent that the average balance of debt on which that interest is paid is more than three times the equity of controlling foreign shareholders. Furthermore, interest rates among related parties must be at arm's length. |
| 5.3 | To what extent are interest expenses deductible if the funds are used for the acquisition of exempt assets (e.g. | Interest expenses allocated to certain dividends that are excluded from income may be non-deductible for the company receiving the dividends. |

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| | participations eligible for the participation exemption)? | |
| 5.4 | Does your jurisdiction have a Specific Anti-Abuse Rule which may limit interest deduction? | Yes. Anti-tax haven (CFC) rules. |
| 6 | Royalties | |
| 6.1 | Is there a limitation on the deductibility of royalties (e.g. in amount or rate)? | No. An asset transferred at a lower value may be treated as partially a sale and partially a "donation", as described above. |
| 7 | Head office costs | |
| 7.1 | Are head office costs deductible? | Yes. Reasonable costs, which are attributable to actual services received are deductible. |
| 7.2 | How does the deductibility of head office costs relate to the participation exemption in your jurisdiction, i.e. is there an interaction? | No interaction. |
| 7.3 | How are head office costs typically on-charged in your jurisdiction, e.g. management agreement and what kind of allocation key is acceptable? | Costs are on-charged based on management agreements. Any reasonable allocation key (head count, etc.) should be defensible. |
| 7.4 | What are the TP requirements relating to head office costs? What kind of remuneration is acceptable? | TP-requirements are that the head office costs should be reasonable, justifiable and quantifiable. |
| 8 | Innovation box and comparable beneficial regimes | |
| 8.1 | What is the effective rate under your innovation box or a comparable beneficial regime? | No innovation box or patent box is available in Japan. However, several R&D incentives which allow special tax credits for R&D expenditure are provided. For a movement in R&D ratio of $8\% <$, the tax credit ratio is calculated as: $9.9\% + (\text{movement in R\&D ratio} - 8\%) * 0.3$ (upper limit of 10%). For a movement in R&D ratio of $8\% \geq$, the tax credit ratio is calculated as: $9.9\% - (8\% - \text{movement in R\&D ratio}) * 0.175$ (lower limit is 6%). |
| 8.2 | What conditions apply for the application of the innovation box or another comparable regime (e.g. request for special status, variation in application per type of license/right)? | There are just two conditions set forth for having access to the R&D incentives: (i) Filing a specific tax return file; and (ii) Spending research and experimentation expenditures should be done in the taxable year to which the beneficial regimes relate. In addition, under the 2018 tax reform, a large company that does not meet following two conditions may not become qualified for the R&D credit: (a) Total payment of wages to certain employees for current year exceeds immediate preceding year; and, (b) Total amount of investment in certain fixed assets exceeds 10% of total depreciation taken for current year. |
| 8.3 | Is the modified nexus approach applied? If applicable, per what date? | No. |

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| 9 | Exemption of profits from participations | |
| 9.1 | To what types of profit does the exemption regime apply? E.g. regular dividends, capital gains, etc. | <p>A group taxation regime is applicable to domestic companies that are wholly owned by a domestic company, foreign company, or individual ('group companies'). Unlike the consolidated tax regime, the group taxation regime automatically applies to group companies.</p> <p>A dividend received from a group company can be fully excluded from taxable income without any reduction for allocable interest expense.</p> <p>The recognition of capital gains or losses from the transfer of certain assets (including the transfer of assets as a result of a non-qualified or taxable merger) between group companies is deferred until the asset is transferred to another group company or a non-group company.</p> |
| 9.2 | Is there full or partial exemption (if partial, to what extent)? | <p>Full and partial exemption.</p> <p>Dividends received by one Japanese corporation from a wholly-owned Japanese subsidiary are excluded from taxable income.</p> <p>If a Japanese company owns less than 100% of the shares in a Japanese subsidiary, there is a lower available exclusion from income. For example, if it owns 5% or less of the shares, 20% of a dividend is excluded from taxable income.</p> <p>Likewise, 95% of a foreign dividend may be exempted from income if 25% or more of the shares held for six months or more as of the income determination date. If foreign dividends are deductible in the payer's jurisdiction, exemption is unavailable.</p> |
| 9.3 | Does the regime also apply to final liquidation losses? | <p>Yes.</p> <p>Where a corporation that is a member of a 100% group is in the process of liquidation and is expected to be dissolved, any loss from the impairment or devaluation of the shares of the liquidating corporation cannot be recognized by the parent company as a tax-deductible expense.</p> |
| 9.4 | Do controlled foreign company (CFC) rules apply? | <p>Yes.</p> <p>Undistributed profits of a foreign subsidiary (i.e. CFC, which is defined as a foreign related corporation ("FRC") by the: (i) equity ownership test (owned more than 50% by Japanese corporations or residents); or, (ii) the fact control test to which an applicable tax rate is 30% (in case of a shell company) or 20%; are included in the Japanese parent company's taxable income under certain conditions.</p> |
| 10 | Loss compensation | |
| 10.1 | What is the type (e.g. operational losses, holding losses, other) and the maximum amount of losses that can be compensated? | For corporation tax and enterprise tax purposes (indirectly for inhabitant's tax purposes), a tax loss can be carried forward to offset future income in the case that a taxpayer files the specific tax return as referred to under question 8.2, or if the tax loss is incurred as a result of certain disaster events. |
| 10.2 | How many years can be carried forward? | Tax losses can be carried forward for 10 years. |
| 10.3 | How many years can be carried back? | In general, there is no carry-back. SMEs may carry back losses one year. |
| 10.4 | Are any group relief regimes in place? | <p>Yes.</p> <p>Pre-consolidation tax losses of a subsidiary can be carried forward into a consolidated tax group if certain conditions are met, but may only be offset against taxable income of the subsidiary for the calculation of consolidated income.</p> |
| 11 | ATAD 1 / ATAD 2 / BEPS | |

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| 11.1 | Is there a general anti-abuse rule (GAAR)? | No. There is no GAAR of general application. |
| 11.2 | Is there a targeted anti-abuse rule (TAAR)? | Yes. There are certain specific anti-avoidance rules applicable to restructuring transactions, family corporations, etc. |
| 11.3 | Does your jurisdiction have any reservations for application of the multilateral instrument (MLI)? | Yes. Japan has made reservations to article 3, 4, 6, 8, 11, 14, 19, 23, 26 and 28. The OECD overview of reservations made by Japan can be found under the following link: http://www.oecd.org/tax/treaties/beps-mli-position-japan.pdf |
| 12 | Special regulations or taxes (insofar there is a material impact on the tax position) | |
| 12.1 | Is some form of equity deduction, e.g. notional interest deduction in place? | No. |
| 12.2 | Are any special credits in place for IP-costs of for example wage costs? | No. |
| 12.3 | Is an accumulated earnings tax in place? | Yes. A tax in addition to the regular corporation tax is imposed on the excess retained earnings of family corporations. The tax is designed to discourage the accumulations of earnings in closely held corporations in order to avoid the double taxation of dividends. |
| 12.4 | Are any digital taxes in place? | Yes. Japanese consumption tax (similar to VAT) applies to certain digital services provided by offshore service providers to Japanese resident purchasers. |
| 12.5 | Are any investment deduction measures in place? | Yes. Certain deductions are available to taxpayers that establish headquarters or facilities in certain geographical regions, if the applicable requirements are met. |
| 12.6 | Is some sort of (R&D)-wage credit in place? | Yes. Tax credits are available for certain R&D-expenditures |
| 12.7 | Are there any other sector-specific direct tax measures, e.g. a banking tax, tax on rents, etc. | Yes. If an individual shareholder together with family members owns, either directly or indirectly, more than 50% of the total issued shares or voting rights of a Japanese corporation, the corporation is treated as a family corporation (with the exception of corporations with paid-in capital of JPY 100 million or less) and is subject to the family corporation tax in addition to corporation tax. |
| 13 | Withholding taxes | |
| 13.1 | Is there a withholding tax on dividend? If yes, please provide rates. | 20.42% WHT on dividend paid from Japanese resident to offshore recipient. |
| 13.2 | Is there a withholding tax on interest? If yes, please provide rates | 20.42% WHT on interest paid from Japanese resident to offshore recipient. |
| 13.3 | Is there a withholding tax on royalties? If yes, please provide rates | 20.42% WHT on royalty paid from Japanese resident to offshore recipient. |

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| 13.4 | How is the taxable base for the withholding tax determined? | Gross amount. |
| 13.5 | Does the withholding tax provide for any exemptions? If yes, describe the exemptions. | A double tax treaty may provide for a WHT reduction or exemption. |
| 13.6 | Do anti-abuse provisions apply with regard to withholding taxes (e.g. in national law or treaties)? | Yes. Tax treaties may contain anti abuse-provisions. |

| # | Measures | Any changes expected in the near future (i.e. up to and including 2020) |
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| 5 | Interest deduction limitations | |
| 5.1 | Please describe your earnings-stripping/30% EBITDA rule, the parameters and scope and effective date in your jurisdiction (if applicable). | <p>The following amendments will be applied to tax years beginning on or after 1 April 2020:</p> <p>Expansion of the scope of non-deductible interest, which includes interest paid to third parties but excludes interest that is subject to Japanese income tax in the hands of the recipient;</p> <ul style="list-style-type: none"> - Lowering of the benchmark fixed ratio from 50% to 20%; - Starting from taxable income, exempted dividend will no longer be added, whereas WHT claimed as tax credit will be added; - Lowering of the threshold for application of the new rules. <p>Moreover, for taxable years beginning on or after 1 April 2020, an exemption from the earnings stripping rule is provided if a ratio of a domestic affiliated group's aggregate net interest expense to the domestic affiliated group's aggregate adjusted taxable income is 20% or less.</p> |

2.7. Korea



| # | Measures | 2019 |
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| 1 | Tax rate | |
| 1.1 | What is the corporate income tax rate in your jurisdiction and do brackets apply? | <p>Brackets for the general CIT rates for taxable income apply as follows:</p> <ul style="list-style-type: none"> - KRW 0 - 200m: 10% - KRW 200 - 20.000m: 20% - KRW 20.000 - 300.000m: 22% - KRW 300.000m and above: 25% <p>For companies with a net asset value exceeding KRW 50 billion (except SMEs), there is additional tax and companies may elect one of the following methods to calculate the additional tax (applicable until the fiscal year that includes Dec. 31, 2020)</p> <ul style="list-style-type: none"> - {[adjusted taxable income for the year * 65%] - the total amount of facility investment, wage increase, and contribution to mutual cooperation fund} * 20%, or - {[adjusted taxable income for the year * 15%] - the total amount of wage increase, and contribution to mutual cooperation fund} * 20% <p>Local corporate income tax is levied generally at 10% of the above corporate income tax.</p> <p><i>IBFD: Companies that receive capital gains from sale of certain real property will subject to tax at 10% (for residential property with certain exceptions and non-business related estate); or 40% in the case of a transfer without registering a seller in the real estate registry.</i></p> |
| 1.2 | Do different rates apply for regular profit and capital gains? If yes, what are these rates? | No. Capital gains are subject to the general CIT rate. |
| 2 | Substance | |
| 2.1 | What are the substance requirements in your jurisdiction? | Korean tax law does not establish any substance requirements, but in practice, considerations can be found in for example tax rulings and court cases. Moreover, Korean tax law has a 'general substance over form' rule. |
| 2.2 | Could you indicate whether the substance test in your jurisdiction can be considered light or extensive? | Compared to the substance test of the Netherlands, Korea would be considered to have a medium substance test. |
| 2.3 | What is the effect of substance on specific tax rules, e.g. for which rules is substance relevant in what way? | The substance over form rule may apply to all transactions. Substance of a transaction shall be reviewed when applying tax rules. |
| 3 | Transfer pricing related modalities | |
| 3.1 | How are non-businesslike transactions corrected in your jurisdiction? | <p>In general, all transactions between related parties are subject to domestic transfer pricing rules (i.e., denial of unfair transaction).</p> <p>When a domestic company make sales at a too low price to non-domestic related parties, taxable income of domestic company will be adjusted up to an arm's length price and such adjustment will be treated as deemed capital contribution (when the domestic company is a parent company of the non-domestic related parties) or deemed</p> |

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| | | dividend (when the domestic company is a subsidiary of the non-domestic related parties) and subject to withholding tax as dividend. |
| 3.2 | Does your jurisdiction allow for a step-up to FMV, if an asset is transferred for a lower value? | Yes. Under domestic transfer pricing rules, if an asset is transferred at a value lower than FMV, the seller's taxable income will be adjusted to fair market value. The purchaser may not step-up the assets for tax purposes. |
| 3.3 | If there is a step-up, does this depend on a potential exit-taxation/pick-up in another jurisdiction and how is the difference treated (deemed capital contribution in the receiving entity)? | Yes. In case of international related party transactions, there can be a step-up, which can be treated as additional capital contribution. With regard to the step-up, no corresponding taxation is required. |
| 4 | Depreciations | |
| 4.1 | Please elaborate on the depreciation regimes for: | The main rule for depreciation is over the economic lifetime of an asset. The following rules apply for the maximum depreciation per annum. |
| 4.2 | <ul style="list-style-type: none"> Business assets | <p>Depreciation of all property, plant, and equipment (PP&E), which includes buildings, machinery, and vehicles, used to generate income is allowed as a deduction for CIT.</p> <p>Generally, interest on debt acquired to purchase, manufacture, or construct PP&E must be capitalized until the PP&E is operational. This does not apply to the interest associated with the expansion or improvement of existing PP&E. A detailed list of fixed assets, gross values (including capitalized interest), the useful lives of the assets, and the current year's depreciation charge must be submitted to the tax authorities when filing the annual CIT return.</p> <p>The tax law allows for straight-line or declining-balance method for tangible fixed assets, other than plant and buildings. For intangible assets, a straight line method is used.</p> <p>For mining rights, a service-output or straight-line method can be used, and for tangible assets in mining, a service-output, declining-balance, or straight-line method for tangible fixed assets can be used.</p> <p>Although the tax law specifies the standard useful lives for each type of assets, the useful life of a fixed asset can be increased or decreased by 25% of the standard useful life at the taxpayer's election.</p> |
| 4.3 | <ul style="list-style-type: none"> Real estate (used within the company or by a third party) | For plants and buildings, a straight-line method is applied with straight-line method is applied, which shall be amortized in 20 year, or upon election between 15 and 25 years. |
| 4.4 | <ul style="list-style-type: none"> Goodwill | <p>Goodwill can be amortized for tax purposes. It is defined as 'value transferred with consideration, apart from transferred assets included in business transfer, valued by taking into account business premium factors of the transferor such as permission/license, legal privileges, geographical advantages, trade secrets, credit, reputation, transaction partners, etc.'</p> <p>Goodwill shall be amortized over five years using the straight-line method for tax purposes.</p> |
| 4.5 | <ul style="list-style-type: none"> IP (both purchased and self-developed) | <p>Design rights, utility model rights and trademarks are amortized over a period of 5 years.</p> <p>Patents are amortized over a period of 7 years.</p> |
| 4.6 | <ul style="list-style-type: none"> If available, random depreciation (i.e. accelerated/decelerated depreciation under set circumstances) | <p>In any of the following circumstances, a corporation may apply 50% of the standard useful life upon obtaining approval from the tax authorities:</p> <ul style="list-style-type: none"> Where the degree of corrosion, wear and tear, or deterioration of the assets is obvious due to the characteristics of the place of business; |

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| | | <ul style="list-style-type: none"> - For a corporation for which three years have passed since the starting of business, where the rate of operation of production facilities (excluding buildings) for the relevant business year is substantially higher than the average rate of operation for the immediately preceding three business years; - Where accelerated depreciation of existing production facilities is required on the grounds of the development, distribution, etc. of new production technology and new products; - Where operations are suspended or the rate of operation of production facilities is reduced due to changing economic conditions. |
| 5 | Interest deduction limitations | |
| 5.1 | Please describe your earnings-stripping/30% EBITDA rule, the parameters and scope and effective date in your jurisdiction (if applicable). | <p>In line with the OECD's recommendation on the limitation of interest expense deductions (BEPS Action 4), interest deduction shall be restricted.</p> <p>The deduction of net interest (i.e. the amount of interest expense paid to overseas related parties minus the interest income received from overseas related parties) claimed by a domestic company for international transactions will be limited to 30% of the adjusted taxable income (i.e. taxable income before depreciation and net interest expenses) of the domestic company. This will be implemented from the fiscal year beginning on or after 1 January 2019.</p> <p>No group escape provisions apply.</p> |
| 5.2 | Are any other interest deduction limitation provisions applicable (e.g. thin cap rule, anti-base erosion) | <p>Yes.</p> <p>Prior to the new rule under item 5.1. above, a Korean company who borrows from its foreign-controlling shareholder will be subject to the existing 2:1 debt-to-equity rules. A portion of interest payable on the excess borrowing is characterized as dividends subject to Korean WHT (reduced rate if a tax treaty applies), while being treated as non-deductible in computing taxable income. <i>IBFD: The domestic corporation must use the method (i.e. either the EBITDA rule or the debt-to-equity ratio rules) that results in a larger disallowance of interest expense.</i></p> <p>As for other interest deduction limitations, the below interest expenses are not deductible:</p> <ul style="list-style-type: none"> - Debentures for which the creditor is unknown; - Bonds and securities on which the recipient of interest is unknown; - Construction loans and loans for the purchase of land and fixed assets up to the date on which the assets are acquired or completed must be capitalized as a part of the cost of the assets and depreciated over the life of the assets, hence interest on the loans is not deductible; - Interest on loans related to non-business purpose assets or funds loaned to related parties. - <i>IBFD: There is also limitation on interest payment from hybrid financial instruments made by a domestic corporation to its foreign related party, if the receiving jurisdiction does not levy tax on the interest income or the income constitutes less than 10% of the foreign related party's taxable income.</i> |
| 5.3 | To what extent are interest expenses deductible if the funds are used for the acquisition of exempt assets (e.g. participations eligible for the participation exemption)? | Not applicable, since there is no exemption regime. |
| 5.4 | Does your jurisdiction have a Specific Anti-Abuse Rule which may limit interest deduction? | No. |
| 6 | Royalties | |
| 6.1 | Is there a limitation on the deductibility of royalties (e.g. in amount or rate)? | <p>No.</p> <p>No special rules apply for the deduction of royalty expenses.</p> |
| 7 | Head office costs | |

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| 7.1 | Are head office costs deductible? | <p>Yes.</p> <p>With sufficient supporting documentation and under the arm's length principle management service fees paid to foreign affiliates are deductible when the following conditions are met:</p> <ul style="list-style-type: none"> - The service must be provided based on an agreement; - The provision of the services can be verified by a schedule of services, description of services, description of the company providing services and its employees, detailed explanation of expenses incurred, and other supporting documents; - A company must be able to anticipate additional profit or reduced expense through the services provided; - Payment for the services should be consistent with arm's length standards. |
| 7.2 | How does the deductibility of head office costs relate to the participation exemption in your jurisdiction, i.e. is there an interaction? | Not applicable, since there is no exemption regime. |
| 7.3 | How are head office costs typically on-charged in your jurisdiction, e.g. management agreement and what kind of allocation key is acceptable? | Allocation can generally be based on sales, however, other allocation keys (e.g. number of employees, etc.) can be used if these are considered more reasonable in the case at hand. |
| 7.4 | What are the TP requirements relating to head office costs? What kind of remuneration is acceptable? | There are no specific rules, however, it should be consistent with the arm's length principle. |
| 8 | Innovation box and comparable beneficial regimes | |
| 8.1 | What is the effective rate under your innovation box or a comparable beneficial regime? | <p>Korea has a patent box and several beneficial regimes.</p> <p><i>Tax credit for technology transfer among SMEs (patent box regime)</i> Tax credit and reductions have been introduced to facilitate the transfer of technology between companies so as to enhance technical competencies and the recovery of funds invested in technology more efficiently. CIT on income derived by SMEs and specified medium-scale companies from the transfer of patents and other IP to a Korean national is reduced by 50%. The tax law grants a 25% tax credit for income derived by SMEs and medium-scale companies from the leasing of patents or utility model rights where the company has first filed a registration of such rights. This temporary credit is applicable to transfers or leases taking place until the end of December 2021. The unused credit can be carried forward to the next five years.</p> <p><i>Tax credit for development for research and manpower</i> Companies presently claim a tax credit in relation to qualifying R&D expenditure to the extent of either (i) 0% to 2% (8% for medium-scale companies, 25% for SMEs) of the current R&D expenses or (ii) 25% (40% for medium-scale companies, 50% for SMEs) of the incremental portion of the current R&D expenses over the previous year. The incremental method can be applied only when the R&D expenses for the prior year exceed the average R&D expenses for the previous four years. However, for the R&D expenditures in qualified new growth engine and core technology areas designated in the presidential decree, the preferred credit rates are applied 20% to 40%, depending on the type of company. The unused credit can be carried forward for the next five years.</p> <p><i>Tax credit for merger and acquisition of a technology innovative SME</i> In cases where a domestic company merges with a technology innovative SME in a qualified manner, the merger company shall be permitted to take a 10% tax credit with respect to the payment made in such a merger, up to the value of the acquired technology. This 10% tax credit will also be available for a company that acquires shares in a technology innovative SME in a qualified manner no later than the end of December 2021.</p> |

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| 8.2 | What conditions apply for the application of the innovation box or another comparable regime (e.g. request for special status, variation in application per type of license/right)? | Such conditions do not apply with regard to these regimes. |
| 8.3 | Is the modified nexus approach applied? If applicable, per what date? | No. |
| 9 | Exemption of profits from participations | |
| 9.1 | To what types of profit does the exemption regime apply? E.g. regular dividends, capital gains, etc. | <p>Not applicable.</p> <p><i>IBFD: Dividend received deductions (DRD) is only applicable if the dividend income is received by a Korean resident company from another Korean company, subject to conditions.</i></p> <p>There is no exemption regime for dividends received from a foreign subsidiary. Korea, however, does provide credit for foreign paid taxes.</p> |
| 9.2 | Is there full or partial exemption (if partial, to what extent)? | Not applicable. |
| 9.3 | Does the regime also apply to final liquidation losses? | Not applicable. |
| 9.4 | Do controlled foreign company (CFC) rules apply? | <p>Yes.</p> <p>Under the Korean CFC rule, the undistributed earnings of a resident company's foreign subsidiary located in a low-tax jurisdiction (where the effective tax rate on the income before tax for the past three years averages 15% or less) are taxed as deemed dividends to the resident company that has a direct or indirect interest of 10% or more in such subsidiary.</p> <p>The CFC rule does not apply in cases where a foreign subsidiary has fixed facilities (e.g. office, factory) in a low-tax jurisdiction for the conduct of business, it manages or controls the business by itself, and the business is mainly performed in the jurisdiction.</p> <p>Even in this case, however, where passive income (e.g. income from investment in securities or lending loans) is more than 50% of gross income, the CFC rule shall be applicable. Furthermore, in cases where the passive income is between 5% and 50% of the foreign subsidiary's gross income, the CFC rule will apply in a limited manner (i.e. a CFC's undistributed earnings will be included in taxable income of the CFC's domestic related parties in proportion of such passive income to its gross income).</p> <p>However, dividends will be excluded in calculating the amount of passive income if they are derived from shares issued by the company that is 10% or more owned by a CFC.</p> |
| 10 | Loss compensation | |
| 10.1 | What is the type (e.g. operational losses, holding losses, other) and the maximum amount of losses that can be compensated? | <p>Under Korean tax law, a company cannot deduct net operating losses (NOLs) in excess of 60% of the taxable income for the fiscal year beginning 1 January 2019 ongoing.</p> <p>However, SMEs and certain qualifying companies under a recovery process, will be exempt from this rule and are allowed to deduct the NOLs without limitation.</p> |
| 10.2 | How many years can be carried forward? | NOLs can be carried forward for ten years. |
| 10.3 | How many years can be carried back? | Generally, loss carry-backs are not allowed. However, SMEs can carry back an NOL for one year. |

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| 10.4 | Are any group relief regimes in place? | Yes. Consolidated corporate income tax filing can be adopted for a domestic corporation in cases where two or more wholly-owned subsidiaries exist. <i>IBFD: regime will be applicable for at least 5 consecutive years.</i> NOLs of the subsidiaries that have been incurred before adopting the consolidated CIT returns, will be used to offset the taxable income from the concerned subsidiaries. |
| 11 | ATAD 1 / ATAD 2 / BEPS | |
| 11.1 | Is there a general anti-abuse rule (GAAR)? | No. |
| 11.2 | Is there a targeted anti-abuse rule (TAAR)? | No. |
| 11.3 | Does your jurisdiction have any reservations for application of the multilateral instrument (MLI)? | Yes. Korea has made reservations to article 3, 4, 5, 8~15, 18~26. The OECD overview of reservations made by Korea can be found under the following link: http://www.oecd.org/tax/treaties/beps-mli-position-korea.pdf . |
| 12 | Special regulations or taxes (insofar there is a material impact on the tax position) | |
| 12.1 | Is some form of equity deduction, e.g. notional interest deduction in place? | No. |
| 12.2 | Are any special credits in place for IP-costs of for example wage costs? | No. |
| 12.3 | Is an accumulated earnings tax in place? | Yes. For those companies whose net assets exceeds 50 billion KRW (except SMEs), there is an additional tax. Companies may elect one of the following methods to calculate the additional tax, which is applicable until the fiscal year that Dec. 31, 2020 belongs to. - {[adjusted taxable income for the year * 65%] - the total amount of facility investment, wage increase, and contribution to mutual cooperation fund} * 20%, or - {[adjusted taxable income for the year * 15%] - the total amount of wage increase, and contribution to mutual cooperation fund} * 20% |
| 12.4 | Are any digital taxes in place? | No. |
| 12.5 | Are any investment deduction measures in place? | Yes. Investment incentives are available as follows: - Tax credit for investment in facilities for productivity enhancement - Tax credit for investment in facilities for safety - Tax credit for investment for commercialization of new growth-engine and core technologies - Tax credit for job creation - Tax credit for increase in corporate payroll - Tax credit for re-hiring retired female employees of SMEs |
| 12.6 | Is some sort of (R&D)-wage credit in place? | Yes. A certain percentage of R&D-expenses can be credited as R&D-credit. Wages of researchers are among the qualified R&D-expense that can be credited. |

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| 12.7 | Are there any other sector-specific direct tax measures, e.g. a banking tax, tax on rents, etc. | Yes. There is tonnage tax for shipping enterprises. Under this regime, the tax base is calculated as "standard individual ship profit = individual ship tonnage * one-navigation day shipping profit per ton * the number of navigation days * the use rate". |
| 13 | Withholding taxes | |
| 13.1 | Is there a withholding tax on dividend? If yes, please provide rates. | Yes. For domestic payments, the rate is in general 0%. If a dividend is paid overseas, a WHT of 20% applies. Also, a WHT of 14% applies of distributions of profits from securities investment trusts. |
| 13.2 | Is there a withholding tax on interest? If yes, please provide rates | Yes. For domestic payments, a 14% WHT applies on general interest income. If an interest is paid overseas, a withholding tax of 20% applies. A 25% WHT applies on interest on a private loan. |
| 13.3 | Is there a withholding tax on royalties? If yes, please provide rates | For domestic payments, no WHT on royalties applies. A WHT on royalties to non-residents applies of 20%. |
| 13.4 | How is the taxable base for the withholding tax determined? | Gross amount. |
| 13.5 | Does the withholding tax provide for any exemptions? If yes, describe the exemptions. | Yes. A double tax treaty may provide for a WHT reduction or exemption. |
| 13.6 | Do anti-abuse provisions apply with regard to withholding taxes (e.g. in national law or treaties)? | Yes. Korean tax law provides for "substance over form" rules, which may deny the application of beneficial rules. Tax treaties may provide for certain anti-abuse provisions. |

