A gravel path splits into two on a grassy hill under a blue sky. The path is made of light-colored gravel and is surrounded by green grass and some small plants. The sky is a clear, bright blue with a few wispy clouds. The overall scene is bright and open.

The outlook for  
global tax policy  
and controversy  
in 2022:  
Jurisdiction reports

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Perito Moreno Glacier, Argentina

# Argentina

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 10 January 2022.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	25%–35%	25%–35%	–
Personal income tax – top rate	35%	35%	–
VAT, GST or sales tax – standard rate	21%	21%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

Some proposed measures for 2022:

- ▶ Changes to income tax calculation for employees under labor relationship
- ▶ Changes to personal assets tax (wealth tax) regarding the minimum nontaxable amount and the tax rates
- ▶ Elimination of 5% export duties on services

### 2.2 Tax changes in 2022

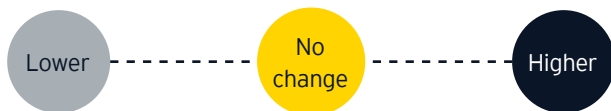
Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Argentina

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

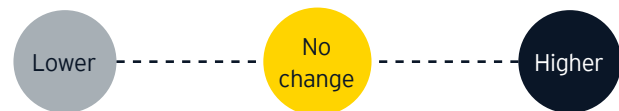
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ No significant developments are expected.

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

- ▶ VAT on digital services is already in force.
- ▶ Provincial turnover tax on digital services is already in force in some provinces, additional regulations on this matter are expected.

### Taxes related to climate change or sustainability

- ▶ There have been discussions about a plastic packaging tax in 2021, but the law was not approved, and discussions are expected to continue in 2022.

### VAT/GST or sales taxes

- ▶ No significant developments are expected.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ Changes to income tax calculation for employees under labor relationship
- ▶ Changes to personal assets tax (wealth tax) regarding the minimum nontaxable amount and the tax rates
- ▶ Proposed discussion of inheritance taxes at the provincial level

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

- ▶ No significant developments are expected.

### Developments in the governance of cryptocurrency

- ▶ Argentine tax authorities have previously implemented informative regimes applicable to cryptocurrency exchanges.

## 2.5 Political landscape

- ▶ Debt renegotiation with IMF
- ▶ High inflation rates
- ▶ Central Bank controls on inflow and outflow of foreign currency

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ The corporate income tax rate changed to 25%–35%.
- ▶ Implementation of one-time wealth tax due to the COVID-19 pandemic.

## 2.7 Major pending tax proposals not otherwise covered

- ▶ N/A

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ Active participation of tax authorities in the control of payments abroad
- ▶ Strict control of international operations

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the four leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Utilization of tax havens
- ▶ Payments abroad/international operations
- ▶ Transfer pricing audits
- ▶ More control on cryptocurrencies

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Payments abroad/international operations
- ▶ Interaction between tax and Central Bank regulations
- ▶ Transfer pricing audits

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ Digital presentations will be mandatory and permanent from 2022 (they were introduced or increased due to COVID-19 restrictions).



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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Business restructuring	Change of functions of Argentine companies
2	Digital taxes (VAT, DST, etc.)	Provincial turnover tax on digital services
3	Treaty benefits	Supreme court case in 2021, review of application of tax benefits in 2022
4	Transfer pricing	Intercompany services, financial transactions, foreign intermediaries, among others
5	Withholding taxes	Application of withholding to digital business models



Crowds at Melbourne Cricket Ground

# Australia

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*This information is current as of 19 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	30% <sup>1</sup> (25% for “base rate entity,” i.e., income under \$50m)	30% (25% for “base rate entity,” i.e., income under \$50m)	–
Personal income tax – top rate	45% <sup>2</sup>	45%	–
VAT, GST or sales tax – standard rate	10% <sup>3</sup>	10% <sup>4</sup>	–

<sup>1</sup> Section 23 (2)(b) of the Income Tax Rates Act 1986

<sup>2</sup> Schedule 7 of the Income Tax Rates Act 1986

<sup>3</sup> Section 9-70 of a New Tax System (GST) Act 1999

<sup>4</sup> Section 9-70 of a New Tax System (GST) Act 1999

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Australia is emerging from the COVID-19 pandemic with high vaccination rates allowing the economy to open with consumers unleashing pent-up demand. Skill shortage is driving up wages in some sectors, whereas others cannot fill vacancies. Australians can travel outbound but inbound arrivals are still restricted. Strong terms of trade and exports are expected to help reduce fiscal imbalance.
- ▶ The upcoming federal election in the first half of 2022 will provide some future direction for the tax policy debate. The major political parties do not appear to be attracted to bring major economic reform or budget repair to the electorate.
- ▶ The Greens, currently holding one seat in the lower house and nine in the upper house, would bring a long tax policy reform list to any balance of power discussion, ranging from a billionaire wealth tax, mining, and super profit taxes to new corporate anti-avoidance and transparency measures.
- ▶ The climate change response provides some points of difference between the major parties. Both parties favor a technology-led response but will take different approaches to the election to accelerate technology transformation.
- ▶ Recent tax policy measures complement investment in infrastructure to support the economic recovery. Tax cuts are proposed for individuals to boost consumption and support a business-led recovery by extending the sunset for full expensing and loss carryback measures.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

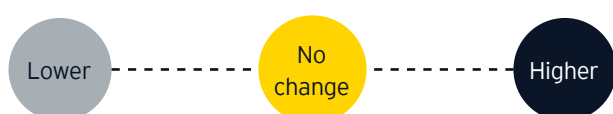
## Australia

Tax types	Likelihood of changes in 2022	Direction of change
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
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11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	

Tax types	Likelihood of changes in 2022	Direction of change
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

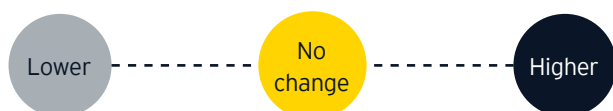
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ The standard corporate tax rate remains at 30% and for “base rate entities” for entities with less than AUD 50 million of aggregated turnover, it remains at 25%.
- ▶ A new patent box regime with a rate of 17% for income derived from medical and biotechnology patents applied for after 11 May 2021 is to take effect from 1 July 2022. There has been no decision about potential broadening to other technologies, such as green tech, as part of law development.
- ▶ The Federal Budget in October 2020 proposed law changes to treat foreign incorporated companies as Australian tax residents only if they have a “significant economic connection with Australia” and central management and control in Australia. There have been no law changes yet and no consultation on broadening this amendment to trusts or corporate limited partnerships.
- ▶ The Australian Government commenced consultation on modernizing and expanding Australia’s tax treaty network to eliminate double taxation, announcing 10 new and updated tax treaties by 2023 with only six jurisdictions named so far (India, Luxembourg, Iceland, Greece, Portugal and Slovenia).

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

- ▶ Australia applies GST on digital supplies and unilaterally applies a diverted profits tax and avoided PE (multinational anti-avoidance law) with treaty overwrite, but there are no plans for a DST or virtual PE deeming provisions.
- ▶ Expansive Australian Tax Office (ATO) view on royalty withholding tax was asserted in “TR 2021/D4 – Royalties: character of receipts in respect of software.”

### Taxes related to climate change or sustainability

- ▶ Specific measures may emerge as part of or following the 2022 federal election campaign.
- ▶ General incentives are not always suitable, e.g., temporary full expensing can assist with the acquisition of more efficient plant and equipment but is limited to companies with turnover of AUD 5 billion or less.

### VAT/GST or sales taxes

- ▶ GST is collected at the federal level before being distributed to the states and territories with an allocation formula. Any change to the system requires agreement between the states and territories. Increasing the rate from 10% or any changes to the base are regarded as near impossible politically.

## Australia

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

- ▶ The “stage 3” personal tax cuts supported by both major parties will see everyone earning between AUD 45,000 and AUD 200,000 pay 30% from 2024 (eliminating the current 37% bracket for those earning above AUD 120,000).
- ▶ Cessation of employment is to be removed as taxing point on tax-deferred employee share schemes for new awards from 1 July 2022 at the earliest (applies to 1 July next following Royal Assent of amending law).
- ▶ Changes to individual residency propose a “bright line” primary test based on 183 days of presence. Secondary tests will apply if the individual is not present for 183 days. Law is to apply to first income year following Royal Assent. There is no draft law yet.
- ▶ Payroll taxes levied on employers by the states and territories in Australia ended waivers and deferrals offered during the COVID-19 pandemic. A new Victorian health and well-being levy (additional 0.5% for every AUD 1 of national wages above AUD 10m, plus a further 0.5% for every AUD 1 of wages above AUD 100m) will not be replicated by other states.
- ▶ None of the major parties have net wealth or inheritance taxes on their agendas, but the Greens favor tax at 6% on net wealth above AUD 1billion.