2.8. Luxembourg



| # | Measures | 2019 |
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| 1 | Tax rate | |
| 1.1 | What is the corporate income tax rate in your jurisdiction and do brackets apply? | <p>The general CIT rate is 17% for taxable income. Brackets apply for micro-sized companies.</p> <p>In addition, Luxembourg applies a solidarity tax of 7% on the CIT rate and a municipality tax of 6,75% is added to the CIT rate in Luxembourg City (resulting in an effective taxation of 24,94% in Luxembourg city).</p> |
| 1.2 | Do different rates apply for regular profit and capital gains? If yes, what are these rates? | <p>No.</p> <p>Capital gains (and losses) are generally taxed as regular income (or losses).</p> |
| 2 | Substance | |
| 2.1 | What are the substance requirements in your jurisdiction? | <p>As a general principle, under article 159 of the Luxembourg income tax law, Luxembourg companies are considered Luxembourg tax residents to the extent that they have either (i) their statutory seat in Luxembourg or (ii) their central administration in Luxembourg, subject to the application of double tax treaties that may attribute the tax residency of a given company to the place where it has its place of central administration.</p> <p>A Luxembourg company will have its central administration in Luxembourg to the extent that its shareholders' meetings and its board meetings will regularly and physically be held in Luxembourg, that the main management decisions will be effectively taken in Luxembourg and that its accounting records and archives will be kept in Luxembourg. From a Luxembourg direct tax perspective, the below elements are expected to be observed on an on-going basis:</p> <ul style="list-style-type: none"> - The company should have employees, premises and facilities available to conduct its own activities properly and effectively from Luxembourg; - Members of the board of managers have decision-making power and have good knowledge of the business of the company. The board should hold its meetings in Luxembourg on a regular basis in order to take all the strategic decisions; - The composition of the board of managers should integrate a majority (at least 50%) of Luxembourg resident members; - The number of board meetings should depend on the exact activity of the company as well as on the expected corporate governance by the group; - All ordinary and extraordinary shareholder meetings should take place in Luxembourg; - The accounting records of the company should be kept in Luxembourg as well as any agreements dealing with the company (e.g. agreement for the office, transfer pricing documentation, banking records, supporting documentation for the board meetings and the shareholder meetings, notifications, minutes of meeting, related correspondence, tax returns, communication with the authorities, etc.); - The company should have at least one bank account located in Luxembourg. The board member(s) should have power of signature – or partial power of signature, over these bank accounts and be able to control the cash flows on this bank account; - All notices, letters or other correspondence should be received in Luxembourg and sent from Luxembourg. Those documents should be kept in Luxembourg. <p>Additional requirements may apply in case the Luxembourg company is engaged in intra-group financing activities falling within the scope of the Luxembourg transfer pricing rules (e.g. decisions on business risks need</p> |

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| | | to be made and overseen by the management in Luxembourg, equity at risk requirements, supportive transfer pricing study need to be available). Also, in case the Luxembourg company elects to apply the Luxembourg IP regime, specific substance elements are expected to be met (i.e. modified nexus approach as per OECD standards). |
| 2.2 | Could you indicate whether the substance test in your jurisdiction can be considered light or extensive? | Compared to the substance test of the Netherlands, Luxembourg would be considered to have a medium substance test. There is an increased attention for substance elements. |
| 2.3 | What is the effect of substance on specific tax rules, e.g. for which rules is substance relevant in what way? | Substance is relevant for ruling requests, including for example: <ul style="list-style-type: none"> - Intra-group financing activities and obtaining an Advance Pricing Agreement; - Application of the Luxembourg IP-regime (modified nexus approach); - Exemptions granted under Luxembourg participation exemption for dividend income and withholding tax (EU GAAR); - Luxembourg general anti-abuse rule (testing the objectives of transactions). |
| 3 | Transfer pricing related modalities | |
| 3.1 | How are non-businesslike transactions corrected in your jurisdiction? | Non-businesslike transactions are corrected to arm's length standards. This correction is followed by a secondary correction in the form of deemed dividend distributions or informal capital contributions. |
| 3.2 | Does your jurisdiction allow for a step-up to FMV, if an asset is transferred for a lower value? | Yes. The Luxembourg tax authorities may correct non-arm's length transactions and hence take assets into account at FMV. |
| 3.3 | If there is a step-up, does this depend on a potential exit-taxation/pick-up in another jurisdiction and how is the difference treated (deemed capital contribution in the receiving entity)? | No. This does not depend on a potential exit-taxation/pick-up in another jurisdiction. |
| 4 | Depreciations | |
| 4.1 | Please elaborate on the depreciation regimes for: | The main rule for depreciation rates is it must be consistent with economic reality. The depreciation must be calculated on the total acquisition cost, bearing in mind the normal life of the asset and the estimated residual value. As generally provided by the Luxembourg tax law, the accounting depreciation should be followed for tax purposes. Depreciation normally is calculated using the straight-line method. However, the declining-balance method is permitted for fixed assets, other than buildings and intangible assets. The depreciation rate may not, however, exceed three times the rate applicable according to the straight-line method, or 30% (four times the applicable rate in the case of assets used exclusively for scientific and technical research, or 40%). |
| 4.2 | • Business assets | Office equipment has to be depreciated with 10 to 20% per year. Vehicles have to be depreciated with 25% per year. |
| 4.3 | • Real estate (used within the company or by a third party) | Office buildings are depreciated with 2 to 3%, industrial buildings with 4 to 5%, and plants with 10 to 20% |
| 4.4 | • Goodwill | Acquired goodwill is generally amortised over its useful life. In cases where its lifespan cannot be reliably estimated, goodwill cannot be amortised for a period longer than ten years. The Luxembourg tax treatment will follow the applicable accounting treatment. Self-developed goodwill may not be amortized. |
| 4.5 | • IP (both purchased and self-developed) | The amortization over IP differs per type of IP. In general, if the useful life can be determined, amortization can be taken over the useful life (e.g. 10 years for patents or for the term of protection under the patent). If the useful life cannot be determined (e.g., indefinite trademarks), the IP should be valued at cost or acquisition price, unless the going concern value is lower. This lower value is realized by an impairment, which may have a similar effect as a depreciation. |

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| 4.6 | • If available, random depreciation (i.e. accelerated/decelerated depreciation under set circumstances) | Special accelerated depreciation on 80% of the cost of fixed assets is available for assets that protect the national environment, save energy, <i>reduce waste [IBFD]</i> in Luxembourg, or permit the development of workplaces for handicapped workers. Certain conditions apply, <i>such as a minimum investment of EUR 2.400 [IBFD]</i> . |
| 5 | Interest deduction limitations | |
| 5.1 | Please describe your earnings-stripping/30% EBITDA rule, the parameters and scope and effective date in your jurisdiction (if applicable). | <p>Interest limitation rules are applicable as from fiscal years starting on or after 1 January 2019</p> <p>The interest limitation applies to 'exceeding' borrowing costs. These are defined as the tax deductible borrowing costs that are in excess of the taxable interest revenues and other economically equivalent taxable income of the taxpayer. The exceeding borrowing costs of a taxpayer are deductible in a tax period only up to the higher of (i) 30% of the taxpayer's net revenues before interest, tax, depreciation, and amortisation (EBITDA) or (ii) 3 million euros (EUR). Note that the Law provides for the following specific exceptions: (i) grand-fathering of loans concluded before 17 June 2016 and (ii) long-term infrastructure projects. Stand-alone companies, financial undertakings, pension funds and alternative investment funds are also excluded from the interest deduction limitation.</p> <p>Exceeding borrowing costs not deductible in a tax period may be carried forward without time limitation. Interest capacity that cannot be used in a given tax period may be carried forward for five years.</p> |
| 5.2 | Are any other interest deduction limitation provisions applicable (e.g. thin cap rule, anti-base erosion) | <p>Yes.</p> <p>Luxembourg tax authorities apply an 85:15 debt-to-equity ratio for the financing of participations. In case of excess debt financing, interest charges on excess debt could be considered as dividend and therefore become non-deductible and potentially subject to Luxembourg dividend WHT (15%), unless an exemption or reduction for dividend WHT could apply (under a double tax treaty or the Luxembourg participation exemption).</p> |
| 5.3 | To what extent are interest expenses deductible if the funds are used for the acquisition of exempt assets (e.g. participations eligible for the participation exemption)? | <p>These interest expenses are non-deductible. As a general rule, charges in connection with exempt income are non-deductible up to the amount of the exempt income received during the same year.</p> <p>In case exempt dividend income is derived from a participation in a given year, the charges in relation to that participation would not be deductible up to the amount of exempt dividend income received during the same year. In case charges are deducted in relation to a participation (because no exempt income is derived from the exempt asset during the same year), the charges would be put in the recapture account. The total recapture amount may become taxable in case the participation would later be transferred by the Luxembourg shareholder with a capital gain. The amount of the capital gain that becomes taxable due to recapture could then be offset with available tax losses of New Luxembourg Sarl so that in principle the recapture mechanism is neutral from a cash tax perspective.</p> <p>The same principles apply in case of income allocated to a foreign permanent establishment, if the income of the foreign permanent establishment is exempt in Luxembourg (by application of a double tax treaty), the charges incurred by the Luxembourg head office would not be deductible in Luxembourg.</p> |
| 5.4 | Does your jurisdiction have a Specific Anti-Abuse Rule which may limit interest deduction? | <p>No.</p> <p>Generally, the arm's length principle needs to be adhered to.</p> <p>Luxembourg also has a general anti-abuse rule that targets legal structures which, having been used for the main purpose or one of the main purposes of obtaining the avoidance or reduction of the tax liability in a way that defeats the object or purpose of the applicable tax law, is not genuine based on all relevant facts and circumstances. In the event of such an abuse, taxes shall be levied in the same way as they would be levied on a legal structure used that had been genuine based on the pertinent facts and circumstances.</p> |
| 6 | Royalties | |

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| 6.1 | Is there a limitation on the deductibility of royalties (e.g. in amount or rate)? | No. Arm's length royalties are in principle deductible. |
| 7 | Head office costs | |
| 7.1 | Are head office costs deductible? | Yes. Arm's length expenses can in principle be deducted. |
| 7.2 | How does the deductibility of head office costs relate to the participation exemption in your jurisdiction, i.e. is there an interaction? | In case exempt dividend income is derived from a participation in a given year, the charges in relation to that participation would not be deductible up to the amount of exempt dividend income received during the same year. In case the Luxembourg entity only has a holding activity, its operational charges (including any head office charges) could be considered as in economic connection with its participations. In case charges are deducted in relation to a participation (because no exempt income is derived), the charges would be put in the recapture account. The total recapture amount may become taxable in case the participation would later be transferred by the Luxembourg shareholder with a capital gain. The amount of the capital gain that becomes taxable due to recapture could then be offset with available tax losses of New Luxembourg Sarl so that in principle the recapture mechanism is neutral from a cash tax perspective. |
| 7.3 | How are head office costs typically on-charged in your jurisdiction, e.g. management agreement and what kind of allocation key is acceptable? | No specific provisions exist in law for head-office costs, general transfer pricing rules apply. The Luxembourg tax authorities may request supportive documentation (legal agreement, transfer pricing documentation) and the appropriate VAT treatment is expected to be applied. |
| 7.4 | What are the TP requirements relating to head office costs? What kind of remuneration is acceptable? | No specific provisions exist in law for head-office costs, general transfer pricing rules apply. |
| 8 | Innovation box and comparable beneficial regimes | |
| 8.1 | What is the effective rate under your innovation box or a comparable beneficial regime? | Under the Luxembourg Patent Box, a 4.988% effective rate applies (80% exemption on royalty income and capital gains). Eligible net income from qualifying IP assets benefits from an 80% exemption from income taxes. Consequently, a corporate taxpayer based in Luxembourg City with eligible net income will be taxed on such income at an overall (i.e. corporate income taxes plus municipal business tax) effective tax rate of 4.988% in the 2019 tax year (20% on 24.94%). IP assets qualifying for the new regime also benefit from a full exemption from Luxembourg's net wealth tax. |
| 8.2 | What conditions apply for the application of the innovation box or another comparable regime (e.g. request for special status, variation in application per type of license/right)? | Two main groups of IP assets are eligible to benefit from the new regime: - Inventions protected under patents, utility models, and other IP rights that are functionally equivalent to patents. More specifically, these comprise supplementary protection certificates for patents on pharmaceutical or phyto-pharmaceutical products, extensions to supplementary protection certificates to paediatric medicines, plant variety certificates, and orphan drug designations. - Software protected by copyright under national or international norms. Market-related IP, such as a trademark, is not eligible. The new Luxembourg tax IP regime follows the modified nexus approach (see below) and is subject to specific tax declarations being made by the Luxembourg taxpayer (Form 800, to be attached to the corporate tax return including details on the IP right and related costs incurred). Taxpayers owning IP assets at 31 December 2015 that benefited from the former IP regime can however continue to be able to benefit from the former regime during a transitional period lasting until 30 June 2021. |

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| 8.3 | Is the modified nexus approach applied? If applicable, per what date? | Yes, per 1 January 2018. |
| 9 | Exemption of profits from participations | |
| 9.1 | To what types of profit does the exemption regime apply? E.g. regular dividends, capital gains, etc. | <p>Dividends received may be tax exempt in Luxembourg, according to the so-called 'participation exemption' regime, if the conditions described below are satisfied:</p> <p>The distributing company is:</p> <ul style="list-style-type: none"> - a collective entity falling within the scope of the EU Council 'Parent Subsidiary Directive'; - a Luxembourg resident joint-stock company, which is fully taxable and does not take one of the forms listed in the Luxembourg Income Tax Law (LITL); or - a non-resident joint-stock company that is fully liable (in its state of residence) to a tax corresponding to the Luxembourg CIT (i.e. as a general rule, it is required that the foreign tax is compulsorily levied at a rate of at least 8.5%, on a basis similar to the Luxembourg one). <p>The beneficiary company is:</p> <ul style="list-style-type: none"> - a Luxembourg resident collective entity, which is fully taxable and takes one of the forms listed in the LITL; - a Luxembourg resident joint-stock company, which is fully taxable and does not take one of the forms listed in the LITL; - a domestic PE of a collective entity falling within the scope of the Parent Subsidiary Directive; - a domestic PE of a joint-stock company that is resident in a country with which Luxembourg has concluded a DTT; or - a domestic PE of a joint-stock company or of a cooperative company, which is a resident of a European Economic Area (EEA) member state (other than an EU member state). <p>At the date on which the income is made available, the beneficiary has been holding or undertakes to hold, directly (or through a tax transparent entity), for an uninterrupted period of at least 12 months, a participation in the share capital of the subsidiary of at least 10% (or shares with an acquisition price of at least EUR 1.2 million for dividends / EUR 6 million for capital gains).</p> |
| 9.2 | Is there full or partial exemption (if partial, to what extent)? | Full exemption, including gains and foreign exchange results. |
| 9.3 | Does the regime also apply to final liquidation losses? | No. Final losses on participations remain deductible |
| 9.4 | Do controlled foreign company (CFC) rules apply? | <p>Yes.</p> <p>The Luxembourg CFC rules target non-distributed income of CFCs arising from non-genuine arrangements which have been put in place for the essential purpose of obtaining a tax advantage. In brief, the Luxembourg CFC rules target foreign entities or permanent establishments in which a Luxembourg entity or a Luxembourg permanent establishment holds itself, or via associated entities, a direct or indirect participation of more than 50% of the voting rights or capital or is entitled to receive more than 50% of the profits. There will be a CFC if the actual CIT paid by the controlled entity or permanent establishment on its profits is lower than 50% of the CIT charge which would have been payable in Luxembourg under Luxembourg domestic tax rules, had the entity or permanent establishment been resident or established in Luxembourg. The comparison is made to the Luxembourg CIT rate (17% for 2019) and</p> |

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| | | <p>hence to a tax rate of 8.5% for 2019. For future years, the CIT rate may be amended so the reference rate is to be reviewed on an annual basis.</p> <p>When an entity meets the CFC test, the Luxembourg taxpayer must include in its CIT basis (CFC rules do not affect the municipal business tax basis) as CFC income the non-distributed income of the entity or permanent establishment, to the extent arising from non-genuine arrangements that have been put in place for the essential purpose of obtaining a tax advantage. The CFC rules provide that an arrangement or series thereof shall be regarded as non-genuine to the extent that the CFC would not own the assets or would not have undertaken the risks which generate all, or part of, its income if it were not controlled by the taxpayer where the significant people functions linked to those assets and risks, are carried out and play an essential role in generating the controlled company's income.</p> <p>A Luxembourg taxpayer having a targeted CFC will have to include in its CIT taxable basis the non-distributed income of the CFC, up to a limit of the amount of such income that is generated through assets and risks which are linked to significant people functions carried out by the Luxembourg taxpayer. This is assessed based on the arm's length principle included in articles 56 and 56bis LITL. The net income included is considered to be commercial profit.</p> <p>CFCs are excluded from the scope of the application of the rules if their accounting profits does not exceed EUR 750,000 or CFCs for which the accounting profits amount to no more than 10% of their operating costs for the period. The costs of goods sold outside the country where the entity is resident or where the permanent establishment is established, and payments to associated enterprises, cannot be included as operating costs.</p> |
| 10 | Loss compensation | |
| 10.1 | What is the type (e.g. operational losses, holding losses, other) and the maximum amount of losses that can be compensated? | There is no specific limit to the type of losses / amount of losses that can be used to offset taxable income. |
| 10.2 | How many years can be carried forward? | Tax losses can be carried forward for 17 years (for losses per fiscal year 2017). |
| 10.3 | How many years can be carried back? | Tax losses cannot be carried back. |
| 10.4 | Are any group relief regimes in place? | <p>Yes.</p> <p>Luxembourg permits a tax unity. Generally, the conditions to qualify for tax unity include that:</p> <ul style="list-style-type: none"> - each company that is part of the tax unity is a fully taxable company that is resident in Luxembourg (the top entity may be a Luxembourg PE of a fully taxable non-resident company); - at least 95% of each subsidiary's capital is directly or indirectly held by the head of the fiscal unity; - each company's fiscal year starts and ends on the same date; and - tax unity is requested jointly by the top company and each subsidiary that becomes a member of the group. <p>A tax unity also may include a Luxembourg PE of a company established in any country that is subject to a tax comparable to Luxembourg's CIT. The PE would be considered as the 'integrated' entity.</p> <p>Tax unity lasts for a five-year period (minimum, otherwise there is retroactive taxation on a stand-alone basis), and the taxable income/loss of the tax unity is computed as the sum of the taxable income/loss of each integrated entity. Specific loss compensation rules exist with respect to pre-unity losses and losses incurred during the existence of the Luxembourg fiscal unity.</p> |
| 11 | ATAD 1 / ATAD 2 / BEPS | |
| 11.1 | Is there a general anti-abuse rule (GAAR)? | Yes, Luxembourg has a general anti-abuse rule that targets legal structures which, having been used for the main purpose or one of the main purposes of obtaining the avoidance or reduction of the tax liability in a way that defeats |

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| | | the object or purpose of the applicable tax law, is not genuine having regard to all relevant facts and circumstances. In the event of such an abuse, taxes shall be levied in the same way as they would be levied on a legal structure used that had been genuine having regard to the pertinent facts and circumstances |
| 11.2 | Is there a targeted anti-abuse rule (TAAR)? | No. |
| 11.3 | Does your jurisdiction have any reservations for application of the multilateral instrument (MLI)? | Yes. Luxembourg has made reservations to article 3~15, 19, 24, 26 and 36. The OECD overview of reservations made by Luxembourg can be found under the following link: http://www.oecd.org/tax/treaties/beps-mli-position-luxembourg-instrument-deposit.pdf |
| 12 | Special regulations or taxes (insofar there is a material impact on the tax position) | |
| 12.1 | Is some form of equity deduction, e.g. notional interest deduction in place? | No. |
| 12.2 | Are any special credits in place for IP-costs of for example wage costs? | Yes. Luxembourg tax law provides for various incentives, with specific requirements, in the areas of risk capital, audio-visual activities, environmental protection, R&D, professional training, and recruitment of unemployed persons. The most commonly used incentives are the investment tax credits. |
| 12.3 | Is an accumulated earnings tax in place? | No |
| 12.4 | Are any digital taxes in place? | No. |
| 12.5 | Are any investment deduction measures in place? | Luxembourg tax law provides for two types of investment tax credits. First, a tax credit is available that amounts to 13% of the increase in investments in tangible depreciable assets made during the tax year. The increase in investment over a given tax year is computed as the difference between the current value of all qualifying assets and the reference value allocated to the same type of assets. Independently, the company may benefit from a 8% tax credit on the first EUR 150,000 of qualifying new investments and a 2% tax credit on the amount of new investments exceeding EUR 150,000 in tangible depreciable assets as well as investments in sanitary and central heating installation in hotel buildings and investments in buildings used for social activities. The above 8% and 2% rates are increased to 9% and 4% for investments eligible for special depreciation (i.e. investments favouring the protection of the environment, the realisation of energy savings, or the creation of employment for handicapped workers). However, certain investments are excluded from the credit calculation, including investments in real property, intangible assets, vehicles (unless specifically allowed by the law), <i>and assets acquired through the transfer of an enterprise or autonomous part or subdivision thereof [IBFD]</i> . Domestic law requires that investments be physically operated in Luxembourg or in the European Economic Area in order to be eligible for the incentive, unless the investment consists of shipping vessels operating in international waters. In addition, the tax benefit of the tax credit is limited to investments that are made within a Luxembourg business establishment and that are intended to be used permanently in Luxembourg. |
| 12.6 | Is some sort of (R&D)-wage credit in place? | Yes. Luxembourg entities involved in innovative and R&D activities can benefit from financial support in addition to the specific IP tax regime and general tax incentives. Innovation loans may be granted by the Société Nationale de Crédit et d'Investissement and may carry a fixed interest rate lower than the market rate. Financial support may also be granted in the form of cash grants or interest subsidies. |

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| | | <p>R&D projects or programmes receive financial support up to a maximum eligibility (percentage of costs eligible for the incentives) depending on the size of the beneficiary (private research companies or organisations) as follows:</p> <ul style="list-style-type: none"> - Large (25% to 100% depending on the investment); - Mid-size (35% to 100%); - Small (45% to 100%). <p>These incentives are available for:</p> <ul style="list-style-type: none"> - experimental development - experimental development and cooperation - industrial research - industrial research and cooperation, or - fundamental research. <p>Innovation in process and organisation and investment in innovation pools can benefit from financial support of between 15% and 35% (50% for public research companies). Promotion and development of innovation pools can benefit from financial support of up to 50% for private organisations or 75% for public research companies. Research regarding technical feasibility can benefit from financial support of up to 40% or 50% if prior to experimental development and up to 65% or 75% if prior to experimental research.</p> |
| 12.7 | <p>Are there any other sector-specific direct tax measures, e.g. a banking tax, tax on rents, etc.</p> | <p>Yes.</p> <p>Luxembourg tax law provides for the following regimes:</p> <p><i>Investment funds</i> Certain investment funds resident in Luxembourg may be exempt from CIT, municipal business tax, and WHT on dividends. Those investment funds are subject to subscription tax (0.01% / 0.05% on NAV depending on the fund type) and to the general registration duty regime.</p> <p><i>Private wealth management company (Société de gestion du Patrimoine Familial or SPF)</i> The SPF has been tailored to enter the private sphere of individuals for the purpose of wealth management. Its corporate objective is restricted to the acquisition, holding, management, and disposal of financial assets, to the exclusion of any commercial activity. As a general rule, an SPF is exempt from Luxembourg taxation on income and NWT in Luxembourg. A yearly subscription tax of 0.25% is due on the basis of paid-up capital, share premium, and excessive debts. Subscription tax, however, is capped at EUR 125,000. No WHT applies on dividends distributed by an SPF. Non-resident investors are not taxed in Luxembourg on dividends paid by an SPF or on capital gains realised on shares in an SPF.</p> <p><i>Securitisation companies (SCs)</i> An SC is a company that carries out securitisation activities or participates in securitisation transactions. SCs are subject to normal corporate taxation based on their net accounting profit (i.e. gross accounting profits minus expenses). However, the commitment to remunerate the holders of securities (both capital and debt) issued by the SC qualifies as interest on debt even if paid as return on equity. SCs are not subject to NWT in Luxembourg.</p> <p><i>Venture capital vehicle (Société d'Investissement en Capital à Risques or SICAR)</i> The SICAR is an entity mainly used for private equity investments. Incorporated under a corporate form, the SICAR is subject to income tax at the normal rate with the benefit of an exemption on income and gains (e.g. dividends, capital gains, liquidation proceeds, interest) from transferable securities qualifying as investments in risk capital, as well as income arising from investments in liquid assets pending their investment in risk capital for a maximum of 12 months.</p> |

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| | | <p>In addition, it can benefit from the European directives and DTTs. SICARs are exempt from NWT. Under the form of a limited partnership, the SICAR is treated as a tax transparent entity, and investors are taxed according to the rules of their country of residence. SICARs treated as tax transparent entities do not benefit from the European directives and DTTs. The SICAR mainly targets qualified or informed investors (i.e. 'professional' investors). A minimum capital of EUR 1 million is required.</p> <p><i>Financial services companies</i> Banks, securities depositaries, insurance and reinsurance companies, as well as other financial service companies, may benefit from specific regulations when establishing their taxable basis for CIT (e.g. provision for the neutralisation of unrealised exchange gains, general banking risk provision, provision for guarantee of deposits, mathematical reserves, and/or catastrophe reserves).</p> <p><i>Shipping companies</i> Luxembourg-resident shipping companies are not subject to municipal business tax and can benefit from investment tax credits and accelerated depreciation (even for used assets).</p> <p><i>Farming businesses</i> Farming businesses may deduct 30% of the amount of any new investment of up to a total of EUR 250,000 made in the business. Investment above this amount is eligible for a deduction of 20% of the difference between the investment amount and the aforementioned EUR 250,000 limit.</p> |
| 13 | Withholding taxes | |
| 13.1 | Is there a withholding tax on dividend? If yes, please provide rates. | 15% |
| 13.2 | Is there a withholding tax on interest? If yes, please provide rates | 0% |
| 13.3 | Is there a withholding tax on royalties? If yes, please provide rates | 0% |
| 13.4 | How is the taxable base for the withholding tax determined? | Gross amount. |
| 13.5 | Does the withholding tax provide for any exemptions? If yes, describe the exemptions. | <p>Yes.</p> <p>An exemption from Luxembourg WHT may apply, if (i) The beneficiary company holds a participation in the share capital of the Luxembourg entity of at least 10% (or with an acquisition cost of at least EUR 1.2 million); (ii) at the date on which the dividend is declared, the beneficiary company has held, or it commits to hold, the above-mentioned participation in the Luxembourg company, directly, for an uninterrupted period of at least 12 months; (iii) the beneficiary company is either (a) a joint-stock company that is a fully taxable resident company of a Member State of the European Union and covered by the EU Parent-Subsidiary Directive or (b) a non-resident collective entity that is resident in a country that has concluded a double tax treaty with Luxembourg and fully liable in its state of residence to a CIT corresponding to the Luxembourg CIT (i.e. the foreign tax must be assessed at a minimum effective rate of 8.5% on a taxable basis determined similarly to that in Luxembourg).</p> <p>Apart from the Luxembourg domestic rules, a double tax treaty may provide for a WHT reduction or exemption.</p> |
| 13.6 | Do anti-abuse provisions apply with regard to withholding taxes (e.g. in national law or treaties)? | <p>Yes.</p> <p>A GAAR applies, which targets legal structures which, having been used for the main purpose or one of the main purposes of obtaining the avoidance or reduction of the tax liability in a way that defeats the object or purpose of the applicable tax law, is not genuine having regard to all relevant facts and circumstances. In the event of such an abuse,</p> |

taxes shall be levied in the same way as they would be levied on a legal structure used that had been genuine having regard to the pertinent facts and circumstances.