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

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

### **Developments in the governance of cryptocurrency**

- ▶ Senate committee recommended reforming the regulatory framework for cryptocurrency and digital assets in Australia within the next 12 months but not before the next federal election.
- ▶ Australia would likely adopt the expansion of common reporting standards to cryptocurrency explored by the OECD.
- ▶ The ATO's cryptocurrency data-matching program across cryptocurrency transactions and account information from designated service providers was extended a further three financial years to 2022-23.

## 2.5 Political landscape

- ▶ Australia has a peaceful stable democracy with an open free market economy and multicultural workforce. Under the federated system, there are two major levels of government, one at federal level and one at state or territory level and both have certain taxing powers. There is a third layer of government at the municipal or council level that imposes rates, fees and charges.
- ▶ The political party holding the majority of seats in the lower house, the House of Representatives, either outright or as a coalition will form a government for a maximum term of three years. Currently, this is a coalition between the Liberal Party, led by Prime Minister Scott Morrison, and the National Party. Minority governments are rare, but when Labor led by Julia Gillard required the votes of independent Members of Parliament, their demands became very powerful.
- ▶ Australia's 46th Parliament opened on 2 July 2019, after reelection of the Morrison Government. The latest possible date for the next federal election with a simultaneous half-Senate and half-House of Representatives election is 21 May 2022. No date has been set.
- ▶ The Greens currently hold one seat in the lower house and six in the upper house and could remain a strong voice in the Senate, but it is hard to predict whether they will have any role in forming the government as a junior partner anytime soon. However, the tax agenda of the Greens demands some attention as it is laid out in detail, ranging from a net wealth tax, to new taxes on mining and super profits as well as new anti-avoidance and transparency measures, including tighter thin cap rules.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ **Temporary full expensing (TFE) of depreciating assets extension** – Law changes extended the TFE of depreciating assets for eligible entities with aggregated turnover < AUD 5b. This measure was due to lapse on 30 June 2022 but has now been extended to 30 June 2023.
- ▶ **Temporary loss carryback extension** – Law changes extend the temporary loss carryback measure for companies with aggregated turnover < AUD 5b to 30 June 2023 (from 30 June 2022).

## 2.7 Major pending tax proposals not otherwise covered

- ▶ Awaiting draft law
  - ▶ Amending income tax residency rules for corporates
  - ▶ Amending income tax residency rules for individuals
  - ▶ Amending Australia's Offshore Banking Unit (OBU) regime
- ▶ Corporate collective investment vehicles: corporate structure with flow-through tax treatment designed to attract foreign investors
- ▶ Patent Box with 17% rate on newly registered medical or biotechnology patents
- ▶ Changes to make venture capital arrangements fit for purpose to support genuine early-stage Australian startups

### ▶ Consultations

- ▶ The Board of Taxation will submit a final report on CGT roll-overs to the government on 22 April 2022.
- ▶ New South Wales is proposing to move to an annual land tax by phasing out stamp duty, which is losing steam.

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ For the large top 100 and top 1,000 taxpayers (turnover greater than AUD 250m) and large private wealth groups, the ATO is continuing with its Justified Trust program of work; these are ongoing in-depth reviews.
- ▶ Issues identified in these reviews will be subject to further review and/or audit.
- ▶ The ATO also has specific government funding to undertake compliance programs as part of the Tax Avoidance Taskforce and other funding programs (e.g., GST).

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Focus on tax corporate governance and tax risk management
- ▶ Continued public interest in the tax affairs of large groups
- ▶ Use of data and analytics to identify issues

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Ongoing implementation of the Justified Trust program of work by the ATO
- ▶ Impact of OECD BEPS Pillars One and Two and implementation into Australian domestic law
- ▶ Potential for tax reform as a result of 2022 federal election

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The ATO has highly specialized data and analytics capabilities.
- ▶ The ATO has a data and analytics strategy, which is publicly available on its website.
- ▶ The ATO makes significant use of third-party data to achieve tax compliance, collecting data from a range of sources.
- ▶ The ATO also collects large amounts of data directly from taxpayers, particularly from larger taxpayers.
- ▶ The ATO uses data as part of its compliance programs, using data matching and risk engines to identify risks and areas of concern.

## Australia

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Transfer pricing	Compliance with the arm's-length principle and Australia's transfer pricing law, across all categories of related-party dealings
2	Intellectual property	Focus on arrangements associated with the use and transfer of intangible property, including DEMPE but limited to transfer pricing issues Also includes characterization and royalties Includes application of anti-avoidance rules
3	Capital gains	Focus on arrangements designed to avoid capital gains tax
4	Indirect taxes – GST	Compliance with GST rules; focus across all aspects
5	Payments to/from low tax jurisdictions	Compliance with rules associated with transfers in and out, including characterization, accessibility and deductibility







# Austria

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## EY key contacts

### Tax policy and controversy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 7 December 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	25%	25%	–
Personal income tax – top rate	55%	55%	–
VAT, GST or sales tax – standard rate	20%	20%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

Please note that the policy objectives below have been presented but not yet concluded.

- ▶ Taxing CO2 emissions on a national level, starting at EUR 30 per ton CO2 in 2022 while returning the tax revenue to the inhabitants of Austria through a “regional climate bonus;” some exceptions apply (e.g., against carbon leakage)
- ▶ Taxing cryptocurrencies as capital income. As of 1 March 2022 (as well as cryptocurrencies acquired after 28 February 2021), income from capital assets expected to expand to include income from cryptocurrencies (current income from cryptocurrencies (fruits) as well as realized capital gains (regardless of a holding period))
- ▶ Abolishing the tax for self-produced electric energy
- ▶ Lowering the second level of the progressive income tax rate for natural persons, increasing the tax-free profit allowance for natural persons and increasing the child bonus (tax deduction)
- ▶ Introducing tax-free employee bonuses to participate in the employer's profits
- ▶ Reducing health insurance premiums for lower incomes

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

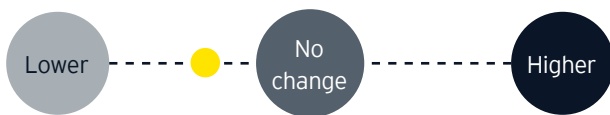
## Austria

Tax types	Likelihood of changes in 2022	Direction of change
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022 The effect is unknown at this time.
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022

Tax types	Likelihood of changes in 2022	Direction of change
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

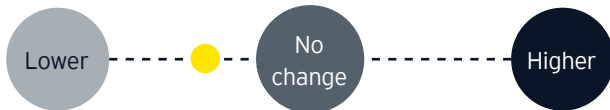
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ No changes are proposed for 2022.
- ▶ There is a proposal to lower the CIT rate from 25% to 24% in 2023 and to 23% in 2024; this has not yet been approved.

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

- ▶ Plans for an EU digital tax have been put on hold since mid-2021 due to the potential agreement on a global minimum tax rate within the G20.

### Taxes related to climate change or sustainability

- ▶ Plans have been presented by the Austrian government in October 2021 to introduce a national CO2 tax, starting at EUR 30/t CO2 on 1 July 2022 and increasing yearly on 1 January.
- ▶ The CO2 tax shall, among others, be imposed on the sale of fuel, including natural gas, for vehicles (not including airplanes as well as agricultural vehicles) and heating fuel.

- ▶ Businesses underlaying the EU-Emission Trading System (EU-ETS) will be exempt.
- ▶ Further exemptions are projected to prevent carbon leakage and to prevent cases of hardship.
- ▶ Tax revenue generated from the CO2 tax shall be reimbursed to the population at amounts depending on the accessibility of public transport.
- ▶ The existing tax on self-produced electric energy shall be abolished.

### VAT/GST or sales taxes

- ▶ The time-limited reduced VAT rate (5% instead of 13% reduced rate) for some goods and services to battle the impact of the COVID-19 pandemic expired on 31 December 2021; no extension is currently planned.
- ▶ The 0% VAT on mouth and nose protections, COVID-19 tests and vaccines continues until 31 December 2022.