Tax treaties may provide for certain anti-abuse provisions, such as a Principle Purpose Test.

2.9. Netherlands



| # | Measures | 2019 |
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| 1 | Tax rate | |
| 1.1 | What is the corporate income tax rate in your jurisdiction and do brackets apply? | The general CIT rate is 19% for taxable income up to € 200,000, and 25% for the excess. |
| 1.2 | Do different rates apply for regular profit and capital gains? If yes, what are these rates? | No. Capital gains are taxed at the normal CIT rate. |
| 2 | Substance | |
| 2.1 | What are the substance requirements in your jurisdiction? | The substance requirements that should be met by a company established in the Netherlands are the following: <ul style="list-style-type: none"> - At least half of the directors of the company should be resident of the Netherlands. - The Dutch resident directors should have the professional knowledge and skills to properly perform their duties. These duties at least include the decision making process regarding the company's transactions and follow-up. - The company will have adequate support to run its business. - The (most important) board decisions of the company are made in the Netherlands. - The principal bank account of the company is maintained from the Netherlands. - The bookkeeping of the company must take place in the Netherlands. - The business address of the company is in the Netherlands. - The company must comply with all its tax obligations in the Netherlands and is not treated as a tax resident of another country. - The company runs a real risk with respect to its financing, licensing or leasing activities. - The company has an equity at risk that corresponds to the functions performed. |
| 2.2 | Could you indicate whether the substance test in your jurisdiction can be considered light or extensive? | The substance test in the Netherlands is considered extensive. |
| 2.3 | What is the effect of substance on specific tax rules, e.g. for which rules is substance relevant in what way? | Substance is relevant for ruling requests, as the Dutch tax authorities will only consider ruling requests of holding companies (ATR and/or APA) if such a company has sufficient nexus with the Netherlands. The nexus requirements will be fulfilled if the aforementioned substance requirements are met. In addition holding companies should finance the acquisition of their participations with at least 15% equity. For rulings with an international character, additional requirements apply. Furthermore, if a so-called Conduit Financial Services Company (FSC) does not meet the substance requirements, the FSC must on its own initiative inform the Dutch tax authorities which specific requirements it does not meet and provide them with all substance related information as well as an overview of all interest, royalty and similar payments for which a reduction of (withholding) tax has been or could have been claimed under any tax treaty or the rules of the European Interest & Royalty Directive as implemented in Dutch tax law. This information will be exchanged spontaneously to the source country by the Dutch tax authorities. |
| 3 | Transfer pricing related modalities | |

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| 3.1 | How are non-businesslike transactions corrected in your jurisdiction? | Non-businesslike transactions are corrected to arm's length standards. This correction is followed by a secondary correction in the form of deemed dividend distributions through the chain of entities (if the Dutch entity overpays or gets undercompensated) or informal capital contributions (if the Dutch entity underpays or gets overcompensated). |
| 3.2 | Does your jurisdiction allow for a step-up to FMV, if an asset is transferred for a lower value? | Yes. Assets are taken into account at FMV for Dutch tax purposes. |
| 3.3 | If there is a step-up, does this depend on a potential exit-taxation/pick-up in another jurisdiction and how is the difference treated (deemed capital contribution in the receiving entity)? | There are no requirements relating to the treatment in the other country. The difference between what is paid by a Dutch entity and the FMV is booked as an informal capital contribution. |
| 4 | Depreciations | |
| 4.1 | Please elaborate on the depreciation regimes for: | The main rule for depreciation is over the economic lifetime of an asset. The following caps do apply for the maximum depreciation per annum. |
| 4.2 | • Business assets | Business assets are in general depreciated with 20% of the purchase price or production costs per annum. |
| 4.3 | • Real estate (used within the company or by a third party) | Property (also including property used within a company's own business) cannot be depreciated to an amount lower than the official property's fair market value for tax purposes, which is known as the "WOZ-waarde"; |
| 4.4 | • Goodwill | Goodwill can be amortized with 10% of the acquisition price per annum. Self-developed goodwill cannot be amortized. |
| 4.5 | • IP (both purchased and self-developed) | IP can be depreciated with 20% per year, unless self-developed, in which case the asset may be depreciated at once in year of expenditure |
| 4.6 | • If available, random depreciation (i.e. accelerated/decelerated depreciation under set circumstances) | Dutch tax law provides for a possibility of accelerated depreciation for several specific assets (e.g., assets that are in the interest of the protection of the environment in the Netherlands and that appear on the so-called VAMIL (Vervroegde Afschrijving Milieu-investeringen) as well as certain other designated assets (e.g. investments of starting entrepreneurs). |
| 5 | Interest deduction limitations | |
| 5.1 | Please describe your earnings-stripping/30% EBITDA rule, the parameters and scope and effective date in your jurisdiction (if applicable). | The earnings stripping rule is a measure that limits the deductibility of 'excess' net interest expenses. According to this new rule, excess interest costs (i.e. the balance of interest costs and interest income, including foreign exchange results on the loans) are only deductible up to 30 per cent of the adjusted Dutch taxable profit (the EBITDA for tax purposes). The earnings stripping rule contains a threshold of 1,000,000 euro. This means that deduction of excess interest expenses up to and including 1,000,000 euro is in any case not restricted by the earnings-stripping rule. If part of the interest is no (longer) deductible during a year due to the application of the earnings stripping rule, this part can be carried forward indefinitely. The carried forward interest can be deducted from the profits in future years if and to the extent that the interest does not exceed the earnings stripping rule in the respective years. There is no group-escape or a carve-out for stand-alone or financial institutions. |
| 5.2 | Are any other interest deduction limitation provisions applicable (e.g. thin cap rule, anti-base erosion) | Yes. <i>Article 10a DCITA</i> The deduction of interest paid on intra-group debts relating to certain transactions is disallowed. Transactions that are in scope of these anti-abuse rules are an internal or external acquisition, a dividend payment (distribution of profit), or a capital contribution into an affiliated company. Interest that relates to the financing of such transactions are only deductible if the loan and the underlying transaction are based predominantly on sound business considerations ('the double business motive test') or if the interest received is effectively and sufficiently taxed by Dutch standards. As such, under the 'double business motive test', it must be substantiated that there are sound business reasons for both the loan and the transaction. Interest is deemed to be effectively and sufficiently taxed if the interest is effectively subject to a taxation on profits of at least 10% determined according to Dutch standards. If the taxpayer makes a reasonable case that the interest is taxable at an effective tax rate of at least 10%, the tax authorities, nevertheless, |

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| | | <p>have the option to substantiate that either the liability or the corresponding transaction is not based on sound business reasons</p> <p><i>Article 10b DCITA</i> Interest expenses on affiliated debts are non-deductible, if the debt has a term of more than 10 years and there is no interest on the debt or an interest that is less than 70% of an arm's length interest.</p> |
| 5.3 | To what extent are interest expenses deductible if the funds are used for the acquisition of exempt assets (e.g. participations eligible for the participation exemption)? | These interest expenses are deductible (subject to the regular interest deduction limitation rules). |
| 5.4 | Does your jurisdiction have a Specific Anti-Abuse Rule which may limit interest deduction? | <p>Yes.</p> <p>Please refer to question 5.2.</p> |
| 6 | Royalties | |
| 6.1 | Is there a limitation on the deductibility of royalties (e.g. in amount or rate)? | <p>No.</p> <p>Arm's length royalties are in principle deductible.</p> |
| 7 | Head office costs | |
| 7.1 | Are head office costs deductible? | <p>Yes.</p> <p>Arm's length head office costs are deductible for Dutch tax purposes. There is no interaction with the participation exemption regime, as a full exemption remains available.</p> |
| 7.2 | How does the deductibility of head office costs relate to the participation exemption in your jurisdiction, i.e. is there an interaction? | Head office charges need to be documented and substantiated. Furthermore, the charges need to correspond with the services rendered and functions performed. An on-charge may e.g. be done under a management agreement. |
| 7.3 | How are head office costs typically on-charged in your jurisdiction, e.g. management agreement and what kind of allocation key is acceptable? | Intragroup transactions need to be substantiated with transfer pricing documentation. The appropriate remuneration needs to be determined on the basis of a transfer pricing analysis. |
| 7.4 | What are the TP requirements relating to head office costs? What kind of remuneration is acceptable? | No specific requirement, the Netherlands follows OECD Guidelines. |
| 8 | Innovation box and comparable beneficial regimes | |
| 8.1 | What is the effective rate under your innovation box or a comparable beneficial regime? | 7% (by means of a reduction of the tax base). |
| 8.2 | What conditions apply for the application of the innovation box or another comparable regime (e.g. request for special status, variation in application per type of license/right)? | As of 1 January 2017, the innovation box regime has been amended to include the 'nexus approach' – an additional substance criterion – and more strict access requirements. The innovation box regime applies mostly to profits from innovative activities that take place in the Netherlands. Qualifying assets are self-developed patents, utility models, breeders' rights, orphan drugs and supplemental protection certificates, software and novelty (i.e., the invented product or production process may not be publicly known or available before the date of application for the patent). |
| 8.3 | Is the modified nexus approach applied? If applicable, per what date? | Yes, per 1 January 2017. |
| 9 | Exemption of profits from participations | |

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| 9.1 | To what types of profit does the exemption regime apply? E.g. regular dividends, capital gains, etc. | Dividends, capital gains and FX. |
| 9.2 | Is there full or partial exemption (if partial, to what extent)? | Full. |
| 9.3 | Does the regime also apply to final liquidation losses? | No. Losses on qualifying participations are as a main rule non-deductible. Only if certain strict conditions are met, a final liquidation loss may be claimed. |
| 9.4 | Do controlled foreign company (CFC) rules apply? | <p>Yes.</p> <p>In case a Dutch corporate taxpayer has a direct or indirect interest of more than 50 per cent in a low-taxed foreign subsidiary (a controlled foreign company: CFC) or has a low-taxed permanent establishment, the new CFC rules will be applicable. The CFC rules aim to combat tax evasion through the use of low-tax jurisdictions.</p> <p>An entity or permanent establishment is considered as low-taxed if it is:</p> <ul style="list-style-type: none"> - tax resident in a jurisdiction without corporate income tax; - tax resident in a jurisdiction with a statutory corporate income tax rate of lower than 9 per cent, or; - tax resident of a jurisdiction included in the EU-blacklist of non-cooperative jurisdictions. <p>In case these requirements are met, certain non-distributed income components of the CFC (such as dividend, interest, royalties, benefits from the sale of shares and leasing income, less related costs) have to be attributed to the tax base of the Dutch parent company and taxed against the standard Dutch Corporate Income Tax rates.</p> <p>The CFC rules target certain categories of undistributed passive income. An exception to the CFC rules is available in case the listed items of passive income derived by the subsidiary make up less than 30 percent of the total income or in case the subsidiary carries out substantial economic activities in its country of establishment. As a safe harbour, a subsidiary is deemed to carry out substantial activities if it fulfils a number of substance requirements. These include wage costs of at least 100,000 euro and having an office space at one's disposal for a period of at least 24 months. Additional rules will be included to prevent double taxation once income items that have previously been included under the CFC rule are distributed to the Dutch parent company.</p> |
| 10 | Loss compensation | |
| 10.1 | What is the type (e.g. operational losses, holding losses, other) and the maximum amount of losses that can be compensated? | There are no (longer) rules relating to brackets of income. Complex rules however may prohibit the utilisation of net operating losses after a change of 30 per cent or more of the ultimate control in a company. |
| 10.2 | How many years can be carried forward? | Tax losses can be carried forward for 6 years. |
| 10.3 | How many years can be carried back? | Tax losses can be carried back for 1 year. |
| 10.4 | Are any group relief regimes in place? | <p>Yes.</p> <p>The Dutch fiscal unity regime provides for a full consolidation of included entities, as a result of which the companies are considered a single taxpayer for Dutch CIT purposes.</p> |
| 11 | ATAD 1 / ATAD 2 / BEPS | |
| 11.1 | Is there a general anti-abuse rule (GAAR)? | Dutch tax law provides for a GAAR in the form of Fraus Legis. This doctrine is derived from the case law of the Dutch Supreme Court and may result in a transaction being re-characterized if (a) the sole purposes of a structure is to save taxes and has no other meaning than tax saving and (b) the structure is in breach with the object and purpose of the law. |

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| | | Furthermore, the dividend withholding tax rules and so-called foreign taxpayer rules provide for a GAAR, where benefits are not available for artificial structures with an abusive motive (double test). |
| 11.2 | Is there a targeted anti-abuse rule (TAAR)? | Yes. Please refer to question 5.2. |
| 11.3 | Does your jurisdiction have any reservations for application of the multilateral instrument (MLI)? | Yes. The Netherlands have made reservations to article 3, 11, 14 and 26. The OECD overview of reservations made by the Netherlands can be found under the following link: http://www.oecd.org/tax/treaties/beps-mli-position-netherlands.pdf |
| 12 | Special regulations or taxes (insofar there is a material impact on the tax position) | |
| 12.1 | Is some form of equity deduction, e.g. notional interest deduction in place? | No. |
| 12.2 | Are any special credits in place for IP-costs of for example wage costs? | Yes. Conducting certain R&D activities on applied new technology is subsidised by a reduction of wage tax to be paid on wages of employees engaged in R&D of technologically new products. The subsidy accrues to the employer when the employee is credited for the normal amount of wage tax. The subsidy is based on specific legislation (WBSO). To obtain the relief under the R&D incentive programme, taxpayers must file an electronic/online application with the Netherlands Enterprise Agency. The taxpayer will receive an R&D declaration. The budget for this subsidy is fixed, so the amount of the subsidy is dependent on budget availability. Note that self-developed and utilised software falls within the scope of the R&D incentive under certain conditions. The WBSO application for R&D includes not only salary costs but also other costs and expenses related to R&D. The benefit of the fiscal scheme is awarded in the form of a wage tax reduction. In 2019, the benefit amounts to 32% of the first EUR 350,000 of R&D costs and 16% of the excess (both salary and other costs and expenses). For start-ups, this amounts to 40%. Note that the maximum benefit cannot exceed the total amount of wage tax due. Instead of applying for the real costs and expenses (non-salary costs), the taxpayer may choose to take into account a fixed amount based on R&D hours. The fixed amount is EUR 10 per hour as long as the total R&D hours do not exceed 1,800 and EUR 4 for every hour above. Withholding agents are obligated to report the number of hours, costs, and expenses jointly for all R&D statements granted in a calendar year. |
| 12.3 | Is an accumulated earnings tax in place? | No |
| 12.4 | Are any digital taxes in place? | No. |
| 12.5 | Are any investment deduction measures in place? | Yes. Deductions apply for certain investments in environmentally friendly assets. For investments in new energy-efficient business assets that meet the Energy List requirements, an additional deduction (EIA) from CIT is available. The minimum investment amount per asset is EUR 2,500. The allowance equals a percentage of the annual amount, with a maximum of EUR 122 million (2019), of eligible energy investments. The right to the EIA is declared with the tax return, provided the investment is reported previously in time to the Netherlands Enterprise Agency. An investment can be reported in phases, but the minimum amount for notification is EUR 2,500. In 2019, the allowance amounts to 45%. |

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| | | For investments in certain new environmental improving assets that meet the Environment List requirements, an additional deduction (MIA) from corporate income is available. The minimum investment amount per asset is EUR 2,500. In 2019, the allowance equals 36%, 27%, or 13.5% (depending on the ministerial classification of the assets) of the annual amount, with a maximum of EUR 25 million, of eligible environmental investments. The right to the MIA is declared with the tax return, provided the investment is reported previously in good time to the Netherlands Enterprise Agency. An investment can be reported in phases, but the minimum amount for notification is EUR 2,500. |
| 12.6 | Is some sort of (R&D)-wage credit in place? | <p>Yes.</p> <p>Conducting certain R&D activities on applied new technology is subsidised by a reduction of wage tax to be paid on wages of employees engaged in R&D of technologically new products. The subsidy accrues to the employer when the employee is credited for the normal amount of wage tax. The subsidy is based on specific legislation (WBSO).</p> <p>To obtain the relief under the R&D incentive programme, taxpayers must file an electronic/online application with the Netherlands Enterprise Agency. The taxpayer will receive an R&D declaration. The budget for this subsidy is fixed, so the amount of the subsidy is dependent on budget availability. Note that self-developed and utilised software falls within the scope of the R&D incentive under certain conditions.</p> <p>The WBSO application for R&D includes not only salary costs but also other costs and expenses related to R&D. The benefit of the fiscal scheme is awarded in the form of a wage tax reduction. In 2019, the benefit amounts to 32% of the first EUR 350,000 of R&D costs and 16% of the excess (both salary and other costs and expenses). For start-ups, this amounts to 40%. Note that the maximum benefit cannot exceed the total amount of wage tax due. Instead of applying for the real costs and expenses (non-salary costs), the taxpayer may choose to take into account a fixed amount based on R&D hours. The fixed amount is EUR 10 per hour as long as the total R&D hours do not exceed 1,800 and EUR 4 for every hour above. Withholding agents are obligated to report the number of hours, costs, and expenses jointly for all R&D statements granted in a calendar year.</p> |
| 12.7 | Are there any other sector-specific direct tax measures, e.g. a banking tax, tax on rents, etc. | <p>Yes.</p> <p>Dutch tax law provides for a tonnage regime, which is available upon request for a period of at least 10 years and may subsequently (i.e., after this period) be terminated by the taxpayer.</p> |
| 13 | Withholding taxes | |
| 13.1 | Is there a withholding tax on dividend? If yes, please provide rates. | 15% |
| 13.2 | Is there a withholding tax on interest? If yes, please provide rates | No. |
| 13.3 | Is there a withholding tax on royalties? If yes, please provide rates | No. |
| 13.4 | How is the taxable base for the withholding tax determined? | Gross amount. |
| 13.5 | Does the withholding tax provide for any exemptions? If yes, describe the exemptions. | <p>Yes.</p> <p>An exemption from Dutch DWHT generally applies in qualifying business structures. The requirements are in brief that the recipient is a resident of a tax treaty partner of the Netherlands and holds an interest which would qualify for the Dutch participation exemption regime. Targeted anti-abuse rules apply, which may deny the DWHT exemption if the</p> |

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| | | <p>receiver of the dividends hold the interest with the main motive or one of the main motives to avoid the levy of Dutch DWHT at the level of another party and the structure may be considered artificial. Furthermore, specific rules apply, which may deny the DWHT exemption in structures with hybrid entities where not all income is picked-up by a qualifying party.</p> <p>Apart from the Dutch domestic rules, a double tax treaty may provide for a DWHT reduction or exemption.</p> |
| 13.6 | Do anti-abuse provisions apply with regard to withholding taxes (e.g. in national law or treaties)? | <p>Yes.</p> <p>Targeted anti-abuse rules apply for the domestic DWHT exemption, which may deny the DWHT exemption if the receiver of the dividends hold the interest with the main motive or one of the main motives to avoid the levy of Dutch DWHT at the level of another party and the structure may be considered artificial. Furthermore, specific rules apply, which may deny the DWHT exemption in structures with hybrid entities where not all income is picked-up by a qualifying party.</p> <p>Tax treaties may contain anti abuse-provisions, such as a Limitations on Benefits-clause or a Principle Purpose Test.</p> |

| # | Measures | Any changes expected in the near future (i.e. up to and including 2020) |
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| 1 | Tax rate | |
| 1.1 | What is the corporate income tax rate in your jurisdiction and do brackets apply? | For 2020, the rates will be 16.5% and 25%, and for 2021, the rates will be 15% and 21.7%. |
| 2 | Substance | |
| 2.1 | What are the substance requirements in your jurisdiction? | For 2020, it is announced that the substance requirements for so-called Conduit Financial Services Company ("FSC") will be complemented with the requirement of having at least EUR 100,000 of relevant payroll and an office space available for a period of at least 24 months in the Netherlands. |
| 3 | Transfer pricing modalities | |
| 3.3 | If there is a step-up, does this depend on a potential exit-taxation/pick-up in another jurisdiction and how is the difference treated (deemed capital contribution in the receiving entity)? | For 2020, the Dutch legislator has expressed an intention to revisit the arm's length principle in these kind of situations. There is no guidance yet on what this will result in. |
| 8 | Innovation box and comparable beneficial regimes | |
| 8.1 | What is the effective rate under your innovation box or a comparable beneficial regime? | The government has announced its intention to increase the innovation box rate to 9% in 2021. |
| 10 | Loss compensation | |
| 10.4 | Are any group relief regimes in place? | For 2020, the Dutch legislator has expressed the intention to replace the current fiscal unity regime (providing for a full consolidation of included entities) with a different kind of group taxation regime. Several alternatives are being assessed, but a loss- or profit transfer rule seems to have a preference. |
| 13 | Withholding taxes | |
| 13.2 | Is there a withholding tax on interest? If yes, please provide rates | Legislation presented with the Tax Plan 2020 proposes the introduction of a conditional WHT on interest and royalties as from 2021. Interest payments to low-taxed and blacklisted jurisdictions will be subject to a source taxation of 21.7%. |
| 13.3 | Is there a withholding tax on royalties? If yes, please provide rates | Legislation presented with the Tax Plan 2020 proposes the introduction of a conditional WHT on interest and royalties as from 2021. Royalty payments to low-taxed and blacklisted jurisdictions will be subject to a source taxation of 21.7%. |

2.10. Singapore



| # | Measures | 2019 |
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| 1 | Tax rate | |
| 1.1 | What is the corporate income tax rate in your jurisdiction and do brackets apply? | The general CIT rate is 17% for taxable income. In addition, a 75% exemption applies to the first SGD 10,000 of chargeable income, and a further 50% exemption applies on the next SGD 190,000 of chargeable income. |
| 1.2 | Do different rates apply for regular profit and capital gains? If yes, what are these rates? | Not applicable. Capital gains are in general not taxed. Only gains or profits arising from any trade or business activities, and other gains which are by nature revenue, are subject to tax. |
| 2 | Substance | |
| 2.1 | What are the substance requirements in your jurisdiction? | <p>Singapore tax law establishes that in order for a company to be considered a tax resident, the control and management of the company's business must be exercised in Singapore.</p> <p>It is not further specified in the tax law what is required for control and management to be considered exercised in Singapore. The Singapore tax authority does provide guidance, being that control and management is the making of decisions on strategic matters, such as those on company policy and strategy. Where the control and management of a company is exercised is a question of fact. Typically, the location of the company's Board of Directors meetings, during which strategic decisions are made, is a key factor in determining where the control and management is exercised.</p> <p><i>IBFD: The substance requirements in Singapore may not necessarily be 'light'. As an example, the requirements for foreign-owned investment holding companies, the Inland Revenue Authority of Singapore (IRAS) states that to satisfy the conditions, such companies must demonstrate that decisions on strategic matters are made in Singapore, for example by showing IRAS that their Board of Directors' meetings are held in Singapore. Besides this, the company must also:</i></p> <p><i>a. Have related companies in Singapore that are tax residents of Singapore or have business activities in Singapore; or</i></p> <p><i>b. Receive support or administrative services from a related company in Singapore; or</i></p> <p><i>c. Have at least one director based in Singapore who holds an executive position and is not a nominee director; or</i></p> <p><i>d. Have at least one key employee (e.g. CEO, CFO, COO) based in Singapore</i></p> |
| 2.2 | Could you indicate whether the substance test in your jurisdiction can be considered light or extensive? | Compared to the substance test of the Netherlands, Singapore would be considered to have a light substance test. |
| 2.3 | What is the effect of substance on specific tax rules, e.g. for which rules is substance relevant in what way? | <p>Substance is relevant for determining DTT benefits.</p> <p>Moreover, certain domestic law provisions require the taxpayer to be a tax resident of Singapore before they can be enjoyed. These include:</p> <ul style="list-style-type: none"> - Foreign sourced income exemptions; - Unilateral tax credits for foreign taxes paid. |

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| 3 | Transfer pricing related modalities | |
| 3.1 | How are non-businesslike transactions corrected in your jurisdiction? | Transfer pricing provisions define the arm's-length principle and the tax authorities have the right to make transfer pricing adjustments in cases where taxpayers do not comply with the arm's-length principle. |
| 3.2 | Does your jurisdiction allow for a step-up to FMV, if an asset is transferred for a lower value? | No. From a tax perspective, related party transactions must be carried out at arm's length. If an asset is transferred for a lower value, there is no provision allowing for a step-up. |
| 3.3 | If there is a step-up, does this depend on a potential exit-taxation/pick-up in another jurisdiction and how is the difference treated (deemed capital contribution in the receiving entity)? | No. |
| 4 | Depreciations | |
| 4.1 | Please elaborate on the depreciation regimes for: | The main rule for depreciation is over the economic lifetime of an asset. The following rules apply for the maximum depreciation per annum. |
| 4.2 | <ul style="list-style-type: none"> • Business assets | <p>Tax depreciation is available on machinery and equipment on a straight-line basis over their specified working life for all types of business assets.</p> <p>With regard to the straight-line basis, accelerated tax depreciation allowances can be claimed by all businesses on all machinery and equipment in equal instalments over three years.</p> <p>Moreover, a 100% depreciation allowance is available on capital expenditure incurred on computers, robots, standby generators, pollution control equipment, and prescribed automation equipment.</p> |
| 4.3 | <ul style="list-style-type: none"> • Real estate (used within the company or by a third party) | <p>A Land Intensification Allowance (LIA) is available to businesses in certain sectors (e.g. manufacturing and logistics), which have large land takes and low Gross Plot Ratios (GPR).</p> <p>Companies can claim qualifying capital expenditure incurred on the construction of a qualifying building or structure.</p> <p>Approvals for the incentive to these sectors will be granted by the Economic Development Board (EDB) from 1 July 2010 to 30 June 2020 (both dates inclusive).</p> |
| 4.4 | <ul style="list-style-type: none"> • Goodwill | Payments for the acquisition of goodwill are generally capital in nature and not deductible. |
| 4.5 | <ul style="list-style-type: none"> • IP (both purchased and self-developed) | <p>Intellectual property (IP) acquisition expenses are treated as follows.</p> <p>For the years of assessment 2019 to 2025, enhanced tax deduction of 200% is available for each of the following:</p> <ul style="list-style-type: none"> - the first SGD 100,000 of qualifying expenditure incurred to register qualifying IP, and - the first SGD 100,000 of expenditure incurred to license qualifying IP. <p>Taxpayers acquiring IP from the basis period for the year of assessment 2017 may make an irrevocable election to claim the writing-down allowances over 5, 10 or 15 years (instead of previously 5 years only).</p> |
| 4.6 | <ul style="list-style-type: none"> • If available, random depreciation (i.e. accelerated/decelerated depreciation under set circumstances) | <p>With regard to R&D expenses, for the years of assessment 2019 to 2025, an enhanced tax deduction of 250% of qualifying expenditure is available for R&D carried out in Singapore, subject to conditions. Where the R&D is carried out overseas, a deduction of 100% of qualifying expenditure is allowed.</p> <p>Expenditures incurred in relation to R&D cost-sharing arrangements are treated the same for tax purposes as R&D expenses.</p> |