## Austria

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

- ▶ Lowering the second level of the progressive income tax rate from 35% to 30% on 1 July 2022
- ▶ Reducing the third level of the progressive income tax rate from 42% to 40% planned for 1 July 2023
- ▶ Raising the tax-free profit allowance for natural persons from 13% to 15%
- ▶ Raising the child bonus (tax deduction) from EUR 1,500 to EUR 2,000, and for persons with income below the tax-free allowance from EUR 250 to EUR 450
- ▶ Introducing tax-free employee bonuses of up to EUR 3,000 per year to participate in the employer's profits
- ▶ Reducing statutory health insurance premiums for lower incomes by 1.7% points for monthly income up to EUR 500 and looping in that reduction for income up to EUR 2,500, from 1 July 2022
- ▶ Increasing the limit for the immediate deduction of low-value assets from EUR 800 to EUR 1,000, effective 1 January 2023
- ▶ Introducing an investment allowance as well as a bonus for ecological investments (with a cap per business and year), effective 1 January 2023

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

- ▶ An EU-wide financial transaction tax is currently under discussion; however, Austria's government is opposing the draft in its current form.

### **Developments in the governance of cryptocurrency**

- ▶ A draft for legislation to change the taxation of income from cryptocurrencies was recently published by the Austrian government.
- ▶ Currently, realized gains from the sale of crypto assets are only taxable if sold within a one year holding period, at the progressive income tax rate of 0%-55%.
- ▶ New plans propose taxation as a capital asset. As such, gains would not be limited to realization within the one year holding period anymore and would be taxed at the fixed rate of 27.5%. Furthermore, current income (fruits) would also be subject to taxation.
- ▶ Currently, the new draft is undergoing the parliamentary process and is planned to be concluded in the near future in the Austrian parliament.

## 2.5 Political landscape

- ▶ The government is established by both the Conservative Party and the Green Party. Plans for a "green" tax reform are one of the main topics of this government.
- ▶ The last legislative election took place on 29 September 2019 with the next one scheduled for no later than 2024.
- ▶ The coalition government in control through 2024 has stated that reducing taxes for middle-class income is a priority along with creating fiscal incentives to battle climate change.
- ▶ In October 2021, plans for a comprehensive tax reform were presented by the Austrian government. As of mid-November 2021, a first draft of the planned legislation was shared among stakeholders, with the final drafting yet to be announced and concluded.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Announcement of a comprehensive tax reform partly effective starting in 2022
- ▶ Prolongation of some grants to battle the economic impact of the COVID-19 pandemic
- ▶ EU VAT e-commerce package from 1 July 2021:
  - ▶ Changes on import sales tax for low-value deliveries
  - ▶ Abolishment of delivery threshold for deliveries to EU countries (except turnover <10,000 Euro p.a.)
  - ▶ Extension of mini-one-stop-shop (MOSS) to above deliveries
  - ▶ Online platforms (marketplaces) are included in the delivery chain from a VAT perspective under certain conditions

## 2.7 Major pending tax proposals not otherwise covered

- ▶ N/A

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ Controls of eligibility for COVID-19-related subsidies, retrospectively
- ▶ Continuous enforcement through company audits with growing use of automatization and AI
- ▶ Continuous growth of cross-border collaboration and data exchange

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ End of granting but continuous (retrospective) controls of eligibility for COVID-19-related subsidies
- ▶ Cross-border data exchange regarding capital income
- ▶ Growing application of AI

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Introduction of CO2 tax
- ▶ End of time-limited reduced VAT rate (5% instead of 13% reduced rate)
- ▶ New EU directive for public CbCR

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ FinanzOnline: The Austrian tax authorities offer an online portal through which (among others) tax returns can be filed, tax assessments can be downloaded and applications can already be filed for the vast majority of tax-related matters. This portal is continuously developed and more services are integrated.
- ▶ Though applications via email are not legally effective, email communication with tax officials has increased (e.g., to answer nonofficial requests for information).
- ▶ The tax authority uses algorithms to detect tax returns that need further review by an official.
- ▶ Automated reminders are sent out if returns are not filed on time.
- ▶ In tax audits, files are automatically scanned by AI in cases.