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| 5 | Interest deduction limitations | |
| 5.1 | Please describe your earnings-stripping/30% EBITDA rule, the parameters and scope and effective date in your jurisdiction (if applicable). | Not applicable. |
| 5.2 | Are any other interest deduction limitation provisions applicable (e.g. thin cap rule, anti-base erosion) | No. There are no formal thin capitalisation rules in Singapore. However, general anti-avoidance and transfer pricing provisions may apply in cases of abuse. Interest expenses relating to non-income producing assets, as well as assets that generate tax-exempt income are not tax-deductible. When a company has such an interest expense, it has to make interest adjustments in its tax computation. |
| 5.3 | To what extent are interest expenses deductible if the funds are used for the acquisition of exempt assets (e.g. participations eligible for the participation exemption)? | These interest expenses are not deductible. |
| 5.4 | Does your jurisdiction have a Specific Anti-Abuse Rule which may limit interest deduction? | No |
| 6 | Royalties | |
| 6.1 | Is there a limitation on the deductibility of royalties (e.g. in amount or rate)? | No. There is no limitation to the deductibility of royalties paid, if the royalties charged are at arm's length. |
| 7 | Head office costs | |
| 7.1 | Are head office costs deductible? | Yes. Head office costs are deductible to the extent that these have been incurred wholly and exclusively for the production of the Company's income. Moreover, the costs should be at arm's length. |
| 7.2 | How does the deductibility of head office costs relate to the participation exemption in your jurisdiction, i.e. is there an interaction? | Head office costs must be incurred wholly and exclusively for the production of income. If head office costs are related to income which is not taxable in Singapore, a deduction may not be permitted. |
| 7.3 | How are head office costs typically on-charged in your jurisdiction, e.g. management agreement and what kind of allocation key is acceptable? | Costs are on-charges based on management agreements. From a transfer pricing perspective, a pre-fixed allocation key should typically be acceptable for HQ services assuming these services have a strong correlation with the creation of value with regard to the service and the benefits received in Singapore. For those services that are identifiable as directly allocable, a direct charge to the entity benefitting from those services should be made instead of a charge based on an allocation key. It should be noted that, if head office costs are charged at cost, in practice the Singapore tax authority may pay more attention to the individual components of the recharge (e.g., ensuring none of the costs are capital in nature, non-deductible, etc.). However, if a mark-up is applied, the characterisation of a service fee is more likely to be retained. |
| 7.4 | What are the TP requirements relating to head office costs? What kind of remuneration is acceptable? | An arm's length remuneration is required. |
| 8 | Innovation box and comparable beneficial regimes | |

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| 8.1 | What is the effective rate under your innovation box or a comparable beneficial regime? | Under the Intellectual Property Development Incentive (IDI), a 5% or 10% rate applies, with adjustment as indicated below. For every five-year period beginning with the third 5-year period of its tax relief period and ending with the eighth five-year period of its tax relief period, the rate increases with at least 0.5%. For example, for a company enjoying a 5% rate under the IDI, the incentivised rate will increase to 5.5% in years 11 to 15. An additional increase of 0.5% will apply to each subsequent five year period, until the eighth five-year period. |
| 8.2 | What conditions apply for the application of the innovation box or another comparable regime (e.g. request for special status, variation in application per type of license/right)? | Application for the IDI is open to companies that are prepared to make significant investments in contributions to the Singapore economy or in advancement of capabilities towards globally leading industries. Applicants should have a good track record and are required to carry out expansionary projects in Singapore. In addition, applicants have to meet the necessary economic commitments. |
| 8.3 | Is the modified nexus approach applied? If applicable, per what date? | Yes. The IDI incentive applies the modified nexus approach. IDI is effective as of 1 July 2018. |
| 9 | Exemption of profits from participations | |
| 9.1 | To what types of profit does the exemption regime apply? E.g. regular dividends, capital gains, etc. | In general, foreign sourced income is not taxable in Singapore, unless received or deemed received in Singapore. However, if foreign sourced dividends and branch profits are received in Singapore by a Singapore tax resident company, they may still be exempt from tax if: (a) The income is subject to tax of a similar character to income tax (by whatever name called) under the law of the territory from which the income is received; (b) At the time the income is received in Singapore by the person resident in Singapore, the highest rate of tax of a similar character to income tax (by whatever name called) levied under the law of the territory from which the income is received on any gains or profits from any trade or business carried on by any company in that territory at that time is not less than 15%; and (c) The tax authority is satisfied that the tax exemption would be beneficial to the person resident in Singapore. |
| 9.2 | Is there full or partial exemption (if partial, to what extent)? | Full exemption may be applicable based on the remittance provisions for foreign sourced income. |
| 9.3 | Does the regime also apply to final liquidation losses? | No. Distributions received as part of a liquidation should generally be viewed as being capital in nature and therefore the distribution received should not be subject to tax. |
| 9.4 | Do controlled foreign company (CFC) rules apply? | No. There are no CFC rules in Singapore. |
| 10 | Loss compensation | |
| 10.1 | What is the type (e.g. operational losses, holding losses, other) and the maximum amount of losses that can be compensated? | Net operating losses can be compensated. |
| 10.2 | How many years can be carried forward? | Loss carry forward is unlimited, provided the shareholdings in the loss-making corporation remain substantially the same (50%), from the year in which the losses were incurred. |
| 10.3 | How many years can be carried back? | Losses up to SGD 100,000 incurred by the company in the current year can be carried back for one year. |
| 10.4 | Are any group relief regimes in place? | Yes. A company is allowed to transfer excess current year trade losses, current year tax depreciation, and current year approved donations to another company within the same group if certain conditions are satisfied. |

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| | | <p>Broadly, to qualify for group relief, companies must:</p> <ul style="list-style-type: none"> - Be incorporated in Singapore; - Belong to the same group of companies where, among other things, there must be at least a 75% ownership relationship between claimant and transferor; and, - Have the same accounting year-end. <p>In addition, a group must comply with certain prescribed offset and apportionment rules.</p> |
| 11 | ATAD 1 / ATAD 2 / BEPS | |
| 11.1 | Is there a general anti-abuse rule (GAAR)? | <p>Yes.</p> <p>The GAAR is enacted to make necessary adjustments to any arrangement if the Singapore tax authority is satisfied that the purpose or effect of such arrangement is directly or indirectly:</p> <ul style="list-style-type: none"> (i) To alter the incidence of any tax which is payable by or which would otherwise have been payable by any person; (ii) To relieve any person from any liability to pay tax or to make a return under this Act; or, (iii) To reduce or avoid any liability imposed or which would otherwise have been imposed on any person by this Act. |
| 11.2 | Is there a targeted anti-abuse rule (TAAR)? | <p>Yes.</p> <p>There are some targeted anti-abuse rules throughout Singapore tax law which allow the tax authority to make adjustments to certain transactions. For example, one TAAR includes the sale of intellectual property rights (IPRs) at less than FMV. The tax authority can adjust the transaction value to FMV to ensure any claw-back of previously deducted writing-down allowances on those IPRs is appropriately accounted for.</p> |
| 11.3 | Does your jurisdiction have any reservations for application of the multilateral instrument (MLI)? | <p>Yes.</p> <p>Singapore has made reservations to article 3~5, 8~16, 19, 23, 28 and 26.</p> <p>The OECD overview of reservations made by Singapore can be found under the following link: http://www.oecd.org/tax/treaties/beps-mli-position-singapore-instrument-deposit.pdf</p> |
| 12 | Special regulations or taxes (insofar there is a material impact on the tax position) | |
| 12.1 | Is some form of equity deduction, e.g. notional interest deduction in place? | No |
| 12.2 | Are any special credits in place for IP-costs of for example wage costs? | <p>Yes.</p> <p>The Intellectual Property Development Incentive (IDI) scheme was introduced to encourage the use and commercialisation of IP arising from R&D activities of the taxpayer. An approved IDI company will be eligible for a reduced tax rate of either 5% or 10% on a percentage of qualifying income derived from the commercialisation of certain IP. The percentage is determined by the modified nexus approach set out in the Action 5 Report of the OECD's base erosion and profit shifting (BEPS) project. The concessionary tax rate will increase at regular intervals as prescribed in the Income Tax Act.</p> |
| 12.3 | Is an accumulated earnings tax in place? | No. |
| 12.4 | Are any digital taxes in place? | No. |
| 12.5 | Are any investment deduction measures in place? | <p>Yes.</p> <p>Under the investment allowance, a tax exemption is granted on an amount of profits based on a specified percentage (of up to 100%) of the capital expenditure incurred for qualifying projects or activities within a period of up to five years (up to eight years for assets acquired on hire-purchase). Capital expenditure incurred for productive equipment placed overseas on approved projects may likewise be granted integrated investment allowances. Investment allowances of</p> |

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| | | 100% of capital expenditure (net of grants) may be granted to businesses seeking to make substantial investment in automation, subject to a cap of SGD 10 million per project. |
| 12.6 | Is some sort of (R&D)-wage credit in place? | <p>Yes.</p> <p>For the years of assessment 2019 to 2025, enhanced tax deduction of 250% of qualifying expenditure is available for R&D carried out in Singapore, subject to conditions. Where the R&D is carried out overseas, a deduction of 100% of qualifying expenditure is allowed.</p> <p>Expenditure incurred in relation to R&D cost-sharing arrangements are accorded the same tax treatment as R&D expenses.</p> |
| 12.7 | Are there any other sector-specific direct tax measures, e.g. a banking tax, tax on rents, etc. | <p>Yes.</p> <p><i>Pioneer tax incentive</i> Corporations manufacturing approved products with high technological content or providing qualifying services may apply for tax exemption for five to 15 years for each qualifying project or activity under the pioneer tax incentive.</p> <p><i>Financial Sector Incentive (FSI) scheme</i> The FSI scheme covers a broad range of financial institutions, including bond intermediaries, derivative traders, fund managers, equity capital market intermediaries, operational headquarters, providers of high-value-added processing services supporting financial activities, providers of trustee and custodian services, and trust management or administration services. Financial institutions that plan to expand their Singapore operations and are prepared to meet various strict qualifying conditions may apply for this incentive.</p> <p>Under the FSI scheme, income from certain high growth, high-value-added activities, such as services and transactions relating to the bond market, derivatives market, equity market, and credit facilities syndication, may be taxed at 5%, while a broader range of financial activities will qualify for a 13.5% tax rate.</p> <p><i>Finance and treasury centre (FTC)</i> Income derived by an FTC from approved FTC activities is taxed at a reduced rate of 8%. Approved activities include international treasury and fund management activities, corporate finance and advisory services, economic and investment research and analysis, and credit control and administration.</p> <p>Interest payments to overseas banks and approved network companies are also exempt from WHT where the funds borrowed are used for approved activities.</p> <p><i>Debt securities incentives</i> A package of tax concessions is available to various players in the Singapore bond market, including those involved in certain Islamic financing arrangements.</p> <p><i>Insurance Business Development (IBD) scheme</i> The IBD scheme is an umbrella incentive for the insurance sector. Incentives offered under this scheme include a 10% concessionary tax rate for qualifying income of life, general, and composite insurers from carrying on insurance businesses from Singapore, and income derived from the provision of insurance broking and advisory services. This includes income from marine hull and liability insurance and captive insurance businesses. Lower rates may apply for qualifying specialised insurance.</p> <p><i>Real Estate Investment Trusts (REITs)</i> Distributions made to foreign non-individual investors by a listed REIT out of rental income from Singapore real estate</p> |

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| | | <p>are subject to a reduced tax rate of 10%, subject to certain conditions being met. Listed REITs investing in foreign properties can apply for tax exemption for certain foreign income received in Singapore. Distributions out of this income similarly are exempt.</p> <p>Tax transparency treatment may be accorded for specified income of Singapore-listed REIT Exchange-Traded Funds (REIT-ETFs) so that there will be parity in tax treatment between investing in individual S-REITs and via REIT-ETFs with investments in S-REITs.</p> <p>As a concession, Singapore-listed REITs are allowed to claim GST on expenses incurred for their business and for their special purpose vehicles, regardless of whether the REIT is eligible for GST registration, subject to a specified formula and certain conditions.</p> <p><i>Headquarters schemes</i> Depending on their level of economic commitments to Singapore, international headquarters can apply for various tax incentives, including tax exemption or concessionary tax rates on qualifying income.</p> <p><i>Maritime Sector Incentive (MSI) scheme</i> The MSI scheme is the umbrella incentive for the maritime sector. Incentives offered include tax exemption for shipping companies and a 10% concessionary tax rate for international freight and logistics operators. Approved ship investment managers are also taxed at 10% on qualifying management-related income. The scheme also includes approved ship investment vehicles, which are tax exempt on their qualifying vessel lease income; approved container investment enterprises, which are taxed at 5% or 10% on qualifying income from container-leasing; and approved container investment management companies, which are taxed at 10% on qualifying management fees.</p> <p>Qualifying ship operators and lessors under the MSI scheme also enjoy automatic tax exemption on gains from the disposal of vessels, vessels under construction, and new building contracts.</p> <p><i>Global Trader Programme (GTP)</i> International traders are taxed at concessionary rates of 5% or 10% on qualifying income from physical trading, brokering of physical trades, and derivative trading income.</p> |
| 13 | Withholding taxes | |
| 13.1 | Is there a withholding tax on dividend? If yes, please provide rates. | No. |
| 13.2 | Is there a withholding tax on interest? If yes, please provide rates | 15% |
| 13.3 | Is there a withholding tax on royalties? If yes, please provide rates | 10% |
| 13.4 | How is the taxable base for the withholding tax determined? | Gross amount. |
| 13.5 | Does the withholding tax provide for any exemptions? If yes, describe the exemptions. | <p>Yes.</p> <p>An exemption applies in respect of the following items:</p> <ul style="list-style-type: none"> - Interest, commission, royalties or management fees made to Singapore branches of non-resident companies - Ship charter fee payments - Payments for Satellite Capacity |

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| | | <ul style="list-style-type: none"> - Payments for the Use of International Submarine Cable Capacity, Including Payments for Indefeasible Rights of Use (IRUs) - Interest and related payments made by banks, finance companies and certain approved entities. This enhanced withholding tax exemption will take effect for: <ul style="list-style-type: none"> i. Payments liable to be made during the period from 17 February 2012 to 31 March 2021 (both dates inclusive) on contracts which take effect before 17 February 2012; and ii. Payments liable to be made on contracts which take effect during the period from 17 February 2012 to 31 March 2021 (both dates inclusive). |
| 13.6 | Do anti-abuse provisions apply with regard to withholding taxes (e.g. in national law or treaties)? | <p>Yes.</p> <p>Tax treaties may provide for certain anti-abuse provisions, such as the Principle Purpose Test.</p> |

2.11. Spain



| # | Measures | 2019 |
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| 1 | Tax rate | |
| 1.1 | What is the corporate income tax rate in your jurisdiction and do brackets apply? | <p>The general CIT rate is 25% for taxable income.</p> <p>Other CIT rates may apply as follows:</p> <ul style="list-style-type: none"> - 15% for newly created companies both the first tax period in which they obtain a profit and the following tax period; - 30% for credit institutions, as well as entities that are dedicated to the exploration, research and exploitation of hydrocarbon deposits and underground storage; - 10% the entities to which the tax regime of non-profit entities and tax incentives for patronage apply; and - 1% investment companies. |
| 1.2 | Do different rates apply for regular profit and capital gains? If yes, what are these rates? | <p>No.</p> <p>Capital gains are treated as regular income.</p> |
| 2 | Substance | |
| 2.1 | What are the substance requirements in your jurisdiction? | <p>Spanish law does not establish any substance requirements. They must be analysed on a case by case basis taking into account, among others, criteria set forth in binding rulings.</p> <p>Also, Spanish General Tax Law contains General Anti Abuse Rules (GAAR) related to artificial or improper acts or business.</p> <p>As regards holding entities, the minimum requirements are that they have sufficient material and human means to direct and manage their subsidiaries.</p> |
| 2.2 | Could you indicate whether the substance test in your jurisdiction can be considered light or extensive? | Compared to the substance test of the Netherlands, Spain would be considered to have a light substance test. |
| 2.3 | What is the effect of substance on specific tax rules, e.g. for which rules is substance relevant in what way? | Spanish law does not establish any substance requirements. |
| 3 | Transfer pricing related modalities | |
| 3.1 | How are non-businesslike transactions corrected in your jurisdiction? | <p>Based on Spanish tax law, all transactions between related parties must be carried out at arm's length prices. If they are not, primary and secondary adjustments must be made.</p> <p>As a primary adjustment, the profits of the companies should be adjusted in line with the arm's length principle. Secondary adjustment may lead to treatment as deemed dividends, or non-deductibility of certain company expenses.</p> |
| 3.2 | Does your jurisdiction allow for a step-up to FMV, if an asset is transferred for a lower value? | <p>Yes.</p> <p>Assets are taken into account at FMV.</p> |
| 3.3 | If there is a step-up, does this depend on a potential exit-taxation/pick-up in another jurisdiction and how is the difference treated | <p>No.</p> <p>There are no requirements related to tax treatment in other jurisdictions.</p> |

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| | (deemed capital contribution in the receiving entity)? | |
| 4 | Depreciations | |
| 4.1 | Please elaborate on the depreciation regimes for: | All assets, except land, are depreciable/amortisable for tax purposes. Guideline tables of tax depreciation/amortisation rates are established that state maximum per annum rates and maximum years of useful life for each asset type, classified by business sector. The first percentage refers to the maximum depreciation % per annum and the second numbers are the maximum years of useful life. |
| 4.2 | • Business assets | Furniture: 10% per annum depreciation and maximum 20 years of useful life Computers: 25% per annum depreciation and maximum 8 years of useful life Software: 33% per annum depreciation and maximum 6 years of useful life Tools: 25% per annum depreciation and maximum 8 years of useful life |
| 4.3 | • Real estate (used within the company or by a third party) | Industrial buildings: 3% per annum and maximum 68 years of useful life Warehouses: 7% per annum and maximum 30 years of useful life Administrative and commercial buildings: 2% per annum and 100 years of useful life |
| 4.4 | • Goodwill | Goodwill can be amortised at a maximum annual rate of 5%, irrespective of whether or not it has been acquired from a company of the same corporate group. |
| 4.5 | • IP (both purchased and self-developed) | Intangible assets may be amortised during their useful life when it can be reliably estimated. In this case, the amortization will be tax deductible. When the useful life of intangible assets can not be reliably estimated, the assets will be amortised over ten years, unless otherwise established by law or the regulations implemented under law. In this case, amortisation will only be tax deductible up to the limit of 5%. |
| 4.6 | • If available, random depreciation (i.e. accelerated/decelerated depreciation under set circumstances) | Mining assets and assets used for research and development (R&D), amongst others, but not including buildings, can be freely depreciated/amortised for tax purposes. |
| 5 | Interest deduction limitations | |
| 5.1 | Please describe your earnings-stripping/30% EBITDA rule, the parameters and scope and effective date in your jurisdiction (if applicable). | <p>The amount of net deductible financial expenses in the tax period is generally reduced to 30% of operating profit (similar to earnings before interest, taxes, depreciations, and amortisation [EBITDA], applying certain adjustments) for the year, financial expenses of less than EUR 1 million (or the proportional part for tax periods of less than one year) being deductible regardless of the 30% limit. For this purpose, net financial expenses will be considered to be the excess of financial expenses (excluding the non-deductible expenses mentioned below) with respect to income deriving from the assignment of capital to third parties accrued in the tax period.</p> <p>For companies taxed under the tax consolidation regime, the deduction limit will refer to the tax group. Nonetheless, the company's net financial expenses available for deduction at the time of its inclusion in the group will be deducted, up to the limit of 30% of its operating profit. When a company stops forming part of the group or the group is extinguished and there are net financial expenses available for deduction, the rule will be similar to that for assigning tax losses to the companies that formed part of the group.</p> <p>Limits on the deduction of financial expenses will not apply to dissolved companies for the tax period in which they are dissolved, unless the company is dissolved as a result of a restructuring operation. Finally, limits on the deduction of financial expenses will not apply to insurance companies or credit institutions. Financial expenses that have not been deducted due to the application of this limit can be deducted in subsequent tax periods for an unlimited period of time.</p> |

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| 5.2 | Are any other interest deduction limitation provisions applicable (e.g. thin cap rule, anti-base erosion) | <p>Yes.</p> <p>A specific limit is introduced for financial expenses generated from debts incurred to acquire interests in the capital or equity of any type of company. These expenses are deductible, subject to an additional limit of 30% of the acquirer's operating profits, excluding the operating profits of any company that may merge into the acquirer or that may join its tax group during the four years following the acquisition (besides this specific limit, the general limit on tax deductibility will also apply to these financial expenses).</p> <p>This specific limit is not applicable when the debt associated with the acquisition of the interest reaches a maximum of 70% and is reduced, as of the time of the acquisition, by at least the proportional part corresponding to each of the following years until a level equal to 30% of the acquisition price is reached.</p> <p>This specific limit does not apply to restructuring operations carried out before 20 June 2014 or to restructuring operations carried out on or after 20 June 2014 between companies that formed part of a tax consolidation group during tax periods starting before that date.</p> <p>Financial expenses that have not been deducted due to the application of this limit can be deducted in subsequent tax periods for an unlimited period of time.</p> <p>Financial expenses arising from debts with group companies generated from acquisitions of interests in other group companies or contributions to capital or equity of other group companies will not be deductible unless there is evidence that there are valid economic reasons for such expenses.</p> <p>Interest on participating loans contracted by group companies on or after 20 June 2014 is a return on equity and is not deductible for tax purposes. In the recipient's tax returns (if the recipient is a Spanish CIT payer), it should be treated as dividends and the recipient may be eligible, when appropriate, for a tax exemption for the avoidance of double taxation of dividends.</p> |
| 5.3 | To what extent are interest expenses deductible if the funds are used for the acquisition of exempt assets (e.g. participations eligible for the participation exemption)? | <p>The tax authorities may apply the GAAR here. Over the past few years, a large number of tax inspections have adjusted the tax effects of acquisitions of shares from group companies with intra-group debt. Many of these operations were acquisitions of shares in non-resident companies, so that the dividends and capital gains arising from the acquisition of the shares were covered by the exemption for the avoidance of double taxation established in Article 21 of the Spanish CIT Act. In addition, the lenders of these operations were usually located in low-tax territories.</p> <p>Per 2012, the Royal Decree-Law 12/2012 introduced a limitation rule for the deduction of intra-group financial expenses that is applicable for tax periods starting on or after 1 January 2012. In accordance with this rule, financial expenses arising from debts with group companies generated from acquisitions of interests in other group companies or contributions to capital or equity of other group companies will not be deductible unless there is evidence that there are valid economic reasons for such expenses.</p> |
| 5.4 | Does your jurisdiction have a Specific Anti-Abuse Rule which may limit interest deduction? | <p>Yes. Please refer to section 5.3.</p> |
| 6 | Royalties | |
| 6.1 | Is there a limitation on the deductibility of royalties (e.g. in amount or rate)? | <p>No. Arm's length royalties are in principle deductible.</p> |
| 7 | Head office costs | |

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| 7.1 | Are head office costs deductible? | Yes. Arm's length expenses can in principle be deducted. |
| 7.2 | How does the deductibility of head office costs relate to the participation exemption in your jurisdiction, i.e. is there an interaction? | No interaction. |
| 7.3 | How are head office costs typically on-charged in your jurisdiction, e.g. management agreement and what kind of allocation key is acceptable? | The Law mentions charges derived from all type of services and, as consequence, is not restricted only to charges for management fees. Additionally, the Law repeals the requirement of the contract previously signed, but requires, in order to allow the deductibility of charges for intra-group services, that the service provides or could provide an advantage or benefit for the taxpayer. As a presumption, it is said that this criterion will be fulfilled when the expenses would be allocated in function of the benefits or potential benefits obtained for each company. |
| 7.4 | What are the TP requirements relating to head office costs? What kind of remuneration is acceptable? | The service should provide for an advantage or benefit for the taxpayer. As a presumption, it is said that this criterion will be fulfilled when the expenses would be allocated in function of the benefits or potential benefits obtained for each company. See above. For management fees, the most accepted method by the Spanish Tax Authorities is cost plus. |
| 8 | Innovation box and comparable beneficial regimes | |
| 8.1 | What is the effective rate under your innovation box or a comparable beneficial regime? | The effective rate is 10% (i.e., inclusion of 40% of the income in the taxable base x 25% CIT rate). A reduction on the taxable income (up to 60%) may be applied on the net income obtained from licensing some types of intangible assets if certain requirements are met. |
| 8.2 | What conditions apply for the application of the innovation box or another comparable regime (e.g. request for special status, variation in application per type of license/right)? | Patents, supplementary certificates for the protection of medicines and phyto-sanitary products, and registered advanced software qualify for the patent box tax incentive. Drawings and models only qualify if they are legally protected. Commercial or scientific experiences (also known as 'know-how') do not qualify for this tax incentive. A transitional regime applies to net income obtained up to 30 June 2021 from intangible assets acquired prior to 1 July 2016. |
| 8.3 | Is the modified nexus approach applied? If applicable, per what date? | Yes, per 1 January 2016. The 60% reduction of the taxable net income derived from qualifying assets is a maximum. In fact, the reduction is the result from multiplying by 60 percent the result of the following coefficient: - In the numerator, the expenses incurred by the transferor entity directly related to the creation of the asset, including those derived from subcontracting with non related third parties. These expenses will be increased by 30 percent, without, in any case, the amount of numerator exceeding the amount of the denominator. - In the denominator, the expenses incurred by the transferor entity directly related to the creation of the asset, including those derived from subcontracting with related and non related third parties not related to it, as well as with persons or entities related to it and the acquisition of the asset. Under no circumstances will financial expenses, real estate depreciation or other expenses not directly related to the creation of the asset be included in the previous coefficient. |
| 9 | Exemption of profits from participations | |
| 9.1 | To what types of profit does the exemption regime apply? E.g. regular dividends, capital gains, etc. | Dividends and capital gains are entitled to a full CIT exemption if interest is at least 5% (or with an acquisition value of over EUR 20 million) and it has been held for at least one year, with some exceptions. |