## Austria

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Indirect taxes	
2	Transfer pricing	
3	Withholding taxes	
4	COVID-19-related impacts and outcomes	
5	Disallowance of deductions	







Bahrain skyline

# Bahrain

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## EY key contacts

### Tax policy and controversy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 30 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	46%	46%	Rate applies only to tax on income from Oil and Gas (O&G) activities
Personal income tax – top rate	N/A	N/A	–
VAT, GST or sales tax – standard rate	5% (In some cases, VAT rate at 0% and VAT exemption may apply.)	10% (In some cases, VAT rate at 0% and VAT exemption may apply.)  The standard rate of VAT increased to 10%, effective from 1 January 2022.  Transitional rules apply whereby some supplies made in 2022 could still be taxed at the 5% standard rate (subject to certain conditions).	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

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

### 2.2 Tax changes in 2022

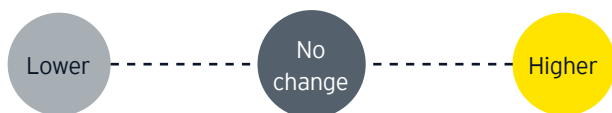
Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Bahrain

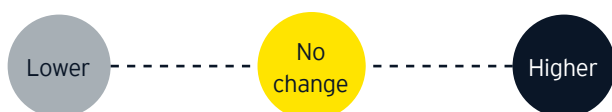
Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ Introduction of a wider corporate tax system is increasingly being discussed among government and business leaders in Bahrain, especially post-OECD BEPS Pillars One and Two approach/documents. While there has been no formal communication on the matter, it is expected that Bahrain may introduce a corporate income law outside the O&G sector in 2022/2023.
- ▶ Since 2001, Bahrain has been cooperating with the OECD in the OECD's overall initiative to address the international issue of harmful tax practices. More recently in 2018, Bahrain has committed to the implementation of the BEPS IF minimum standards. These include Actions 5, 6, 13 and 14 with the requirement to undertake a domestic framework to allow for the collection and sharing of information and CbCR requirements as well as introduce MAPs with guidelines. To date, Bahrain has implemented economic substance regulations and is in the process of bringing out a domestic CbCR law and some limited transfer pricing documentation requirements. Bahrain has recently also signed the MLI.
- ▶ It is expected that Bahrain will continue its engagement with the OECD in introducing policies that prevent harmful tax practices, foster tax transparency and effective exchange of information along with its commitments to the BEPS IF initiative.

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

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

### Taxes related to climate change or sustainability

- ▶ There is no corporation tax in Bahrain on non-O&G sectors.

### VAT/GST or sales taxes

- ▶ VAT was introduced in Bahrain from 1 January 2019. While the tax authority has been issuing regular guidance around the applicability of tax, the precedent of practice and interpretation of the legislation by the tax authority remains unclear in many areas.
- ▶ Bahrain is part of the Gulf cooperation council (GCC) VAT framework. Its VAT policies are similar to policies adopted by neighboring GCC member jurisdictions.
- ▶ The standard rate of VAT increased to 10%, effective from 1 January 2022.
- ▶ The tax authority is expected to continue with regular audits of businesses with the intent to increase the level of compliance from taxpayers in the jurisdiction.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ There is no personal income/wage tax in Bahrain.

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

- ▶ N/A

### Developments in the governance of cryptocurrency

- ▶ The Central Bank of Bahrain (CBB) issued the final rules on a range of activities relevant to crypto assets in 2019. The CBB rules are aimed at making sure that activities related to crypto assets are brought within a regulatory perimeter and are subject to comprehensive regulatory and supervisory measures.

## Bahrain

### 2.5 Political landscape

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

### 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

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

### 2.7 Major pending tax proposals not otherwise covered

- ▶ Proposals: Though not a proposal anymore, Bahrain is soon to implement CbCR filing requirements, as well as potential limited TP documentation requirements around master file, local file, MAP etc.
- ▶ Consultations: There is a potential for corporate tax.

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

#### Corporate tax related:

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

#### VAT related:

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

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What is the leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Issuing of assessment and penalties for incorrect payment of VAT liabilities, incorrect VAT returns and noncompliance with the VAT law.