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| | | <p>Participations in non-resident entities have the additional requirement that the non-resident entity is subject to a minimum 10% CIT or DTT including exchange of information clause.</p> <p>Foreign exchange results would also be exempt.</p> |
| 9.2 | Is there full or partial exemption (if partial, to what extent)? | Full exemption. |
| 9.3 | Does the regime also apply to final liquidation losses? | <p>Yes.</p> <p>However, only under certain strict conditions a final liquidation loss may be claimed.</p> |
| 9.4 | Do controlled foreign company (CFC) rules apply? | <p>Yes.</p> <p>Spanish tax resident companies are subject to Spanish CIT on the income obtained by a non-resident subsidiary upon meeting certain requirements, including, specifically, the requirement that the Spanish parent company must own, individually or together with other related companies or individuals, over 50% of the non-resident subsidiary's share capital, equity, profits, or voting rights, and the CIT payable by the non-resident subsidiary must be under 75% of the tax that would be payable in Spain. The rules target certain categories of passive income which are attributable to the Spanish company.</p> <p>CFC rules are not applicable to EU resident companies if they are set up for economic reasons and carry on a business activity or to the Collective Investment Institutions regulated in EU Directive 2009/65/CE other than those established in Section 54 of the Spanish CIT Act and domiciled in an EU member state.</p> |
| 10 | Loss compensation | |
| 10.1 | What is the type (e.g. operational losses, holding losses, other) and the maximum amount of losses that can be compensated? | <p>Tax losses may be carried forward for an unlimited amount of time. As a general rule, tax losses cannot be carried back. There are no tax loss 'baskets' (operating/capital). Notwithstanding, companies whose turnover in the previous tax period was under EUR 10 million may reduce their positive tax base by up to 10% of their amount by establishing a non-distributable reserve for the amount of the reduction (reserve for the levelling-off of tax losses). The reduction may not exceed EUR 1 million and should be reversed in line with the tax losses obtained by the company, subject to a five-year time limit.</p> <p>The tax losses of any type of company can be offset against positive income generated in the ensuing tax periods. The amount of tax losses that may be offset will depend on the company's net turnover in the 12 months prior to the start of the tax period:</p> <ul style="list-style-type: none"> - If net turnover is less than EUR 20 million, tax loss carry-forward may be offset up to 70% of the tax base prior to the capitalisation reserve and their offset. - If net turnover is at least EUR 20 million but less than EUR 60 million, tax loss carry-forward may be offset up to 50% of the tax base prior to the capitalisation reserve and their offset. - If net turnover is at least EUR 60 million, tax loss carry-forward may be offset up to 25% of the tax base prior to the capitalisation reserve and their offset. <p>In any event, tax losses for an amount of up to EUR 1 million may be offset.</p> <p>The above limits do not apply: (i) in the tax period in which the company is extinguished, unless this is due to a restructuring operation carried out under the tax neutrality regime, and (ii) to any income corresponding to debt relief or deferral resulting from an agreement with creditors.</p> |

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| | | Complex rules may limit the use of tax losses of a company dissolved as a result of a restructuring operation and, in certain circumstances, when it has a change of shareholders. |
| 10.2 | How many years can be carried forward? | Tax losses can be carried forward indefinitely. |
| 10.3 | How many years can be carried back? | Tax losses cannot be carried back. |
| 10.4 | Are any group relief regimes in place? | <p>Yes.</p> <p>To apply for the CIT consolidation regime, the controlling company of the tax group must hold a 75% or higher interest, either directly or indirectly, and the majority of the voting rights in the companies forming the tax group at the beginning of the first tax year in which the tax consolidation regime is applied, and this interest and voting rights must be maintained during the year unless the dependent company is dissolved. The interest requirement is 70% for companies listed on a stock exchange.</p> <p>A non-resident company can also be the controlling company of a tax consolidation group, provided that it has legal personality, is taxed by a foreign tax identical or analogous in nature to Spanish CIT, and is not resident in a tax haven. When the controlling company is a non-resident company, the group is made up of all the resident controlled companies and one of the companies is required to be appointed as the representative of the group and will be responsible for complying with all of the group's obligations and formalities. Resident companies that meet the minimum holding and voting rights requirements through non-resident companies should be included in the tax consolidation group.</p> <p>These rules allow for the possibility of horizontal consolidation. The main characteristics of the tax consolidation regime are as follows:</p> <ul style="list-style-type: none"> - The taxable income of the tax group is the sum of the taxable incomes of each of the companies forming the group. - The tax losses of any of the companies forming the group can be offset against the tax profits of any of the other group companies. - For the calculation of consolidated taxable income, the tax profits (losses) generated from transactions carried out between group companies are eliminated and only included in consolidated taxable income when: <ul style="list-style-type: none"> (i) they are carried out with third parties (ii) a group company participating in the internal operation ceases to form part of the tax group, and (iii) the tax consolidation regime is no longer applied by the group for whatever reason. <p>Specific limitations apply regarding the offsetting of tax losses or the application of tax credits generated by the group companies before they formed part of the tax group. Tax credits may be applied by the tax group up to the limit that would have applied to the entity that generated the tax credit in the general CIT regime, taking into account the relevant eliminations and additions corresponding to such entity.</p> <p>As regards tax losses generated by a group company before it entered the group, they may be offset up to the following limits:</p> <ul style="list-style-type: none"> - If net turnover in the 12 months prior to the start of the tax period is less than EUR 20 million, besides the general limits that apply at the group level, the offsetting of prior tax loss carry-forwards will be subject to the limit of 70% of the individual tax base, taking into account any eliminations and additions that correspond to such entity. - If net turnover is at least EUR 20 million but less than EUR 60 million, besides the limits on the offsetting of tax loss carry-forwards that apply at the group level, the offsetting of prior tax loss carry-forwards will be limited to 50% of the individual tax base, taking into account any eliminations and additions that correspond to such entity. |

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| | | <ul style="list-style-type: none"> - If net turnover is at least EUR 60 million, besides the limits on the offsetting of tax loss carry-forwards that apply at the group level, the offsetting of prior tax loss carry-forwards will be limited to 25% of the individual tax base, taking into account any eliminations and additions that correspond to such entity. - No WHT is chargeable on payments made between companies of the tax group (e.g. interest, dividends). |
| 11 | ATAD 1 / ATAD 2 / BEPS | |
| 11.1 | Is there a general anti-abuse rule (GAAR)? | <p>Yes.</p> <p>Spanish tax law provides for the so-called “conflict in the application of the tax law”, applicable when the realization of the taxable event is totally or partially avoided through artificial or improper acts or business that do not result in relevant or economic effects other than tax savings.</p> <p>Spanish tax law also provides for the so-called “tax simulation”, that implies the creation of an apparent (simulated) legal reality, which conceals a different (underlying) legal reality or that conceals the absence of the act or legal business.</p> |
| 11.2 | Is there a targeted anti-abuse rule (TAAR)? | <p>Yes.</p> <p>A specific limit is introduced for financial expenses generated from debts incurred to acquire interests in the capital or equity of any type of company. These expenses are deductible, subject to an additional limit of 30% of the acquirer's operating profits, excluding the operating profits of any company that may merge into the acquirer or that may join its tax group during the four years following the acquisition (besides this specific limit, the general limit on tax deductibility will also apply to these financial expenses).</p> <p>This specific limit is not applicable when the debt associated with the acquisition of the interest reaches a maximum of 70% and is reduced, as of the time of the acquisition, by at least the proportional part corresponding to each of the following years until a level equal to 30% of the acquisition price is reached.</p> <p>This specific limit does not apply to restructuring operations carried out before 20 June 2014 or to restructuring operations carried out on or after 20 June 2014 between companies that formed part of a tax consolidation group during tax periods starting before that date.</p> <p>Financial expenses that have not been deducted due to the application of this limit can be deducted in subsequent tax periods for an unlimited period of time.</p> <p>Financial expenses arising from debts with group companies generated from acquisitions of interests in other group companies or contributions to capital or equity of other group companies will not be deductible unless there is evidence that there are valid economic reasons for such expenses.</p> <p>Interest on participating loans contracted by group companies on or after 20 June 2014 is a return on equity and is not deductible for tax purposes. In the recipient's tax returns (if the recipient is a Spanish CIT payer), it should be treated as dividends and the recipient may be eligible, when appropriate, for a tax exemption for the avoidance of double taxation of dividends.</p> <p>Please also refer to section 5.3.</p> |
| 11.3 | Does your jurisdiction have any reservations for application of the multilateral instrument (MLI)? | <p>Yes.</p> <p>Spain made has reservations to article 3, 4, 6, 7, 11, 14, 16, 17, 19, 28, 35 and 36.</p> |

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| | | The OECD overview of reservations made by Spain can be found under the following link: http://www.oecd.org/tax/treaties/beps-mli-position-spain.pdf |
| 12 | Special regulations or taxes (insofar there is a material impact on the tax position) | |
| 12.1 | Is some form of equity deduction, e.g. notional interest deduction in place? | Companies may reduce their taxable income by an amount equal to 10% of the amount by which shareholder's equity is increased for tax purposes compared to the shareholder's equity of the previous year, and this amount should be set aside to a non-distributable reserve for at least five years (reserve to foster business capitalisation) . During this five-year period, the company's shareholder's equity should remain the same or be increased unless it is decreased due to accounting losses. The application of this deduction may not give rise to a negative taxable income or an increase in negative taxable income although amounts not deducted due to insufficient taxable income may be deducted in the following tax periods. |
| 12.2 | Are any special credits in place for IP-costs of for example wage costs? | Yes. Spain has R&D and technological innovation credits, as follows: <ul style="list-style-type: none"> - A 25% tax credit can be availed of for expenses incurred from R&D activities. If the expenses are higher than the average R&D expenses incurred by the company during the previous two years, the tax credit is 42% for the excess amount. - An additional tax credit of 17% can be availed of for staff expenses incurred for staff exclusively carrying out and qualified to carry out R&D activities. - An 8% tax credit can be availed of for investments made in tangible fixed assets (excluding buildings) and intangible assets that are exclusively assigned to R&D activities. - A 12% tax credit can be availed of for technological innovation activities. If certain requirements are met, tax relief for R&D and technological innovation can be excluded from the limits on tax relief applied on tax liabilities, which will have a cost of 20% of the tax relief applied, meaning that, if certain requirements are met, 80% of the tax relief for R&D and technological innovation may reduce tax liability after double tax deductions and tax allowances to zero, and any excess tax relief (up to its 80%) may be refunded by the tax authorities. The following should also be taken into consideration: <ul style="list-style-type: none"> - The tax relief applied or paid for technological innovation in accordance with the foregoing comments may not exceed a total of EUR 1 million per year. - The sum of the tax relief applied or paid for technological innovation and the tax relief applied or paid for R&D innovation in accordance with the foregoing comments may not exceed a total of EUR 3 million per year. - If R&D expenses for the year exceed 10% of turnover, an additional amount of EUR 2 million per year of tax credit for R&D can be applied or paid without limitation and with a 20% discount. Some reductions to social security contributions of researchers are available but generally speaking they are not compatible with R&D tax credits. |
| 12.3 | Is an accumulated earnings tax in place? | No. |
| 12.4 | Are any digital taxes in place? | No. |
| 12.5 | Are any investment deduction measures in place? | Yes. Spanish tax law provides for tax credits for film productions and live performing arts and musical shows. |

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| 12.6 | Is some sort of (R&D)-wage credit in place? | <p>Yes.</p> <p>There are the R&D and technological innovation credits.</p> <p>A 25% tax credit can be availed of for expenses incurred from R&D activities. If the expenses are higher than the average R&D expenses incurred by the company during the previous two years, the tax credit is 42% for the excess amount.</p> <p>An additional tax credit of 17% can be availed of for staff expenses incurred for staff exclusively carrying out and qualified to carry out R&D activities.</p> <p>An 8% tax credit can be availed of for investments made in tangible fixed assets (excluding buildings) and intangible assets that are exclusively assigned to R&D activities.</p> <p>A 12% tax credit can be availed of for technological innovation activities.</p> <p>If certain requirements are met, tax relief for R&D and technological innovation can be excluded from the limits on tax relief applied on tax liabilities, which will have a cost of 20% of the tax relief applied, meaning that, if certain requirements are met, 80% of the tax relief for R&D and technological innovation may reduce tax liability after double tax deductions and tax allowances to zero, and any excess tax relief (up to its 80%) may be refunded by the tax authorities.</p> <p>The following should also be taken into consideration:</p> <ul style="list-style-type: none"> - The tax relief applied or paid for technological innovation in accordance with the foregoing comments may not exceed a total of EUR 1 million per year. - The sum of the tax relief applied or paid for technological innovation and the tax relief applied or paid for R&D innovation in accordance with the foregoing comments may not exceed a total of EUR 3 million per year. - If R&D expenses for the year exceed 10% of turnover, an additional amount of EUR 2 million per year of tax credit for R&D can be applied or paid without limitation and with a 20% discount. <p>Some reductions to social security contributions of researchers are available but generally speaking they are not compatible with R&D tax credits.</p> |
| 12.7 | Are there any other sector-specific direct tax measures, e.g. a banking tax, tax on rents, etc. | <p>Yes.</p> <p>Spanish tax law provides for regimes for the following sectors:</p> <ul style="list-style-type: none"> - Real Estate Investment Trust Regime (SOCIMI); - Banking; - Research, exploitation and underground storage of hydrocarbon, non-profit entities, vessel & ship owning companies. |
| 13 | Withholding taxes | |
| 13.1 | Is there a withholding tax on dividend? If yes, please provide rates. | 19% |
| 13.2 | Is there a withholding tax on interest? If yes, please provide rates | 19% |
| 13.3 | Is there a withholding tax on royalties? If yes, please provide rates | <p>19% for resident companies or individuals.</p> <p>In the case of non-residents companies or individuals, the WHT will generally be 24%. However, it will be 19% in the case of taxpayers residing in another Member State of the European Union or the European Economic Area with which there is an effective exchange of tax information</p> |

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| 13.4 | How is the taxable base for the withholding tax determined? | Gross amount. |
| 13.5 | Does the withholding tax provide for any exemptions? If yes, describe the exemptions. | <p>Yes.</p> <p>An exemption from dividend WHT may apply for qualifying EU companies, which requires a (minimum) 5% participation or acquisition value of participation of higher than EUR 20 million, provided that the shares are held for one year.</p> <p>An exemption from interest WHT may apply for EU residents that qualify for the EU Interest and Royalties Directive. Furthermore, an interest WHT exemption applies for payments on non-resident accounts and government bonds.</p> <p>An exemption from royalty WHT may apply for associated EU companies that qualify for the EU Interest and Royalties Directive.</p> <p>Apart from the Spanish domestic rules, a double tax treaty may provide for a WHT reduction or exemption.</p> |
| 13.6 | Do anti-abuse provisions apply with regard to withholding taxes (e.g. in national law or treaties)? | <p>Yes.</p> <p>The benefits of the EU Parent Subsidiary Directive are not available, if the beneficial owner of the dividends is a natural or legal person who is not a resident of EU Member States or EEA Member States with which there is an effective exchange of information on tax matters</p> |

| # | Measures | Any changes expected in the near future (i.e. up to and including 2020) |
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| 12 | Special regulations or taxes (insofar there is a material impact on the tax position) | |
| 12.4 | Are any digital taxes in place? | The Tax on Certain Digital Services is under discussion. It would tax the provision of online advertising services; online intermediation services; and the sale of data generated from information provided by the user at a 3% tax rate. This tax shall apply to companies/groups with a worldwide net of turnover of more than 750 million euros when their revenues from the digital services affected by the tax exceed three million euros in Spain. |

2.12. Sweden



| # | Measures | 2019 |
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| 1 | Tax rate | |
| 1.1 | What is the corporate income tax rate in your jurisdiction and do brackets apply? | The general CIT rate is 21,4% for taxable income. |
| 1.2 | Do different rates apply for regular profit and capital gains? If yes, what are these rates? | No. Capital gains are treated as regular income. |
| 2 | Substance | |
| 2.1 | What are the substance requirements in your jurisdiction? | Sweden does not apply any substance rules. |
| 2.2 | Could you indicate whether the substance test in your jurisdiction can be considered light or extensive? | Not applicable. |
| 2.3 | What is the effect of substance on specific tax rules, e.g. for which rules is substance relevant in what way? | Not applicable. |
| 3 | Transfer pricing related modalities | |
| 3.1 | How are non-businesslike transactions corrected in your jurisdiction? | Non-businesslike transactions are corrected to arm's length standards. Generally, no secondary adjustments in the form of deemed dividend distributions are performed, but could in theory be applied according to the legislation. |
| 3.2 | Does your jurisdiction allow for a step-up to FMV, if an asset is transferred for a lower value? | No. No step-up is allowed. |
| 3.3 | If there is a step-up, does this depend on a potential exit-taxation/pick-up in another jurisdiction and how is the difference treated (deemed capital contribution in the receiving entity)? | No. |
| 4 | Depreciations | |
| 4.1 | Please elaborate on the depreciation regimes for: | The main rule for depreciation is over the economic lifetime of an asset. The following caps do apply for the maximum depreciation per annum. |
| 4.2 | • Business assets | For machinery and equipment, the depreciation for tax purposes should correspond to the depreciation charged in the books and accounts, as long as the total net value of the assets is not less than the 70% of net value in previous accounts plus additions less proceeds of sales (i.e. 30% declining-balance depreciation) or cost less 20% per year (i.e. 20% straight-line depreciation on remaining assets). An alternative 25% declining-balance method without correspondence to the books also exists. |
| 4.3 | • Real estate (used within the company or by a third party) | The Swedish Tax Authorities recommend yearly depreciations of 2-5 % for buildings. Faster depreciations could be allowed, but must then be well motivated. |

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| 4.4 | • Goodwill | Depreciation is allowed for acquired goodwill. The depreciation for tax purposes should correspond to the depreciation charged in the books and accounts, as long as the total net value of the assets is not less than the 70% of net value in previous accounts plus additions less proceeds of sales (i.e. 30% declining-balance depreciation) or cost less 20% per year (i.e. 20% straight-line depreciation on remaining assets). An alternative 25% declining-balance method without correspondence to the books also exists. |
| 4.5 | • IP (both purchased and self-developed) | Depreciation is allowed for acquired IP. The depreciation for tax purposes should correspond to the depreciation charged in the books and accounts, as long as the total net value of the assets is not less than the 70% of net value in previous accounts plus additions less proceeds of sales (i.e. 30% declining-balance depreciation) or cost less 20% per year (i.e. 20% straight-line depreciation on remaining assets). An alternative 25% declining-balance method without correspondence to the books also exists. |
| 4.6 | • If available, random depreciation (i.e. accelerated/decelerated depreciation under set circumstances) | Not applicable. |
| 5 | Interest deduction limitations | |
| 5.1 | Please describe your earnings-stripping/30% EBITDA rule, the parameters and scope and effective date in your jurisdiction (if applicable). | A general limitation on the right of deduction applies on negative net interest in the corporate sector. The right of deduction is based on so-called earnings before interest, taxes, depreciation, and amortisation (EBITDA) rule with a 30% deduction limit. Negative net interest, which is not allowed to be deducted according to this EBITDA rule, may be carried forward during a period of a maximum of six years. However, there is a safe harbour rule where net interest expenses up to SEK 5 million may be deducted for tax purposes. Furthermore, leasing rules that address the interest portion (but not the right of depreciation) also apply. |
| 5.2 | Are any other interest deduction limitation provisions applicable (e.g. thin cap rule, anti-base erosion) | Yes. <i>Anti-base erosion rule</i> As a main rule, interest expenses on external loans are fully deductible, whereas interest paid to affiliated companies are deductible only if an exception applies under the Swedish interest stripping restrictions and to the extent that the arm's-length principle is complied with. Under the interest stripping restrictions, in brief, a deduction is not allowed for interest accruing on an intra-group loan unless the true creditor within the affiliated group (i.e. the person entitled to the interest) is resident in a EU-member state or a country that Sweden has a double tax treaty with (which should not be limited to certain income), alternatively is taxed on the interest income at a rate of at least 10%. Regardless, a deduction may be refused if the debt structure has been put in place mainly for the group to achieve a substantial tax benefit. <i>Anti-hybrid rule</i> The Swedish interest deduction limitations contain an absolute prohibition of interest deductions on so-called hybrid mismatches. According to these rules, interest deductions are not allowed on interest costs in a Swedish company due to payments of interest to a foreign company with which the Swedish company has a community of interest, and where the foreign company is not taxed on the interest income due to differences in legal classifications of companies or financial instruments, etc. |
| 5.3 | To what extent are interest expenses deductible if the funds are used for the acquisition of exempt assets (e.g. participations eligible for the participation exemption)? | The interest expenses should be fully deductible if the receiver uses the amount to acquire exempt assets. |
| 5.4 | Does your jurisdiction have a Specific Anti-Abuse Rule which may limit interest deduction? | Yes. <i>Anti-base erosion rule</i> As a main rule, interest expenses on external loans are fully deductible, whereas interest paid to affiliated companies |

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| | | <p>are deductible only if an exception applies under the Swedish interest stripping restrictions and to the extent that the arm's-length principle is complied with. Under the interest stripping restrictions, in brief, a deduction is not allowed for interest accruing on an intra-group loan unless the true creditor within the affiliated group (i.e. the person entitled to the interest) is resident in a EU-member state or a country that Sweden has a double tax treaty with (which should not be limited to certain income), alternatively is taxed on the interest income at a rate of at least 10%. Regardless, a deduction may be refused if the debt structure has been put in place mainly for the group to achieve a substantial tax benefit.</p> <p><i>Anti-hybrid rule</i> The Swedish interest deduction limitations contain an absolute prohibition of interest deductions on so-called hybrid mismatches. According to these rules, interest deductions are not allowed on interest costs in a Swedish company due to payments of interest to a foreign company with which the Swedish company has a community of interest, and where the foreign company is not taxed on the interest income due to differences in legal classifications of companies or financial instruments, etc.</p> |
| 6 | Royalties | |
| 6.1 | Is there a limitation on the deductibility of royalties (e.g. in amount or rate)? | <p>No.</p> <p>Arm's length royalty payments are deductible.</p> |
| 7 | Head office costs | |
| 7.1 | Are head office costs deductible? | <p>Yes.</p> <p>Arm's length head-office costs are deductible.</p> |
| 7.2 | How does the deductibility of head office costs relate to the participation exemption in your jurisdiction, i.e. is there an interaction? | There is no interaction. |
| 7.3 | How are head office costs typically on-charged in your jurisdiction, e.g. management agreement and what kind of allocation key is acceptable? | Head office costs are generally recharged as management fee with an appropriate cost plus mark-up. From the cost base, acceptable shareholder expenses can be deducted. The allocation key shall be the most appropriate for each cost centre, such as no of employees, sales, etc. If one single allocation key is applied, the most commonly applied is relative sales/turnover. |
| 7.4 | What are the TP requirements relating to head office costs? What kind of remuneration is acceptable? | There is no specific requirement, Sweden follows OECD Guidelines. Head office costs has in the past generally been charged out with a cost plus. However, if key decision-making functions remain at HQ then residual profits would generally be deemed most appropriate. Also, certain companies charges out a franchise fee/royalty for HQ functions where certain core functions are done at HQ while decisions relating to implementation are done locally. |
| 8 | Innovation box and comparable beneficial regimes | |
| 8.1 | What is the effective rate under your innovation box or a comparable beneficial regime? | Not applicable. |
| 8.2 | What conditions apply for the application of the innovation box or another comparable regime (e.g. request for special status, variation in application per type of license/right)? | Not applicable. |
| 8.3 | Is the modified nexus approach applied? If applicable, per what date? | Not applicable. |

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| 9 | Exemption of profits from participations | |
| 9.1 | To what types of profit does the exemption regime apply? E.g. regular dividends, capital gains, etc. | <p>A participation exemption applies for dividends received on shares held for business reasons (see below) and on qualifying holdings via partnerships. A tax deductible dividend paid by a foreign company (i.e. not only EU/European Economic Area [EEA] companies) under a hybrid arrangement is subject to Swedish corporate tax for the recipient Swedish company.</p> <p>Shares in Swedish corporations can qualify as shares held for business reasons. Unquoted/unlisted shares will always be considered as held for business reasons. Quoted/listed shares are considered held for business reasons if the company has a holding corresponding to at least 10% of the voting rights or the shares are held in the course of the business. An additional condition regarding quoted/listed shares is that the shares must be held for a period of at least one year. Under certain conditions, tax exemption also applies to shares in foreign companies.</p> <p>The participation exemption regime also covers capital gains. A consequence of the participation exemption is that capital losses on shares or participations held for business reasons are not deductible.</p> |
| 9.2 | Is there full or partial exemption (if partial, to what extent)? | Full exemption. |
| 9.3 | Does the regime also apply to final liquidation losses? | A final loss in the liquidated company (a wholly owned foreign subsidiary to a Swedish company) may under certain circumstances be deducted by way of a group contribution (tax deductible) from the Swedish parent company to the foreign liquidated subsidiary. |
| 9.4 | Do controlled foreign company (CFC) rules apply? | <p>Yes.</p> <p>A CFC rule applies, covering interests of at least 25% (capital or voting rights) in low taxed companies (i.e., less than 11,77% being 55% of the Swedish tax rate).</p> |
| 10 | Loss compensation | |
| 10.1 | What is the type (e.g. operational losses, holding losses, other) and the maximum amount of losses that can be compensated? | <p>Operational losses.</p> <p>There is no maximum amount.</p> |
| 10.2 | How many years can be carried forward? | Tax losses can be carried forward indefinitely. |
| 10.3 | How many years can be carried back? | There is no carry-back for tax losses |
| 10.4 | Are any group relief regimes in place? | <p>Yes.</p> <p>Swedish companies are not taxed on a consolidated basis. However, it is possible for qualifying groups (i.e. a holding greater than 90% of the capital, which must have been upheld during the whole fiscal year) to effectively offset operating losses of one Swedish company against operating profits of another Swedish company by way of group contributions, which are tax deductible for the contributor and taxable for the recipient. EEA companies are regarded as Swedish companies for these purposes if the recipient is taxable in Sweden.</p> |
| 11 | ATAD 1 / ATAD 2 / BEPS | |
| 11.1 | Is there a general anti-abuse rule (GAAR)? | <p>Yes.</p> <p>Swedish tax law provides for a GAAR which may result in disregarding a transaction for tax purposes, if the following requirements are met:</p> <ul style="list-style-type: none"> - the transaction, alone or in conjunction with another transaction, results in a significant tax benefit for the taxpayer; - the taxpayer is, directly or indirectly, a party to the transaction; - such a tax benefit is assumed to have been the predominant reason for the transaction; and |

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| | | - taxation on the basis of the transaction would be in violation of the purpose of the law. |
| 11.2 | Is there a targeted anti-abuse rule (TAAR)? | <p>There is no definition of TAAR in Sweden.</p> <p><i>IBFD: Yes</i></p> <p><i>Sweden does have special anti-avoidance rule in place, such as hybrid mismatches rules such as rules forbidding double deduction outcomes, deduction without inclusion and tax residency mismatches (these covered partly by ATAD 2 and BEPS Action 2).</i></p> <p>Sweden applies an intra-group interest hybrid rule as of January 2019 that possibly may qualify as anti-avoidance rule. With regard to the implementation of ATAD 1 and 2, the Swedish hybrid mismatches rules were recently approved by the Swedish parliament and enter into force on 1 January 2020.</p> |
| 11.3 | Does your jurisdiction have any reservations for application of the multilateral instrument (MLI)? | <p>Yes.</p> <p>Sweden has made reservations to article 3~5, 8~15 and 17, 19, 23, 26, 28 and 35.</p> <p>The overview of reservations made by Sweden can be found under the following link: http://www.oecd.org/tax/treaties/beps-mli-position-sweden.pdf</p> |
| 12 | Special regulations or taxes (insofar there is a material impact on the tax position) | |
| 12.1 | Is some form of equity deduction, e.g. notional interest deduction in place? | No. |
| 12.2 | Are any special credits in place for IP-costs of for example wage costs? | No. |
| 12.3 | Is an accumulated earnings tax in place? | No. |
| 12.4 | Are any digital taxes in place? | No. |
| 12.5 | Are any investment deduction measures in place? | No. |
| 12.6 | Is some sort of (R&D)-wage credit in place? | <p>Yes.</p> <p>The basis for social charges should be reduced with 10 % for employees that work with R&D.</p> |
| 12.7 | Are there any other sector-specific direct tax measures, e.g. a banking tax, tax on rents, etc. | No. |
| 13 | Withholding taxes | |
| 13.1 | Is there a withholding tax on dividend? If yes, please provide rates. | 30% |
| 13.2 | Is there a withholding tax on interest? If yes, please provide rates | No. |
| 13.3 | Is there a withholding tax on royalties? If yes, please provide rates | <p><i>IBFD: Yes</i></p> <p><i>Royalties for the use of tangible or intangible assets or rights paid by Swedish licensees to non-resident companies are normally regarded as income derived by the non-resident company from a permanent establishment in Sweden and, thus, subject to the national income tax (21,4%) by assessment on the net amount of royalties. Royalty payments may be tax exempt if the provisions of the EU Interest and Royalties Directive are applicable.</i></p> |
| 13.4 | How is the taxable base for the withholding tax determined? | Gross amount. |

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| | | <i>IBFD: Royalties subject to national income tax by assessment are tax on net basis after deducting expenses. If a treaty provides for a reduced tax rate, tax is levied on the gross amount of royalties at the reduced rates.</i> |
| 13.5 | Does the withholding tax provide for any exemptions? If yes, describe the exemptions. | <p>Yes.</p> <p>An exemption from dividend WHT may apply for EU companies that meet the requirements of the EU Parent Subsidiary Directive. An exemption may further apply for foreign companies which are subject to tax similar to a Swedish AB and hold an interest which would qualify for the Swedish participation exemption.</p> <p>Apart from the Swedish domestic rules, a double tax treaty may provide for a WHT reduction or exemption.</p> <p><i>IBFD: Under domestic law implementing the provisions of the EU Interest and Royalties Directive (2003/49), outbound royalty payments are exempt from tax, provided that the beneficial owner of the royalty is an associated company of another Member State or such a company's permanent establishment situated in another Member State. The relevant companies must have a legal form listed in the Annex to the Directive and be subject to corporate income tax (without being exempt). A company is an "associated company" of another company if (i) it has a minimum holding of 25% in the capital of the other company or (ii) a third company has a minimum holding of 25% in the capital of both companies. There is no minimum holding period requirement.</i></p> |
| 13.6 | Do anti-abuse provisions apply with regard to withholding taxes (e.g. in national law or treaties)? | <p>Yes.</p> <p>The direct receiver of a dividend is obligated to pay WHT on the payment if the circumstances entail that another entity or person receives a tax benefit or is exempt from WHT through the set up.</p> |

| # | Measures | Any changes expected in the near future (i.e. up to and including 2020) |
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| 1 | Tax rate | |
| 1.1 | What is the corporate income tax rate in your jurisdiction and do brackets apply? | For 2021, the general CIT rate is 21,4% for taxable income. |
| 11 | ATAD 1 / ATAD 2 / BEPS | |
| 11.2 | Is there a targeted anti-abuse rule (TAAR)? | <p><i>IBFD:</i></p> <p><i>ATAD1/ATAD2/BEPS: On 1 October 2019, the following bill proposals, which are expected to take effect from 1 January 2020, were submitted to the parliament:</i></p> <ul style="list-style-type: none"> - <i>amending the exit tax rules and AEOI reporting obligations: this proposal provides for the implementation of the exit tax rules of ATAD 1, rules for the reversal of tax allocations and amendments on the identification of reportable accounts in the automatic exchange of information on financial accounts;</i> - <i>implementing the OECD Hybrid Mismatch Rules, as well as those of ATAD 1 and ATAD 2: in addition, the proposal provides for more restrictions in respect of the deduction of interest in hybrid situations and a change of the foreign tax credit system; and</i> - <i>a bill to implement ATAD 1 and ATAD 2 with respect to permanent establishments.</i> |

2.13. Switzerland



| # | Measures | 2019 |
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| 1 | Tax rate | |
| 1.1 | What is the corporate income tax rate in your jurisdiction and do brackets apply? | <p>At the federal level ("DFT level"), the general CIT rate is 8,5% on profit after tax. Accordingly, CIT is deductible for tax purposes and reduces the applicable tax base (i.e. taxable income), resulting in a direct federal CIT rate on profit before tax of approximately 7.83%.</p> <p>At cantonal/ communal level ("CCT level"), in addition to the direct federal CIT, each canton has levies cantonal and communal corporate income and capital taxes at different rates. Therefore, the tax burden of income (and capital) varies from canton to canton. Some cantonal and communal taxes are imposed at progressive rates. Cantonal CIT is also levied on profit after tax.</p> <p>As a general rule, the overall approximate range of the maximum CIT rate on profit before tax for federal, cantonal, and communal taxes is between 11.4% and 24.2% in 2019, depending on the company's location of corporate residence in Switzerland. Reduced CIT rates usually apply for companies subject to a special cantonal tax regime (e.g. holding companies, domicile companies, mixed trading companies). Such tax regimes shall be abolished as per 1 January 2020. In this context, it is expected that many of the cantons will reduce their CIT rates with the introduction of Swiss tax reform (TRAF - Federal Act on Tax Reform and AHV Financing).</p> |
| 1.2 | Do different rates apply for regular profit and capital gains? If yes, what are these rates? | <p>No.</p> <p>The same rates apply to regular profits and capital gains on both DFT and CCT levels.</p> <p>Participation relief may be available for capital gains resulting from the sale of qualifying investments, in the same manner as for dividends from qualifying investments</p> |
| 2 | Substance | |
| 2.1 | What are the substance requirements in your jurisdiction? | <p>Swiss domiciled entities are generally subject to taxation by virtue of their place of domicile or place of effective management in Switzerland. Double tax treaties may include certain limitations.</p> <p>In terms of accepting transactions with foreign entities such as payments or dividends, Switzerland requires the foreign recipient of a payment to have substance adequate to its functions and profile. This is generally assessed on a case by case basis. There is no uniform test.</p> <p>Switzerland furthermore applies thin capitalisation rules on Swiss companies, effectively limiting the amount of acceptable debt, and related acceptable interest expense. Under these rules, substance if a company is relevant.</p> |
| 2.2 | Could you indicate whether the substance test in your jurisdiction can be considered light or extensive? | Compared to the substance test of the Netherlands, Switzerland would be considered to have a light substance test. |
| 2.3 | What is the effect of substance on specific tax rules, e.g. for which rules is substance relevant in what way? | <p>Substance is relevant in relation to foreign dividend recipients for qualifying as beneficial owner (i.e. the recipient must have adequate substance to be considered the beneficial owner and - where applicable - have access to treaty protection and accordingly reduced residual Swiss WHT rates).</p> <p>Substance of foreign payment recipient is relevant in connection with determination of tax residency. Foreign entities</p> |

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| | | with inadequate substance may be subjected to Swiss tax if they are effectively managed and controlled from Switzerland. Substance of Swiss taxpayers is relevant in connection with determining debt capacity, and therefore also capacity to pay interest to Swiss or foreign recipients. Excess debt is re-characterised as equity (and subject to annual net wealth tax), whereas excess interest is re-characterised as constructive dividend (and subject to CIT and WHT). |
| 3 | Transfer pricing related modalities | |
| 3.1 | How are non-businesslike transactions corrected in your jurisdiction? | Non-businesslike transactions are corrected to arm's length standards. This will give rise to excess payments or insufficient remuneration, which will be subject to CIT (as an add-back to taxable profit) and WHT (as a constructive dividend). |
| 3.2 | Does your jurisdiction allow for a step-up to FMV, if an asset is transferred for a lower value? | Yes. A step-up to FMV may be available on a case-by-case basis, depending on the levy in the other country. Moreover, step-up to FMV will be possible upon entry into Swiss tax liability (new uniform rule being introduced with TRAF). |
| 3.3 | If there is a step-up, does this depend on a potential exit-taxation/pick-up in another jurisdiction and how is the difference treated (deemed capital contribution in the receiving entity)? | The step-up to FMV may be available on a case-by-case basis, depending on the levy in the other country. |
| 4 | Depreciations | |
| 4.1 | Please elaborate on the depreciation regimes for: | As a general rule, depreciation/amortisation is allowed via a declining-balance or straight line method. The Swiss Federal Tax Administration has issued maximum depreciation/amortisation rates allowed for tax purposes. Higher depreciation/amortisation is allowed for tax purposes if the taxpayer can prove that such higher depreciation/amortisation is required (not only allowed) from a statutory accounting perspective. Some cantons follow the federal guidelines, whereas some cantons apply their own (more liberal) depreciation/amortisation rates. |
| 4.2 | • Business assets | For business assets, the following rates as specified by the Swiss Federal Tax Administration apply: - Office Furniture: declining-balance of 25%, straight line of 12.5%; - Soft- / hardware: declining-balance of 40%, straight line of 20%; - Motor vehicles: declining-balance of 40%, straight line of 20%; - Intangible assets: declining-balance of 40%, straight line of 20%. Some cantons take a more liberal approach, even including immediate write-down of assets in some instances |
| 4.3 | • Real estate (used within the company or by a third party) | For buildings, the following rates as specified by the Swiss Federal Tax Administration apply: - Buildings: declining-balance of 4%, straight line of 2%; 4, 2 - Buildings and land: declining-balance of 3%, straight line of 1.5%. |
| 4.4 | • Goodwill | Generally, only acquired goodwill (derivative goodwill) may be capitalised in the statutory accounts and be amortised. Amortisation is generally allowed straight-line over five years. Different amortisation periods may be applied if required (supported by auditors). Special limitations apply to acquired shares, where the purchase price for these shares partly represents inherent goodwill. |
| 4.5 | • IP (both purchased and self-developed) | For IP, the following rates as specified by the Swiss Federal Tax Administration apply: |

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| | | <p>General rates of tax-accepted depreciation provided by the Swiss Federal Tax Administration for intangible assets are a declining-balance of 40% and a straight line of 20%.</p> <p>Note that amortisation of self-developed IP is only possible to the extent of capitalised development costs.</p> |
| 4.6 | • If available, random depreciation (i.e. accelerated/decelerated depreciation under set circumstances) | There is no generally applicable rule, but to the extent economically justified and required, and confirmed by an auditor, different depreciation rules may be acceptable. |
| 5 | Interest deduction limitations | |
| 5.1 | Please describe your earnings-stripping/30% EBITDA rule, the parameters and scope and effective date in your jurisdiction (if applicable). | <p>Switzerland does not apply any EBITDA-limitations or similar earnings stripping rules.</p> <p>Thin capitalisation rules with according limitations on maximum permissible interest (safe harbour rates) are in place.</p> |
| 5.2 | Are any other interest deduction limitation provisions applicable (e.g. thin cap rule, anti-base erosion) | <p>Yes.</p> <p>Swiss thin capitalisation rules generally only apply for transactions with related parties. The thin cap rules prescribe a maximum amount of permitted debt financing per asset category (based on SFTA circular letter).</p> <p>Main categories are:</p> <ul style="list-style-type: none"> - Cash: 100% - Receivables and other current assets: 85% - Investments in subsidiaries: 70% - Loans: 85% - Furniture and fixtures: 50% - Real estate: 70% - Intangible assets: 70% <p>Interest payments are permitted on such maximum debt. The SFTA annually published the applicable safe harbour rates. Higher interest payments may be accepted if at arm's length, and accordingly, detailed documentation must be provided.</p> <p>Excess interest is generally not tax-deductible. Furthermore, such interest will be re-characterised as a constructive dividend distribution subject to Swiss WHT.</p> <p>There are no limitations on the financing of Swiss corporations by independent third parties (e.g. banks), however if there is related party debt in a company, it will always be the related party portion that is re-characterised as hidden equity if the relevant thresholds are exceeded.</p> |
| 5.3 | To what extent are interest expenses deductible if the funds are used for the acquisition of exempt assets (e.g. participations eligible for the participation exemption)? | This is checked on a case by case basis under interest deduction limitation provisions. |
| 5.4 | Does your jurisdiction have a Specific Anti-Abuse Rule which may limit interest deduction? | <p><i>IBFD: Yes.</i></p> <p><i>There is a rule in Article 65 of the Federal Act on Direct Taxation and in Article 24(1)(c) of the Federal Act on Tax Harmonization. Interest paid on loan capital that economically has the character of equity capital is not a deductible expense (article 65 of the DBG; article 24(1)(c) of the StHG). According to article 65 of the DBG, interest paid for hidden equity is not deductible. The term "hidden equity" is defined as debt capital which has the economic character</i></p> |

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| | | <i>of equity, i.e. debt capital which would not have been granted by third persons under the same conditions. Thus, essential for the qualification of debt capital are the financial facilities of a company in each singular case. A loan has only the character of equity if it (a) is granted by shareholders or closely related persons and (b) is exposed to the business risk or the profit margin of the company because of the uncertainty of repayment of the loan due to subjective (will of the parties involved) or objective (financial situation) factors. As a rule of thumb, the criteria for the distinction between debt capital and hidden equity is whether an independent third person would grant a loan under the specific circumstances or not.</i> |
| 6 | Royalties | |
| 6.1 | Is there a limitation on the deductibility of royalties (e.g. in amount or rate)? | No. Royalty payments are generally deductible for tax purposes as long as the royalty rate is at arm's length. |
| 7 | Head office costs | |
| 7.1 | Are head office costs deductible? | Yes. Head office costs are deductible as long as they are economically justified, at arm's length and properly accounted for. |
| 7.2 | How does the deductibility of head office costs relate to the participation exemption in your jurisdiction, i.e. is there an interaction? | Head office costs are deductible in connection with the participation relief, however the head-office costs must also be taken into account in the determination of the numerator of the participation relief calculation. |
| 7.3 | How are head office costs typically on-charged in your jurisdiction, e.g. management agreement and what kind of allocation key is acceptable? | There are no formal rules on acceptable allocation keys. An allocation key must be reasonable, economically justified, and lead to an arm's length result. A written agreement outlining the type of costs which are on-charged and the allocation key is a very strongly recommended practice requirement, albeit not a formal legal requirement. |
| 7.4 | What are the TP requirements relating to head office costs? What kind of remuneration is acceptable? | The general rule is that the arm's length principle must be maintained. This may ideally be supported by benchmark studies and further documentation. |
| 8 | Innovation box and comparable beneficial regimes | |
| 8.1 | What is the effective rate under your innovation box or a comparable beneficial regime? | No. |
| 8.2 | What conditions apply for the application of the innovation box or another comparable regime (e.g. request for special status, variation in application per type of license/right)? | As of 2020, the patent box is open to all taxpayers with qualifying income. Companies applying for the patent box must derive income from a patent or product including the patent. Trademark or copyright rights do not qualify. Application will likely be possible in the tax return, however taxpayers desiring advance confirmation of relevant facts and resulting tax treatment should generally be able to file an according advance ruling request. |
| 8.3 | Is the modified nexus approach applied? If applicable, per what date? | Yes. The modified nexus is applicable as from 1 January 2020 (per introduction date of patent box). |
| 9 | Exemption of profits from participations | |
| 9.1 | To what types of profit does the exemption regime apply? E.g. regular dividends, capital gains, etc. | Participation relief is the term generally used for the tax relief on qualifying dividend income and capital gains from the disposal of a subsidiary. Participation relief is not an outright tax exemption, but rather a tax abatement mechanism. It is therefore also commonly referred to as 'participation deduction' or 'participation exemption'. Participation relief is a percentage deduction from CIT that is equal to net participation income divided by taxable income. Net participation income consists of the gross participation income from qualifying dividends and (usually) |

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| | | <p>qualifying capital gains less related administration and financing costs and any depreciation of the participation that is linked to the dividend distribution. The participation relief on dividend income is mandatory at the federal and communal CIT. The participation relief on capital gains is voluntary for cantonal/communal tax purposes, but nonetheless is implemented by all cantons.</p> <p>The exemption applies for interest of at least 10% or with an acquisition value of at least CHF 1m.</p> |
| 9.2 | Is there full or partial exemption (if partial, to what extent)? | <p>Whilst the participation relief will in most cases lead to a full exemption of the underlying investment income, minor leakage may occur in some cases due to the indirect exemption mechanism.</p> <p>Participation relief is not effective if there are NOLs, since NOLs will be offset against participation income before the application of participation relief.</p> |
| 9.3 | Does the regime also apply to final liquidation losses? | <p>Yes.</p> <p>Final liquidation losses should be treated the same way as any other losses incurred by a company.</p> |
| 9.4 | Do controlled foreign company (CFC) rules apply? | <p>No.</p> <p>In Switzerland, no CFC or 'subject to tax' rules exist. Foreign companies are therefore recognised for Swiss tax purposes if they are managed and controlled offshore and are not set up purely for the reason of avoiding Swiss taxes.</p> |
| 10 | Loss compensation | |
| 10.1 | What is the type (e.g. operational losses, holding losses, other) and the maximum amount of losses that can be compensated? | <p>All losses incurred by a company can generally be deducted, as long as the general anti-abuse rule is not infringed. There is no differentiation between different categories of losses.</p> <p>There is no limitation on the amount of losses which can be compensated, other than the carry forward period.</p> |
| 10.2 | How many years can be carried forward? | Tax losses can be carried forward for a maximum of seven years and can be offset against the taxable income of the following seven years. Losses are offset on a first in, first out basis. |
| 10.3 | How many years can be carried back? | There is no carry-back of tax losses in Switzerland. |
| 10.4 | Are any group relief regimes in place? | No. |
| 11 | ATAD 1 / ATAD 2 / BEPS | |
| 11.1 | Is there a general anti-abuse rule (GAAR)? | <p>Yes.</p> <p>Swiss tax law follows a general anti-abuse rule, which has been developed through court practice over many years. According to this rule, a transaction / structure will be disregarded and treated according to its economic merits if:</p> <ul style="list-style-type: none"> - It is unusual, - Its design can be only explained with the purpose to avoid taxes, and - If an actual implementation would indeed help avoid taxes. <p>This inherent anti-abuse rule will also apply in connection with interest deductions.</p> |
| 11.2 | Is there a targeted anti-abuse rule (TAAR)? | No. |
| 11.3 | Does your jurisdiction have any reservations for application of the multilateral instrument (MLI)? | <p>Yes.</p> <p>Switzerland has made reservations to articles 3~5, 8~16, 19, 24, 26, 28 and 35.</p> <p>The OECD overview of reservations made by Switzerland can be found under the following link: http://www.oecd.org/tax/treaties/beps-mli-position-switzerland-instrument-deposit.pdf</p> |

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| 12 | Special regulations or taxes (insofar there is a material impact on the tax position) | |
| 12.1 | Is some form of equity deduction, e.g. notional interest deduction in place? | <p>Only the canton Zurich offers a NID.</p> <p>However, previously existing finance branches / finance companies are being abolished with the Swiss tax reform (TRAF).</p> <p>As from 1 January 2020, only cantons with a sufficiently high statutory tax rate will be allowed to offer NID on cantonal/communal level.</p> |
| 12.2 | Are any special credits in place for IP-costs of for example wage costs? | Yes. |
| 12.3 | Is an accumulated earnings tax in place? | <p>No.</p> <p>Switzerland does not have an accumulated earnings tax. However, in very special cases where a company otherwise has only limited ties to Switzerland, the Swiss Federal Tax Act could require securing WHT for companies with very large accumulated earnings.</p> |
| 12.4 | Are any digital taxes in place? | <p>No.</p> <p>Income from digital businesses is taxed the same way as income from brick-and-mortar business.</p> |
| 12.5 | Are any investment deduction measures in place? | <p>Yes.</p> <p>Some cantons may allow accelerated amortisation of certain investments.</p> |
| 12.6 | Is some sort of (R&D)-wage credit in place? | No. |
| 12.7 | Are there any other sector-specific direct tax measures, e.g. a banking tax, tax on rents, etc. | <p>No.</p> <p>There are no other major nation-wide, income related taxes to be considered. Some businesses may be required to levy fees / taxes e.g. in connection with tourism, or a general business tax (e.g. in the canton Geneva, this is based on rent, headcount, and turnover).</p> |
| 13 | Withholding taxes | |
| 13.1 | Is there a withholding tax on dividend? If yes, please provide rates. | 35% |
| 13.2 | Is there a withholding tax on interest? If yes, please provide rates | <p>A WHT of 35% on interest only applies on instruments which qualify as bonds or collective funding schemes. Interest on single loans is generally not subject to WHT. If interest payments are re-characterised as constructive dividends, dividend WHT will apply.</p> <p>Interest paid by banks and similar financial institutions is in contrast generally subject to WHT.</p> |
| 13.3 | Is there a withholding tax on royalties? If yes, please provide rates | No. |
| 13.4 | How is the taxable base for the withholding tax determined? | Gross amount. |
| 13.5 | Does the withholding tax provide for any exemptions? If yes, describe the exemptions. | <p>Yes.</p> <p>An exemption (refund) may apply for Swiss resident recipients, provided that the income is properly taken into account.</p> <p>Apart from the Swiss domestic rules, a double tax treaty may provide for a WHT reduction or exemption.</p> |

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| 13.6 | Do anti-abuse provisions apply with regard to withholding taxes (e.g. in national law or treaties)? | Yes. The Swiss GAAR applies and tax treaties may provide for anti-abuse provisions. |
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| # | Measures | Any changes expected in the near future (i.e. up to and including 2020) |
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| 1 | Tax rate | |
| 1.1 | What is the corporate income tax rate in your jurisdiction and do brackets apply? | For 2020, the overall approximate range of the maximum CIT rate on profit before tax for federal, cantonal, and communal taxes is between 11.6% and 21.2%. The expected range from 2025 (with phased reductions in some cantons) is between ca. 11.6% and 18.2%. |
| 8 | Innovation box and comparable regimes | |
| 8.1 | What is the effective rate under your innovation box or a comparable beneficial regime? | As from 1 January 2020, all cantons must offer a patent box regime, with the actual amount of relief varying from canton to canton. In addition, some cantons will offer an R&D super deduction of up to 50% on R&D expense. The super deduction and the patent box are mutually exclusive, i.e. in principle no super deduction is possible on costs relating to a patent for which the patent box is applied. With application of the patent box or super deduction, ETRs of around 10% to 13% may be possible, depending on canton of domicile. |
| Special regulations or taxes (insofar there is a material impact on the tax position) | | |
| 12.2 | Are any special credits in place for IP-costs of for example wage costs? | An R&D super deduction will apply for some cantons from 2020. |
| 12.6 | Is some sort of (R&D)-wage credit in place? | An R&D super deduction will apply for some cantons from 2020. |

2.14. UK



| # | Measures | 2019 |
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| 1 | Tax rate | |
| 1.1 | What is the corporate income tax rate in your jurisdiction and do brackets apply? | The general CIT rate is 19% for taxable income. |
| 1.2 | Do different rates apply for regular profit and capital gains? If yes, what are these rates? | No. Capital gains are treated as regular income. |
| 2 | Substance | |
| 2.1 | What are the substance requirements in your jurisdiction? | There are no substance requirements in the UK. However, in certain specific circumstances, the substance of a company in the UK may impact its tax residence status. A company is generally considered to be a UK tax resident under domestic law if it is either incorporated in the UK or its central management and control (CM&C) is situated in the UK. The exception to that rule is that if the company is treated as solely resident in a different country under that country's double tax treaty (DTT) with the UK, it will also be treated as not resident in the UK for domestic law purposes. In practice therefore, a company may need UK substance to maintain the UK tax residence if it has a presence in another jurisdiction with which the UK has a DTT in which that other jurisdiction asserts tax residence by management and control. This is necessary to ensure the company does not cease to be UK tax resident by operation of the treaty residence tiebreaker. The assessment is made on a facts and circumstances basis. |
| 2.2 | Could you indicate whether the substance test in your jurisdiction can be considered light or extensive? | Compared to the substance test of the Netherlands, the UK would be considered to have a light substance test. |
| 2.3 | What is the effect of substance on specific tax rules, e.g. for which rules is substance relevant in what way? | Substance is considered relevant for the assessment of tax residence and the application of double tax treaties. |
| 3 | Transfer pricing related modalities | |
| 3.1 | How are non-businesslike transactions corrected in your jurisdiction? | Transfer pricing legislation applies to ensure transactions between related parties are at arm's length. In practice this means that costs in excess of an arm's length amount are not deductible and income below an arm's length amount is imputed. Transfer pricing adjustments can only increase taxable profits. Secondary adjustments (e.g. deemed distributions) are not common. |
| 3.2 | Does your jurisdiction allow for a step-up to FMV, if an asset is transferred for a lower value? | No. However, if the asset is subsequently revalued upwards, any accounting gain may be taxable. |
| 3.3 | If there is a step-up, does this depend on a potential exit-taxation/pick-up in another jurisdiction and how is the difference treated | No. This does not depend on a potential exit-taxation/pick-up in another jurisdiction. |

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| | (deemed capital contribution in the receiving entity)? | |
| 4 | Depreciations | |
| 4.1 | Please elaborate on the depreciation regimes for: | <p>UK tax law generally does not provide for a tax deductible depreciation. However, capital allowances are available. The main allowances available include:</p> <ul style="list-style-type: none"> - plant and machinery; - structures and buildings; and - research and development. <p>There are special rules/allowances for certain types of assets such as mineral extraction (25% reducing or 10% reduction on mineral rights), dredging (4% straight line), knowhow (pre 1 April 2002), and patents (pre 1 April 2002).</p> |
| 4.2 | <ul style="list-style-type: none"> • Business assets | <p>Plant & Machinery: generally 18% available on a reducing balance. For certain expenditure (e.g. long life assets and integral features) allowances are given at a special rate of 6% (also on a reducing balance). First-year allowances (FYAs) are available at a rate of 100% on expenditure incurred on new plant and machinery that falls into the category of 'environmentally beneficial'. This first-year allowance for environmentally beneficial plant and machinery will end on 31 March 2020 for companies, and 5 April 2020 for unincorporated businesses. Special rules apply to leased assets. An Annual Investment Allowance (AIA) is available up to £1m per annum for expenditure incurred for the period 1 January 2019 to 31 December 2020 (this is akin to a 100% first year allowance) - there are specific rules governing the availability of the AIA. Research and development allowances (RDAs) are available for certain capital expenditure on research and development. Separate relief, not under the capital allowances code, is available for qualifying revenue expenditure. Both the capital allowance relief and the revenue relief are generous compared to reliefs for other types of expenditure. RDAs are given at 100%. RDAs are available only for traders, not for those carrying on a profession or vocation.</p> |
| 4.3 | <ul style="list-style-type: none"> • Real estate (used within the company or by a third party) | <p>A new Structures and Buildings Allowance (SBA) has been introduced for qualifying (non residential) buildings. The SBA was announced at Budget Day of 2018 for non-residential structures and buildings and applies to eligible construction expenditure incurred on or after 29 October 2018.</p> <p>The SBA allowance provides relief at an annual rate of 2% on a straight-line basis over a period of 50 years.</p> |
| 4.4 | <ul style="list-style-type: none"> • Goodwill | <p>The tax treatment of goodwill and customer-related intangibles (relevant assets) acquired after 8 July 2015 is complex and varies according to the date on which the assets were acquired. Different rules apply depending on whether the IFA was acquired: a) before 8 July 2015; b) between 8 July 2015 and 31 March 2019 (inclusive); or c) on or after 1 April 2019. These rules are highly complex. For relevant assets acquired on or after 1 April 2019, capitalised expenditure may qualify for amortisation relief at a fixed rate of 6.5% on condition that the assets are acquired (for ongoing use in the acquirer's business) as part of the acquisition of a business which also involves the acquisition of qualifying IP assets. 6.5% fixed rate amortisation relief is partially restricted where the value of relevant assets purchased in connection with the business acquisition exceeds six times the value of qualifying IP assets purchased in connection with the business acquisition.</p> |
| 4.5 | <ul style="list-style-type: none"> • IP (both purchased and self-developed) | <p>The intangible fixed asset rules in apply to intangible fixed assets (IFAs) created, or acquired from an unrelated party, on or after 1 April 2002. IFAs falling outside these rules will generally fall within the chargeable gains rules. For capitalised IFAs a company has a choice of tax treatment as follows:</p> <ol style="list-style-type: none"> (1) by default, to follow the accounting treatment (but with adjustments in cases where the tax base cost of an asset differs from the accounts base cost, e.g. on a claim for roll-over relief); or (2) by election, to claim a 4% fixed rate of amortisation. |

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| | | Regardless of accounting treatment, a company may elect to write down the cost of the IFA for tax purposes at a 4% fixed rate. This is particularly beneficial where the IFA is not amortised in the accounts. The election must be made in writing within two years after the end of the accounting period in which the asset is created or acquired. The fixed rate tax deduction is the lower of: 4% of the cost of the asset for tax purposes (reduced proportionately where the accounting treatment is less than 12 months); or the balance of the tax written down value. |
| 4.6 | <ul style="list-style-type: none"> If available, random depreciation (i.e. accelerated/decelerated depreciation under set circumstances) | <p>Research and development (R&D) incentives. Tax reliefs are available for companies incurring expenditure on R&D. For revenue expenditure, a small or medium-sized enterprise (SME) is able to claim 230% of the qualifying expenditure on R&D in the year in which it is incurred, which can be surrendered for a cash payment (at a rate of GBP 33.35 for each GBP 100 of qualifying R&D spend) by companies that are trading at a loss or have not yet started to trade. A large company is able to claim an R&D Expenditure Credit (RDEC) equal to 12% of qualifying expenditure. 100% capital allowances are available in respect of qualifying capital expenditure on R&D. Complex rules apply to determine whether R&D has taken place; the meaning of 'SME' and the nature of qualifying expenditure.</p> <p>In order to be qualifying R&D expenditure, the expenditure must be: (1) attributable to relevant R&D directly undertaken by the company or on its behalf (subject to the subcontracting rules; see below); and (2) incurred on any of the following: (a) staff costs; (b) software and consumables; (c) externally provided workers; (d) payments to the subjects of a clinical trial; and (e) subcontracted R&D. The availability of claiming this expenditure is governed by specific rules in the SME and RDEC schemes. Qualifying expenditure on consumable items is limited to the cost of only those items fully used up or expended by the R&D activity itself and do not go on to be sold as part of a commercial product.</p> <p>The reliefs available to SMEs are only available where: the SME is a going concern; the expenditure is not subsidised; and the total relief claimed by the SME does not exceed the cap imposed to meet State Aid rules (EUR 7,500,000).</p> <p>Where an SME is unable to claim relief under the SME scheme because of the subcontractor rules, because it is subsidised or because the cap on R&D relief has been breached, it may claim the RDEC available to large companies instead.</p> <p>Other incentives for innovation - There are special enhanced deductions for creative sector industries such as Film, Museums, Orchestras, Theatres, TV, Animation and Video Games. Enhanced capital allowances, i.e. a variety of tax incentives in the form of enhanced tax depreciation (known as capital allowances), are also available. Some of these incentives are given by reference to the expenditure concerned (e.g. R&D) and others by reference to the size of the company incurring that expenditure.</p> |
| 5 | Interest deduction limitations | |
| 5.1 | Please describe your earnings-stripping/30% EBITDA rule, the parameters and scope and effective date in your jurisdiction (if applicable). | The UK has a corporate interest restriction rule, limiting corporation tax deductions for net interest expense to the higher of 30% of UK earnings before interest, taxes, depreciation, and amortisation (UK EBITDA) and the group ratio (for highly geared groups). In addition, the net interest deduction of the UK group cannot exceed the net interest shown in the worldwide group's consolidated financial statements. A safe harbour of GBP 2m applies and restricted interest expenses may be carried forward for five years. Furthermore, a group ratio escape applies. |
| 5.2 | Are any other interest deduction limitation provisions applicable (e.g. thin cap rule, anti-base erosion)? | Yes. There are thin capitalisation rules which broadly limit tax relief for interest to the tax relief which would be available in an arm's length situation (essentially requiring arm's length dealings). |
| 5.3 | To what extent are interest expenses deductible if the funds are used for the acquisition of exempt assets (e.g. participations eligible for the participation exemption)? | The UK has no specific rule on this. |

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| 5.4 | Does your jurisdiction have a Specific Anti-Abuse Rule which may limit interest deduction? | Yes. There are three anti avoidance rules which could limit interest deductions: (1) a targeted anti-avoidance rule (TAAR) to prevent arrangements with a main purpose of preventing a disallowance under the corporate interest restriction rules; (2) a rule to disallow interest on loans with an "unallowable purpose" (where a main purpose of the loan is a tax avoidance purpose); and (3) a general TAAR for loan relationships to counteract arrangements to avoid tax. There is also a General Anti Abuse Rule (GAAR) which potentially applies to all aspects of corporation tax. |
| 6 | Royalties | |
| 6.1 | Is there a limitation on the deductibility of royalties (e.g. in amount or rate)? | No. Arm's length royalties are in principle deductible. |
| 7 | Head office costs | |
| 7.1 | Are head office costs deductible? | Yes. There are no special rules for payment of head office costs to foreign affiliates - their tax treatment follows the basic rules for deductions set out above. In addition, UK transfer pricing legislation requires that transactions with affiliates are priced in accordance with the arm's length principle. In practice, this means that the UK affiliate must receive a service which provides a commercial benefit such that, at arm's length, it would be willing to pay for the service; and the price paid should be calculated in accordance with the OECD Guidelines. |
| 7.2 | How does the deductibility of head office costs relate to the participation exemption in your jurisdiction, i.e. is there an interaction? | There is no specific interaction between deductibility of head office costs paid to foreign affiliates and the participation exemption. Tax treatment of head office costs follows the basic rules for deductions set out above. In addition, UK transfer pricing legislation requires that transactions with affiliates are priced in accordance with the arm's length principle. |
| 7.3 | How are head office costs typically on-charged in your jurisdiction, e.g. management agreement and what kind of allocation key is acceptable? | Any mechanism for on-charging head office costs is acceptable provided that the transaction is priced in accordance with the arm's length principle. A typical on-charging mechanism identifies the costs of providing head office services which benefit the recipient, removes non-beneficial costs (e.g. cost of shareholder activities), applies an arm's length mark-up to internally generated costs, and allocates the marked-up costs to affiliates either directly or indirectly on the basis of allocation keys (e.g. turnover or headcount). Where allocation keys are used they should result in a charge which is commensurate with the benefit received by the recipient. |
| 7.4 | What are the TP requirements relating to head office costs? What kind of remuneration is acceptable? | UK transfer pricing legislation requires that transactions with affiliates are priced in accordance with the arm's length principle. |
| 8 | Innovation box and comparable beneficial regimes | |
| 8.1 | What is the effective rate under your innovation box or a comparable beneficial regime? | The applicable rate under the UK Patent Box is 10%. |
| 8.2 | What conditions apply for the application of the innovation box or another comparable regime (e.g. request for special status, variation in application per type of license/right)? | Broadly, the 10% preferential rate is designed to apply to profits derived from the licensing or sale of patent rights, sales of a patented invention or products incorporating the patented invention, and use of a patented invention in a company's trade or compensation payments. However, profits from routine manufacturing, development functions and exploitation of marketing intangibles are excluded. The rate applied by the patent box is achieved by permitting an additional deduction from the profits of the trade of a qualifying company. The patent box applies with respect to the following items: certain qualifying patents; certain supplementary protection certificates; certain plant breeders' rights; certain community plant variety rights. There are various criteria, e.g. development criteria, that the company must meet to obtain Patent Box relief. The regime only applies where an election is made by the taxpayer that is a qualifying company. Non-trading companies such as passive IP holding |

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| | | <p>companies cannot benefit from the Patent Box. The election must be in writing, and specify the first accounting period for which the election will apply.</p> <p>In practice, the election should be made within 12 months of the fixed filing date of the company's tax return for which the company wishes to elect for the Patent Box regime to apply. The election will apply for all subsequent accounting periods until the election is revoked by notice in writing, specifying the accounting period for which it is to take effect. Once an election is revoked, a new election will have no effect for any accounting period which begins less than five years after the last day of the accounting period which begins after the last day of the accounting period identified in the revocation notice.</p> |
| 8.3 | Is the modified nexus approach applied? If applicable, per what date? | Yes, per 1 July 2016. |
| 9 | Exemption of profits from participations | |
| 9.1 | To what types of profit does the exemption regime apply? E.g. regular dividends, capital gains, etc. | <p>The UK offers an exemption from corporation tax on chargeable gains made on the sale of shares in trading companies for investments in which the UK company has a substantial shareholding (the substantial shareholding exemption, or SSE), where all the qualifying conditions are met. The most relevant conditions are a 10% ownership, a one year holding period in the past six years and the disposed company must be a (holding company of a) trading company.</p> <p>There is also an exemption from tax on dividends received in almost all circumstances. There is no ownership or holding requirement for dividends.</p> |
| 9.2 | Is there full or partial exemption (if partial, to what extent)? | Full. Where the gain/dividend qualifies for the exemption, the entire gain is exempt. |
| 9.3 | Does the regime also apply to final liquidation losses? | <p>Yes.</p> <p>A UK resident group company is potentially able to claim group relief for income losses of a non-UK resident subsidiary that is resident in the European Economic Area (EEA), or has incurred the relevant losses in a PE within the EEA, provided that all possibilities of non-UK relief for the losses have been exhausted and future relief is unavailable. There may therefore be scope for relief for final liquidation losses (where they are trading in nature) to qualify for offset against profits elsewhere in the group where those conditions are met. However, those conditions are difficult to satisfy in practice.</p> |
| 9.4 | Do controlled foreign company (CFC) rules apply? | <p>Yes.</p> <p><i>Controlled foreign companies (CFCs)</i> Under the CFC regime, a UK resident company may be taxed on a proportion of the profits of certain UK-controlled, non-resident companies in which the resident company has an interest (i.e. broadly at least a 25% interest but also, together with associated enterprises, an interest of more than 50%). The overall intention is to tax profits that have been artificially diverted from the United Kingdom.</p> <p>Broadly, profits of a non-UK resident CFC will be taxed, using normal corporation tax rates and rules, on the persons controlling the CFC if (i) the profits pass through the CFC 'gateway' and (ii) are not exempt.</p> <p>The 'gateways' are a series of tests that identify profits that are, broadly, artificially diverted from the United Kingdom. For example, where profits are attributable to UK significant people functions (SPFs), those profits will be taxed in the United Kingdom unless one of four conditions are satisfied (the first of which is that obtaining a tax advantage is not the main purpose or one of the main purposes of the arrangement). A range of other tests may capture other profits.</p> <p>Various exemptions exist for certain types of companies, those coming into the regime for the first time, CFCs with low</p> |

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| | | <p>profits or low margins, CFCs in excluded territories, or others with corporation tax rates similar or above UK rates.</p> <p>There is a special exemption for intra-group financing profits that can result in an exemption of between 75% and 100% of the financing profits on qualifying loans. This exemption has been the subject of an in-depth investigation by the European Commission into whether it constitutes fiscal state aid. That investigation concluded that granting the exemption in relation to profits that are attributable to UK significant people functions constituted unlawful state aid. In order to make the regime ATAD compliant, the government tightened the exemption so that (from 1 January 2019) the reduced rate of tax is no longer be available in relation to profits that are attributable to UK SPFs. The European Commission therefore specifically stated that the rules applicable after that date no longer give rise to any state aid concerns.</p> <p><i>Diverted Profits Tax (DPT)</i> DPT (introduced in April 2015) is part of the UK's response to the shifting tax environment, most notably highlighted in the OECD's BEPS reports. It's separate from other corporate taxes and is levied at 25% (or 55% in the case of UK ring fence operations, i.e. broadly oil extraction operations) on diverted profits (as defined) and may apply in two circumstances: (i) where groups create a tax benefit by using transactions or entities that lack economic substance (as defined); and/or (ii) where foreign companies have structures their UK activities to avoid a UK permanent establishment. Companies are required to notify HMRC if they are potentially within the scope of DPT within three months of the end of the accounting period to which it relates (extended to six months for the first year). The legislation is complex and subjective in places, and has the potential to apply more widely than might be expected.</p> <p>Offshore receipts in respect of intangibles From 6 April 2019, new Offshore Receipts in Respect of Intangible Property rules seek to apply UK tax to income arising offshore where the use of the IP facilitates UK sales (of goods, services or property). There are some exemptions (e.g. where the recipient of the income is tax resident in a territory with which the UK has a double tax treaty with a non-discrimination provision) but the rules are fairly wide reaching.</p> |
| 10 | Loss compensation | |
| 10.1 | What is the type (e.g. operational losses, holding losses, other) and the maximum amount of losses that can be compensated? | <p>Trading losses may be set off against any other source of profit or gains in the same year, may be carried back one year (three years on the cessation of the trade) against any other source of profit or gain, or may be carried forward without time limit against profits of the same trade only (for trading losses accruing up to 1 April 2017) or against total profits (for trading losses accruing on or after 1 April 2017).</p> <p>Property losses may also be set off against any other source of profit or gains in the same year, or may be carried forward without time limit against profits of any sort; they cannot, however, be carried back.</p> <p>Non-trading deficits (NTDs) (i.e. interest and financing losses) can again be set off against any other source of profit or gains in the same year, may be carried back one year against non-trading credits (i.e. interest and financing profits), or may be carried forward without time limit against non-trading profits (for NTDs accruing up to 1 April 2017) or against total profits (for NTDs accruing on or after 1 April 2017). The maximum carried forward loss offset is broadly limited to GBP 5,000,000 plus 50% of the current year profits in excess of that amount. This restriction applies to income losses only, not to capital losses.</p> |
| 10.2 | How many years can be carried forward? | Tax losses can be carried forward indefinitely. |
| 10.3 | How many years can be carried back? | Tax losses can be carried forward for one year for trading losses and NTDs, and three years for terminal losses. |
| 10.4 | Are any group relief regimes in place? | <p>Yes.</p> <p>Operating taxable profits and losses arising in the same period can usually be offset between UK resident 75% affiliates within a worldwide group (known as 'group relief'). This extends to offsetting the UK profits attributed to a UK</p> |

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| | | <p>PE of a non-UK resident group member, subject to additional requirements. Losses arising after 1 April 2017 can also be carried forward to future periods and offset against taxable profits (of future periods) of other companies in the same group</p> <p>There is no automatic offset of capital gains and losses where these arise in different group companies, but it is normally possible for offset to be arranged either by actual transfer of the asset prior to disposal or by election.</p> |
| 11 | ATAD 1 / ATAD 2 / BEPS | |
| 11.1 | Is there a general anti-abuse rule (GAAR)? | <p>Yes. A GAAR was introduced in the UK in 2013. The stated intention of the Government was that it should act as a deterrent to taxpayers to encourage them not to enter into abusive tax planning arrangements, and to promoters not to promote such arrangements.</p> <p>The GAAR has effect in relation to tax planning arrangements entered into on or after 17 July 2013. It applies to income tax, corporation tax, capital gains tax, petroleum revenue tax, inheritance tax, annual tax on enveloped dwellings (ATED), stamp duty land tax (SDLT), national insurance contributions (from 13 March 2014), diverted profits tax (from 1 April 2015) and apprenticeship levy (from 15 September 2016).</p> |
| 11.2 | Is there a targeted anti-abuse rule (TAAR)? | <p>Yes.</p> <p>There are a number of targeted anti-abuse rules (TAARs) relating to specific areas of legislation.</p> |
| 11.3 | Does your jurisdiction have any reservations for application of the multilateral instrument (MLI)? | <p>Yes.</p> <p>The UK has made reservations to article 3, 8~10, 12, 14 and 25.</p> <p>The OECD overview of reservations made by the UK can be found under the following link: http://www.oecd.org/tax/treaties/beps-mli-position-united-kingdom.pdf</p> |
| 12 | Special regulations or taxes (insofar there is a material impact on the tax position) | |
| 12.1 | Is some form of equity deduction, e.g. notional interest deduction in place? | No. |
| 12.2 | Are any special credits in place for IP-costs of for example wage costs? | <p>Yes.</p> <p>Research and development (R&D) incentives. Tax reliefs are available for companies incurring expenditure on R&D. For revenue expenditure, a small or medium-sized enterprise (SME) is able to claim 230% of the qualifying expenditure on R&D in the year in which it is incurred, which can be surrendered for a cash payment (at a rate of GBP 33.35 for each GBP 100 of qualifying R&D spend) by companies that are trading at a loss or have not yet started to trade. A large company is able to claim an R&D Expenditure Credit (RDEC) equal to 12% of qualifying expenditure. 100% capital allowances are available in respect of qualifying capital expenditure on R&D. Complex rules apply to determine whether R&D has taken place; the meaning of 'SME' and the nature of qualifying expenditure.</p> <p>In order to be qualifying R&D expenditure, the expenditure must be:</p> <p>(1) attributable to relevant R&D directly undertaken by the company or on its behalf (subject to the subcontracting rules; see below); and</p> <p>(2) incurred on any of the following: (a) staff costs; (b) software and consumables; (c) externally provided workers; (d) payments to the subjects of a clinical trial; and (e) subcontracted R&D.</p> <p>The availability of claiming this expenditure is governed by specific rules in the SME and RDEC schemes. Qualifying expenditure on consumable items is limited to the cost of only those items fully used up or expended by the R&D activity itself and do not go on to be sold as part of a commercial product.</p> |

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| | | <p>The reliefs available to SMEs are only available where: the SME is a going concern; the expenditure is not subsidised; and the total relief claimed by the SME does not exceed the cap imposed to meet State Aid rules (EUR 7,500,000).</p> <p>Where an SME is unable to claim relief under the SME scheme because of the subcontractor rules, because it is subsidised or because the cap on R&D relief has been breached, it may claim the RDEC available to large companies instead.</p> <p>Other incentives for innovation - There are special enhanced deductions for creative sector industries such as Film, Museums, Orchestras, Theatres, TV, Animation and Video Games. Enhanced capital allowances, i.e. a variety of tax incentives in the form of enhanced tax depreciation (known as capital allowances), are also available. Some of these incentives are given by reference to the expenditure concerned (e.g. R&D) and others by reference to the size of the company incurring that expenditure.</p> |
| 12.3 | Is an accumulated earnings tax in place? | No. Companies are not subject to tax on their accumulated / retained earnings |
| 12.4 | Are any digital taxes in place? | No. |
| 12.5 | Are any investment deduction measures in place? | Yes. Please refer to section 12.2. |
| 12.6 | Is some sort of (R&D)-wage credit in place? | Yes. Please refer to section 12.2. |
| 12.7 | Are there any other sector-specific direct tax measures, e.g. a banking tax, tax on rents, etc. | <p>Yes. UK tax law provides for the following regimes.</p> <p><i>Tonnage Tax regime</i> Companies that are liable to corporation tax and operate qualifying ships that are strategically and commercially managed in the United Kingdom can choose to apply Tonnage Tax in the place of corporation tax. Tonnage Tax is an alternative method of calculating corporation tax profits by reference to the net tonnage of operated ships. The Tonnage Tax profit replaces the tax-adjusted profit/loss on a shipping business and certain related activities, as well as the chargeable gains/losses made on Tonnage Tax assets. Any other profits are taxable under the normal corporation tax regime. Creative Sector - See above re Creative Sector industry enhanced deduction schemes.</p> <p><i>Apprenticeship levy</i> Employers in all sectors are charged a levy designed to fund new apprenticeships. It is set at a rate of 0.5 per cent of an employer's 'paybill' (based on total employee's earnings subject to Class 1 secondary NICs) and is paid through PAYE. Each employer receives an allowance of GBP 15,000 to offset against their levy payment which means the levy is only charged on employers with annual 'paybills' in excess of GBP 3,000,000.</p> <p><i>Long term insurance business</i> Life insurance companies who sell policies that fall within the definition of Basic Life Assurance and General Annuity Business, more commonly referred to as 'BLAGAB' will be subject to tax on those profits on an income less expenses basis, referred to as 'I-E profits'. This is broadly a proxy for tax that would be payable by a basic rate taxpayer if the underlying investments were held directly.</p> <p><i>Real Estate Investment Trust ("REIT") regime</i></p> |

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| | | <p>UK companies which carry on 'property rental business' and meet the various conditions (including, but not limited to, listing requirements and asset/income/activity tests) for REIT status benefit from exemptions from UK corporation tax on profits and gains arising from its property rental business. They are subject to corporation tax on all other income and gains under the usual taxation rules. On an ongoing basis, the REIT business has to meet certain tests, and is required to distribute 90% of its rental income in each accounting period in order to obtain the exemption.</p> <p><i>Oil & gas upstream ring fence</i> Companies who produce, or who have rights over, UK oil & gas are subject to a separate tax regime - current corporation tax rate 30% and supplementary charge rate on top of this of 10%. Finance costs are not deductible for supplementary charge purposes. Capex attracts 100% first allowances. Investment allowance is available against supplementary charge profits, calculated at 62.5% of capex. Corporate interest restriction and loss reform rules (from 1 April 2017) do not apply to ring fence profits/losses. Complex rules also exist when companies reach decommissioning phase - broadly, the resulting tax loss can be carried back as far as 2002 (ie not subject to the normal 1 year carry back; this rule also overrides the normal terminal loss carry back of 3 years). Loss-making companies can claim ring fence expenditure supplement of 10% in any 10 years where its UK group are collectively loss-making (calculated on a compound basis). Importantly, ring fence profits cannot be sheltered by losses arising outside the ring fence.</p> <p><i>Oil contractors ring fence</i> Companies who provide offshore drilling or accommodation services are also subject to a separate ring fence regime, where they lease drilling/accommodation rigs from affiliates on a "bareboat lease" basis. Again, ring fence profits cannot be sheltered by non-ring fence losses arising elsewhere in the company/group. There is a further rule which limits the lease deduction within the ring fence to 7.5% of the historic cost of the drilling/accommodation rig; the excess is treated as a non-ring fence loss (and may be group relieved or carried back/forward against non-ring fence profits). Companies in the regime are subject to normal corporation tax rates.</p> <p><i>Banks are subject to a number of tax measures, including:</i></p> <ul style="list-style-type: none"> - Bank levy - The Bank Levy is a balance sheet tax based upon the total adjusted equity and liabilities ("chargeable equity and liabilities") of UK banking groups or sub-groups. However, this is not charged on the first £20 billion of chargeable equity and liabilities. - Banking surcharge - A surcharge of 8% is levied on the taxable profits of banking companies following certain adjustments. There is a £25,000,000 group allowance for banking companies before this applies. - Banking loss restriction - Additional loss restriction rules apply to pre April 2015 banking company losses. - Customer compensation relief restriction - Customer redress payments made by banking companies are disallowed for tax purposes and an additional 10% uplift is applied to the total disallowed amount to reflect administrative costs. - Hybrid capital instrument - These rules provide interest deduction certainty on certain instruments which have both debt and equity features. - Branch capital - The taxable profits of UK branches of banking companies are adjusted to reflect the mix of capital an equivalent UK banking company should hold for regulatory purposes. - The code of practice on taxation for banks - The Code describes the approach expected of banks with regard to governance, tax planning and engagement with HMRC. It requires banks operating in the UK to adopt best practice in relation to their own UK tax affairs, and not to promote or knowingly facilitate UK tax avoidance by others. |
| 13 | Withholding taxes | |
| 13.1 | Is there a withholding tax on dividend? If yes, please provide rates. | 0% |

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| 13.2 | Is there a withholding tax on interest? If yes, please provide rates | 20% |
| 13.3 | Is there a withholding tax on royalties? If yes, please provide rates | 20% |
| 13.4 | How is the taxable base for the withholding tax determined? | Gross amount. |
| 13.5 | Does the withholding tax provide for any exemptions? If yes, describe the exemptions. | <p>Yes.</p> <p>An exemption from interest WHT may apply in a number of cases, the following being the most relevant ones:</p> <ul style="list-style-type: none"> - payments to a beneficial owner of the interest which is also a UK resident company, or a UK PE (provided the interest concerned will be taxed in the UK as part of the PE's trading profits); - payments of interest on a quoted Eurobond; - payments of interest that qualify for exemption under the EU Interest & Royalties Directive; - payments of interest paid to or by a UK bank (or a UK PE of a foreign bank); - payments of 'short' interest (ie, broadly speaking, interest on loans that will not be in place for more than a year); - payments of interest that do not 'arise' in the UK (it should be noted that whether or not a payment constitutes UK-source interest is a complex issue and requires a case-by-case analysis). <p>An exemption from royalty WHT may apply with respect to EU companies which are eligible for the EU Interest Royalty Directive.</p> <p>Apart from the UK domestic rules, a double tax treaty may provide for a WHT reduction or exemption.</p> |
| 13.6 | Do anti-abuse provisions apply with regard to withholding taxes (e.g. in national law or treaties)? | <p>Yes.</p> <p>A GAAR applies in line with the EU Interest & Royalties Directive. Furthermore, UK tax law provides that treaty relief in respect of royalties paid between connected persons will not be available where it is reasonable to conclude that the main purpose, or one of the main purposes, of the arrangements was to obtain a tax advantage by virtue of any provisions of a double taxation arrangement and obtaining the tax advantage is contrary to the object and purpose of those provisions.</p> <p>Tax treaties may provide for certain anti-abuse provisions, such as a Principle Purpose Test or Main Benefit Test.</p> |

| # | Measures | Any changes expected in the near future (i.e. up to and including 2020) |
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| 1 | Tax rate | |
| 1.1 | What is the corporate income tax rate in your jurisdiction and do brackets apply? | For 2020 the CIT rate is proposed to be lowered to 17% with effect from 1 April 2020. |
| | Depreciations | |
| 4.2 | Business assets | The AIA may be amended to a different amount for future accounting periods - the amount has been altered in Budgets over the past few years. Special allowances for certain energy saving plant & machinery will not be available from 1 April 2020. |
| 10 | Loss compensation | |
| 10.1 | What is the type (e.g. operational losses, holding losses, other) and the maximum amount of losses that can be compensated? | For 2020, there is a proposal to extend this limitation to capital losses from April 2020. It is expected that the Finance Bill 2020 will provide for capital losses to be included within the GBP 5 million allowance and to apply to capital losses the 50% restriction already in effect (as of 1 April 2017) for other categories of losses would be preferred. |
| 12 | Special regulations or taxes (insofar there is a material impact on the tax position) | |
| 12.4 | Are any digital taxes in place? | A 'Digital Services Tax' was announced in the UK's 2018 Budget. From April 2020, the government will introduce a new 2% tax on the revenues of search engines, social media platforms and online marketplaces which derive value from UK users. |
| 12.5 | Are any investment deduction measures in place? | To counter perceived abuse of the R&D regime, the government is planning to introduce legislation in Finance Bill 2020 to restrict the cash payment that a loss making SME can receive in a tax year to three times the company's total PAYE and NIC tax liability. |
| 12.6 | Is some sort of (R&D)-wage credit in place? | To counter perceived abuse of the R&D regime, the government is planning to introduce legislation in Finance Bill 2020 to restrict the cash payment that a loss making SME can receive in a tax year to three times the company's total PAYE and NIC tax liability. |
| 12.7 | Are there any other sector-specific direct tax measures, e.g. a banking tax, tax on rents, etc. | Whilst not in the next year, from 2021 the Bank Levy will be chargeable only on the UK balance sheet equity and liabilities of banks and building societies. Broadly, this means that overseas activities of UK headquartered banking groups will no longer be subject to the Bank Levy. |

2.15. US



| # | Measures | 2019 |
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| 1 | Tax rate | |
| 1.1 | What is the corporate income tax rate in your jurisdiction and do brackets apply? | The federal CIT rate is 21%. In addition, state taxes apply which generally range from 1-12%. State taxes are deductible against federal corporate income taxes. <i>IBFD: 6 US states impose no state-level CIT.</i> |
| 1.2 | Do different rates apply for regular profit and capital gains? If yes, what are these rates? | No. Capital gains for corporations are subject to the general CIT rate. |
| 2 | Substance | |
| 2.1 | What are the substance requirements in your jurisdiction? | Generally, a domestic company is respected and treated as a U.S. tax resident provided it has been incorporated and complies with general formal requirements (e.g., under corporate law or articles of association). As the US does not determine residence by place of management, there are no substance related rules, for example, requiring meetings to occur in the US, that a certain percentage of officers or directors must be American, etc. Transactions and legal entities may be disregarded from a tax perspective if they lack economic substance or are considered a sham. |
| 2.2 | Could you indicate whether the substance test in your jurisdiction can be considered light or extensive? | Compared to the substance test of the Netherlands, the U.S. would be considered to have a light substance test. |
| 2.3 | What is the effect of substance on specific tax rules, e.g. for which rules is substance relevant in what way? | Substance is required with respect to entities and transactions. To be respected from a tax perspective, a transaction must have economic substance. Transactions and entities that lack economic substance may be disregarded from a tax perspective. |
| 3 | Transfer pricing related modalities | |
| 3.1 | How are non-businesslike transactions corrected in your jurisdiction? | There are multiple provisions / case law / guidance that deal with transactions and there can be different results depending on the type of transaction. This can include denial of deduction, correction of taxable income, deemed dividend distribution or deemed capital contribution treatment, and potentially others. Transfer pricing rules require that intercompany transactions occur at arm's length value. Section 482 of the IRC provides that "the Secretary may distribute, apportion, or allocate gross income, deductions, credits, or allowances between or among such organizations, trades, or businesses, if he determines that such distribution, apportionment, or allocation is necessary in order to prevent evasion of taxes or clearly to reflect the income of any of such organizations, trades, or businesses." |
| 3.2 | Does your jurisdiction allow for a step-up to FMV, if an asset is transferred for a lower value? | Yes. For U.S. tax purposes, transactions are deemed to occur at FMV. If an asset is transferred for less than FMV, then adjustments must be made to account for the difference in FMV and the amount transferred (e.g., a deemed distribution and / or contribution). |
| 3.3 | If there is a step-up, does this depend on a potential exit-taxation/pick-up in another jurisdiction and how is the difference treated (deemed capital contribution in the receiving entity)? | No. For U.S. tax purposes, transactions are deemed to occur at FMV. If an asset is acquired for less than FMV, then adjustments must be made to account for the difference in FMV and the amount acquired (e.g., a deemed distribution and / or contribution). |

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| 4 | Depreciations | |
| 4.1 | Please elaborate on the depreciation regimes for: | The main rule for depreciation is over the economic lifetime of an asset. The following caps do apply for the maximum depreciation per annum. |
| 4.2 | • Business assets | Depending on the business asset, it is generally depreciated over a 3, 5 or 7 year period. These assets are depreciated by first applying the 200% declining balance method and then switching to the straight line method at such a time as when use of the straight line method maximizes the depreciation deduction. Elections to use alternative methods may be available. |
| 4.3 | • Real estate (used within the company or by a third party) | Residential rental property may generally be depreciated over 27.5 years. Non-residential property may generally be depreciated over 39 years. Land is not depreciable or amortizable. |
| 4.4 | • Goodwill | Acquired goodwill may generally be amortised over 15 years subject to anti-churning rules (rules for preventing a taxpayer from taking advantage of new laws by acquiring property from a related party which is eligible for benefits available under the new law, while the property was used by the related property before the new law). Self-developed goodwill generally has no basis and thus no amortization. |
| 4.5 | • IP (both purchased and self-developed) | Purchased intangible assets may generally be amortised over 15 years (subject to anti-churning rules). Self-developed IP is not subject to the US 15-year amortization rules for intangible property (IRC § 197). The costs incurred to develop the IP are subject to the normal US rules that apply to the treatment of expenses that may be deducted or are capitalized |
| 4.6 | • If available, random depreciation (i.e. accelerated/decelerated depreciation under set circumstances) | There are special rules allowing for accelerated or decelerated depreciation using certain elections or up to certain amounts, depending on the situation. |
| 5 | Interest deduction limitations | |
| 5.1 | Please describe your earnings-stripping/30% EBITDA rule, the parameters and scope and effective date in your jurisdiction (if applicable). | The U.S. earnings stripping rule (Section 163(j) of the IRC) limits US business interest expense deductions to the sum of business interest income and 30% of 'adjusted taxable income' (ATI). These rules broadly apply to the 'business interest' of any taxpayer (regardless of form) and regardless of whether the taxpayer is part of an 'inbound' group or an 'outbound' group (i.e., the rules apply regardless of whether the interest payment is made to a foreign person or a US person, and regardless of whether such person is related or unrelated to the taxpayer). ATI is roughly equivalent to earnings before interest, taxes, depreciation, and amortisation (EBITDA) (similar to prior-law Section 163(j)) for tax years beginning before 1 January 2022. For tax years beginning on or after that date, ATI would be roughly equivalent to earnings before interest and taxes (EBIT). Disallowed business interest expense can be carried forward indefinitely. <i>IBFD: The interest deduction limitation does not apply to small businesses, defined as businesses with gross receipts of less than USD 25 million (indexed for inflation) for the preceding three taxable years.</i> |
| 5.2 | Are any other interest deduction limitation provisions applicable (e.g. thin cap rule, anti-base erosion) | Yes. The U.S. has various provisions that may defer or disallow business interest. Only the amount that is deductible (after applying the deferral / disallowance provisions) is then subject to section 163(j). Note that under section 385, the IRS has the authority to determine if a particular instrument should be treated as debt or equity based on an analysis of various factors. |
| 5.3 | To what extent are interest expenses deductible if the funds are used for the acquisition of exempt assets (e.g. participations eligible for the participation exemption)? | Interest expense may be disallowed under IRC section 265 if it is incurred to acquire assets, the income from which is excluded from US federal income tax. To note, this generally does not include borrowing to purchase shares of a company as dividends and capital gains are generally not excluded from income. |

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| 5.4 | Does your jurisdiction have a Specific Anti-Abuse Rule which may limit interest deduction? | <p>Yes.</p> <p>As described, the U.S. has various rules to disallow, defer, and limit the amount of interest expense able to be deducted. In addition, many of those provisions have regulatory anti-abuse / anti-avoidance provisions that must be considered.</p> <p><i>IBFD: SAAR that may apply to limit interest deductions, include the following:</i></p> <ul style="list-style-type: none"> - disallowance of interest deductions on high-yield discount debt obligations (IRC § 163(i)) - disallowance of interest deductions on debt obligations payable in equity (IRC § 163(l)) - disallowance of losses, expenses and interest on transactions between related parties (IRC § 267) - disallowance of deductions in hybrid transactions and by hybrid entities (IRC § 267A) - thin-capitalization rules (IRC § 385) - economic substance doctrine (IRC § 7701(o)). |
| 6 | Royalties | |
| 6.1 | Is there a limitation on the deductibility of royalties (e.g. in amount or rate)? | <p>No.</p> <p>Intercompany royalties must be charged at an arm's length rate and must not be subject to the anti-hybrid provisions of section 267A. In general, no other limitations apply.</p> |
| 7 | Head office costs | |
| 7.1 | Are head office costs deductible? | <p>Yes.</p> <p>Management fees paid to a foreign parent company are generally deductible in the U.S., provided the charges are made at an arm's length rate. Appropriate documentation must be maintained to describe the charges that are made, how they benefit the U.S., and the methodology to determine the amount of the charge to the U.S. Assuming all costs relate to service fees, and all services are performed outside of the U.S., then withholding tax generally does not apply.</p> |
| 7.2 | How does the deductibility of head office costs relate to the participation exemption in your jurisdiction, i.e. is there an interaction? | <p>There is no relation to the deductibility of head office costs and the dividends received deduction.</p> |
| 7.3 | How are head office costs typically on-charged in your jurisdiction, e.g. management agreement and what kind of allocation key is acceptable? | <p>In general, a U.S. company will enter into a service agreement for the support of the head office. The appropriate allocation key related to such costs is dependent on the facts and circumstances.</p> |
| 7.4 | What are the TP requirements relating to head office costs? What kind of remuneration is acceptable? | <p>Head office costs are subject to the general transfer pricing regulations. The amounts charged must meet the arm's length standard and documented appropriately. The mark-up (if any) on the costs is dependent on the types of services being provided. Note that certain services that are considered "low value" may be charged at cost.</p> |
| 8 | Innovation box and comparable beneficial regimes | |
| 8.1 | What is the effective rate under your innovation box or a comparable beneficial regime? | <p>The US apply a deduction for Foreign-Derived Intangible Income ("FDII"), which has the same policy goals as an innovation box. For tax years beginning after 2017 and before January 1, 2026, a deduction of 37.5% of a domestic corporation's Foreign Derived Intangible Income (FDII) (subject to certain taxable income limitations) is allowed.</p> <p>Also refer to section 12.7.</p> |

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| 8.2 | What conditions apply for the application of the innovation box or another comparable regime (e.g. request for special status, variation in application per type of license/right)? | Also refer to section 12.7. |
| 8.3 | Is the modified nexus approach applied? If applicable, per what date? | Not applicable. |
| 9 | Exemption of profits from participations | |
| 9.1 | To what types of profit does the exemption regime apply? E.g. regular dividends, capital gains, etc. | <p>For tax years beginning before 31 December 2017, a U.S. corporation generally may deduct 70% of dividends received from other US corporations in determining taxable income. The dividends received deduction (DRD) is increased from 70% to 80% if the recipient of the dividend distribution owns at least 20% but less than 80% of the distributing corporation. Generally, dividend payments between U.S. corporations that are members of the same affiliated group are deferred or eliminated until a transaction with a third party occurs. For tax years beginning after 31 December 2017, the 70% DRD is reduced to 50% and the 80% DRD to 65%.</p> <p>A 100% DRD is provided for the foreign-source portion of dividends received by a U.S. corporation from certain foreign corporations with respect to which it is a 10% U.S. shareholder. The 100% DRD applies to certain distributions made after 31 December 2017. US shareholder must satisfy a holding period of 366 days or more within a 731 day period with respect to the foreign corporation. It should be noted that distributions out of previously taxed earnings are not subject to any additional tax in the US and therefore do not require a DRD.</p> <p><i>IBFD: US shareholders who dispose of stock in a CFC at a gain are required to treat such gain as dividend income to the extent of their pro rata share of the earnings and profits of the CFC that have not been previously taxed under Subpart F (IRC § 1248). Such dividend income may be eligible for the DRD that is provided for the foreign-source portion of dividends. Gain in excess of the earnings and profits is taxable as capital gain.</i></p> <p>There is no exemption for capital gains.</p> |
| 9.2 | Is there full or partial exemption (if partial, to what extent)? | Full exemption. |
| 9.3 | Does the regime also apply to final liquidation losses? | <p>Liquidations of a subsidiary may be taxable or non-taxable, depending on the specific facts. If the liquidation is taxable and a loss is recognized, then the loss is generally deductible to the extent of a company's capital gains.</p> <p><i>IBFD: Liquidations of subsidiaries that are at least 80% owned by a corporate parent company are tax-free to both the subsidiary with respect to its assets and to the parent company with respect to the stock of the subsidiary (IRC § 332 and IRC § 337).</i></p> <p><i>Liquidations of corporations that are less than 80% owned by a corporate parent company or are owned by individuals are taxable both to the liquidating corporation with respect to its assets and to the shareholders with respect to the stock of the liquidating corporation (IRC § 331 and IRC § 336).</i></p> |
| 9.4 | Do controlled foreign company (CFC) rules apply? | <p>Yes.</p> <p>In the case of controlled foreign companies (CFCs), certain types of undistributed income are taxed to certain US shareholders (Subpart F income). More specifically, in situations in which a foreign corporation is a CFC, every US shareholder owning 10% or greater of the total value of shares of all classes of stock or the total combined voting power of all classes of stock entitled to vote of such a foreign corporation (US shareholder) must include in gross income its pro rata share of the Subpart F income earned by the CFC, regardless of whether the income is distributed</p> |

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| | | <p>to the US shareholders. Under the Subpart F regime of the IRC, a CFC is any foreign corporation with respect to which US shareholders who own more than 50% of either the voting power of all classes of stock entitled to vote or the total value of all classes of the corporation's stock on any day during the foreign corporation's tax year.</p> <p>With certain exceptions, Subpart F income generally includes passive income and other income that is readily movable from one taxing jurisdiction to another (i.e., income that is separated from the activities that produced the value in the goods or services generating the income). In particular, Subpart F income includes insurance income, foreign base company income, and certain income relating to international boycotts and other violations of public policy.</p> <p>In situations in which the US shareholder is a domestic corporation, the domestic corporate shareholder may claim a foreign tax credit for foreign taxes paid or accrued by a CFC. Furthermore, certain rules track the earnings and profits of a CFC that have been included in the income of US shareholders as Subpart F income to ensure that such amounts (known as previously taxed income/PTI or previously taxed E&P/PTEP) are not taxed again when they are actually distributed to the US shareholders.</p> <p>Also, the 2017 tax reform introduced a new provision requiring a US shareholder to include in income the 'global intangible low-taxed income' (GILTI) of its CFCs, effective for tax years of foreign corporations beginning after 2017. Despite the name, this provision is not limited to low-taxed income from intangible assets.</p> <p>The full amount of GILTI is includible in the US shareholder's income, and generally is then reduced through a 50% deduction in tax years beginning after 31 December 2017 and before 1 January 2026, and a 37.5% deduction in tax years beginning after 31 December 2025. A corporate taxpayer generally also can claim a credit for 80% of the foreign taxes associated with GILTI.</p> |
| 10 | Loss compensation | |
| 10.1 | What is the type (e.g. operational losses, holding losses, other) and the maximum amount of losses that can be compensated? | <p>Gains or losses on the sale or exchange of capital assets held for more than 12 months are treated as long-term capital gains or losses. Gains or losses on the sale or exchange of capital assets held for 12 months or less are treated as short-term capital gains or losses. The excess of net long-term capital gain over net short-term capital loss is considered net capital gain. Capital losses are allowed only as an offset to capital gains.</p> <p>There are also allowed net operating losses (NOLs) with respect to ordinary income. An NOL is generated when business deductions exceed gross income in a particular tax year. NOLs generated in tax years ending before 1 January 2018 may be carried back to offset past income and possibly obtain a refund to offset future income. Generally, a loss generated in tax years ending before 1 January 2018 may be carried back 2 years and forward 20 years. NOLs generated in tax years ending after 12/31/2017 generally may not be carried back and instead may be carried forward indefinitely. However, such NOL deduction is limited to 80% of taxable income.</p> |
| 10.2 | How many years can be carried forward? | <p>Regular losses can be carried forward indefinitely.</p> <p><i>IBFD: (Net) capital losses, either long term or short term, can be carried forward 5 years. A "net capital loss" is defined by IRC § 1222(10) as the excess of the losses from sales or exchanges of capital assets over gains from such sales or exchanges.</i></p> |
| 10.3 | How many years can be carried back? | <p>There is no carry-back for regular losses.</p> <p><i>IBFD: (Net) capital losses, either long term or short term, can be carried back 3 years. A "net capital loss" is defined by IRC § 1222(10) as the excess of the losses from sales or exchanges of capital assets over gains from such sales or exchanges.</i></p> |

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| 10.4 | Are any group relief regimes in place? | <p>Yes.</p> <p>An affiliated group of US 'includible' corporations, consisting of a parent and subsidiaries directly or indirectly 80% owned, generally may offset the profits of one affiliate against the losses of another affiliate within the group by electing to file a consolidated federal income tax return.</p> |
| 11 | ATAD 1 / ATAD 2 / BEPS | |
| 11.1 | Is there a general anti-abuse rule (GAAR)? | No. |
| 11.2 | Is there a targeted anti-abuse rule (TAAR)? | <p>Yes.</p> <p>The 2017 tax reform act introduced a new anti-abuse tax referred to as the base erosion and anti-abuse tax (BEAT). The 2017 tax reform act creates a new US federal tax called the 'base erosion and anti-abuse tax' (BEAT). The new law targets US tax-base erosion by imposing an additional corporate tax liability on corporations (other than regulated investment companies [RICs], real estate investment trusts [REITs], or S corporations) that, together with their affiliates, have average annual gross receipts for the three-year period ending with the preceding tax year of at least USD 500 million and that make certain base-eroding payments to related foreign persons during the tax year of 3% (2% for certain banks and securities dealers) or more of all their deductible expenses apart from certain exceptions. The most notable of these exceptions are the net operating loss (NOL) deduction, the new dividends received deduction (DRD) for foreign-source dividends, the new deduction for foreign-derived intangible income (FDII) and the deduction relating to the new category of global intangible low-taxed income (GILTI), qualified derivative payments defined in the provision, and certain payments for services.</p> <p>The BEAT is imposed to the extent that 10% (5% for the 2018 calendar year) of the taxpayer's 'modified taxable income' (generally, US taxable income determined without regard to any base-eroding tax benefit or the base-erosion percentage of the NOL deduction) exceeds the taxpayer's regular tax liability net of most tax credits. The above percentages are changed to 11% and 6%, respectively, for certain banks and securities dealers.</p> <p>A base-eroding payment generally is any amount paid or accrued by the taxpayer to a related foreign person that is deductible or to acquire property subject to depreciation or amortisation, or for reinsurance payments. The category also includes certain payments by 'expatriated entities' subject to the anti-inversion rules of Section 7874.</p> <p>The provision is effective for base-erosion payments paid or accrued in tax years beginning after 31 December 2017. For tax years beginning after 31 December 2025, the percentage of modified taxable income that is compared against the regular tax liability increases to 12.5% (13.5% for certain banks and securities dealers) and allows all credits to be applied in determining the US corporation's regular tax liability. Special rules apply for banks, insurance companies, and 'expatriated entities'. Also, under section 267A, no deduction shall be allowed for any disqualified related party amount paid or accrued pursuant to a hybrid transaction or by, or to, a hybrid entity.</p> <p>Furthermore, there are a number of specific anti-abuse rules within various regulations</p> <p><i>IBFD: Significant TAARs include the following:</i></p> <ul style="list-style-type: none"> - base erosion and anti-abuse tax (BEAT) (IRC § 59A) - limitation of the dividends received deduction (DRD) on debt-financed portfolio stock (IRC § 246A) - disallowance of deduction, credits and other allowances in acquisitions made to evade or avoid income tax (IRC § 269) - limitations on losses and tax credits in corporate acquisitions (IRC §§ 382-384) allocations of income, gains, losses and credits among partners of a partnership if the allocations lack substantial economic effect (IRC § 704) |

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| | | <ul style="list-style-type: none"> - conduit financing arrangements (IRC § 7701(l)) - economic substance doctrine (IRC § 7701(o)). <p>Numerous other TAARs are spread throughout the US Internal Revenue Code and US Treasury Regulations. The US also has extensive anti-treaty shopping rules in its tax treaties and case law.</p> |
| 11.3 | Does your jurisdiction have any reservations for application of the multilateral instrument (MLI)? | <p>No.</p> <p>The US is not a signatory to the MLI. However, it is expected to meet the minimum standards regardless (e.g., via bilateral agreement or protocol).</p> |
| 12 | Special regulations or taxes (insofar there is a material impact on the tax position) | |
| 12.1 | Is some form of equity deduction, e.g. notional interest deduction in place? | No. |
| 12.2 | Are any special credits in place for IP-costs of for example wage costs? | The US provides a credit for incremental research expenses as part of the general business credit. |
| 12.3 | Is an accumulated earnings tax in place? | <p>Yes.</p> <p>The US imposes an accumulated earnings tax (IRC §§ 531 -537) at the rate of 20% on income accumulated by a corporation beyond the reasonable needs of the business, instead of being distributed to the shareholders. A "credit" amount of USD 250,000 may be retained by a corporation for the reasonable needs of the business.</p> |
| 12.4 | Are any digital taxes in place? | <i>IBFD: The United States does not impose a digital tax as such. However, proposed regulations (REG-130700-14) were issued in August 2019 to provide guidance on the character and source of income arising in transactions involving the provision of digital goods and services. The proposed regulations provide that a cloud transaction is classified solely as either a lease of property or the provision of services, and not bifurcated into a lease transaction and a separate service transaction.</i> |
| 12.5 | Are any investment deduction measures in place? | <p>Yes.</p> <p>For tax years beginning before 1 January 2022, corporations can continue to elect under Section 174 to expense all R&E expenditures that are paid or incurred during the tax year or to defer the expenses for 60 months. Taxpayers also can make a special election under Section 59(e) to amortise their R&E expenditures over 120 months. A portion of the R&E expenditures may qualify for a research tax credit, which is described below.</p> |
| 12.6 | Is some sort of (R&D)-wage credit in place? | <p>Yes.</p> <p>The U.S. provides a credit for incremental research expenses as part of the general business credit. Wages are included within the definition of qualifying research expenses and factor into the calculation to determine the amount of the credit.</p> |
| 12.7 | Are there any other sector-specific direct tax measures, e.g. a banking tax, tax on rents, etc. | <p>Yes.</p> <p>For tax years beginning after 2017 and before January 1, 2026, a deduction of 37.5% of a domestic corporation's Foreign Derived Intangible Income (FDII) (subject to certain taxable income limitations) is allowed. The deduction is reduced to 21.875% after 31 December 2025.</p> <p><i>IBFD: The deduction will result in an effective tax rate on FDII of 13.125% for taxable years 2018 through 2025 $((100 - 37.5) \times 21\% = 13.125\%)$, and an effective tax rate of 16.406% for taxable years beginning thereafter $((100 - 21.875) \times 21\% = 16.406\%)$.</i></p> <p>Despite the name, the FDII regime is available beyond intangible income. Specifically, FDII includes income derived from any of the following (as opposed to just income related to intangibles):</p> |

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| | | (1) sale, lease, license, or other disposition of property to foreign persons for foreign use; (2) providing services to a person not located in the U.S; or (3) providing services to a person with respect to property that is not located in the U.S.. "Persons" includes corporations. |
| 13 | Withholding taxes | |
| 13.1 | Is there a withholding tax on dividend? If yes, please provide rates. | 30% |
| 13.2 | Is there a withholding tax on interest? If yes, please provide rates | 30% |
| 13.3 | Is there a withholding tax on royalties? If yes, please provide rates | 30% |
| 13.4 | How is the taxable base for the withholding tax determined? | WHT is imposed on the gross US-source amount of the relevant item of income. |
| 13.5 | Does the withholding tax provide for any exemptions? If yes, describe the exemptions. | Yes. Certain types of interest for example may be exempt, including interest from portfolio debt instruments and interest on bank deposits not effectively connected with a US trade or business. US source dividends and royalties generally do not have exemptions. |
| 13.6 | Do anti-abuse provisions apply with regard to withholding taxes (e.g. in national law or treaties)? | Yes. There are targeted provisions such as the anti-conduit regulations (for interest and royalty transactions) which generally provide that the use of entities in conduit financing arrangements may be disregarded if the purpose of the arrangement is the avoidance of US withholding taxes. Additionally, doctrines such as "beneficial ownership" must be considered. If the recipient of an amount of income subject to withholding tax is not the beneficial owner of such income (e.g., because they are considered to be an intermediary), then it will be necessary to look through the recipient of the income and apply withholding tax as if the amount had been paid directly to the beneficial owner. |

| # | Measures | Any changes expected in the near future (i.e. up to and including 2020) |
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| 12 | Special regulations or taxes (insofar there is a material impact on the tax position) | |
| 12.5 | Are any investment deduction measures in place? | For tax years beginning after 2021, P.L. 115-97 repeals expensing of R&E expenditures, including software development costs, under Section 174 and requires such expenditures to be capitalised and amortised over a five-year period, beginning with the midpoint of the tax year in which the specified R&E expenditures were paid or incurred. R&E expenditures that are attributable to research that is conducted outside the United States would be capitalised and amortised over a period of 15 years. |