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

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

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The VAT authority continues to develop its digitalization of tax administration. The majority of communications with taxpayers is undertaken via email and direct submissions to the tax authority portal (such as filing of periodic VAT returns). It is reasonable to expect the tax authority to explore other initiatives to digitalize processes to enhance VAT compliance and generate additional tax revenues.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input checked="" type="checkbox"/>	<input type="checkbox"/>

3.7 Top tax audit issues in 2022

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



Guanajuato City – Aerial View at Twilight

# Belgium

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 1 December 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	25%	25%	–
Personal income tax – top rate	50%	50%	–
VAT, GST or sales tax – standard rate	21%	21%	–



## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Key drivers of tax policy change in 2022 are more or less the same as in 2021, with:
  - ▶ A blueprint of a broader tax reform aimed at modernizing and simplifying the tax system, making it fairer and more neutral, while focusing on increasing the employment ratio, supporting climate ambitions and sustainability, entrepreneurship, stimulation of investments and digitalization
  - ▶ A focus on fair taxation on an international level and implementation of robust anti-fraud measures
  - ▶ Administrative simplification and more efficient and harmonized tax compliance
  - ▶ Digitalization of the tax administration by implementing new tools, digital platforms, optimization of procedures, e-audits, etc.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Belgium

Tax types	Likelihood of changes in 2022	Direction of change
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022

Tax types	Likelihood of changes in 2022	Direction of change
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

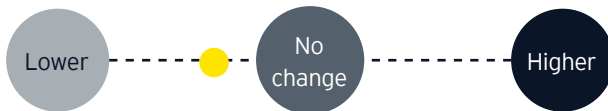
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ Tax deductibility of depreciation on charging stations (200% between 1 September 2021 and 31 December 2022)
- ▶ Increased investment deduction for zero-emission trucks and charging stations in 2022
- ▶ Reform of the withholding tax system with focus on R&D and innovation
- ▶ Limitation on deductibility of brokerage fees for athletes
- ▶ Tax and social amnesty: non-deductibility of payments
- ▶ Increased thresholds for investments in startups and scale-ups
- ▶ Implementation of the OECD Pillar Two

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

- ▶ Should there be no global consensus, an internal 3% DST will be introduced as from 2023. Two law proposals were submitted in parliament introducing a DST but have not been passed into law at this stage.
- ▶ Digital PE: Law proposals are pending, aiming to introduce a digital services PE (significant digital presence), but negotiations of this draft legislation are on hold.

### Taxes related to climate change or sustainability

- ▶ Belgium's sustainability tax programs are well-established and wide ranging, including implementation of EU environmental legislation and policy. New legislation includes three important steps toward a greener mobility and toward strengthening climate ambitions:
  - ▶ Only carbon emission free company cars will be tax deductible.

## Belgium

- ▶ Individuals and companies will have tax incentives to install charging stations at home or at work.
- ▶ The mobility budget will be simplified, made more flexible and expanded to work toward a mobility shift.
- ▶ Although there are talks on a broader carbon tax, there is, to our knowledge, no draft legislation available.

### VAT/GST or sales taxes

- ▶ Medical practitioners and paramedics to become, at least partially, subject to VAT
- ▶ Amended rules with respect to the provision of furnished accommodation

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ Reform of the tax regime for expats
- ▶ Reform of the withholding tax system
- ▶ New tax law on the greening of mobility, reform of the mobility budget
- ▶ Reform of the current tax and parafiscal benefits of high-earning professional athletes and sports clubs
- ▶ Expected tax cut of €50 (working single people) and of €150 (working couple), an increased tax reduction for childcare expenses
- ▶ Law amending the Belgian income tax code with regard to income from real estate located abroad; new reporting obligation for Belgian residents with real estate abroad

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

- ▶ Phasing out of the special social security contribution, which spans from the 1994 crisis tax

### Developments in the governance of cryptocurrency

- ▶ No significant developments are expected. General profit provision still applies on capital gains on income derived from investments in cryptocurrencies (art. 24 ITC92 juncto art. 183 ITC92).

## 2.5 Political landscape

- ▶ The “De Croo government” is a coalition government (“Vivaldi” coalition) bringing together seven parties of Catholics, liberals, socialists and ecologists. It has a focus on COVID-19 pandemic recovery and investments, with goals in the areas of climate change, gender neutrality and the fight against poverty, stress and burnout, and discrimination. They state an aim of workable employment and the roll out of a fairer tax system.

- ▶ Budget 2022 negotiations have ended in a compromise between the various parties.
- ▶ The Minister of Finance has the task of putting a tax reform on paper by 2024, and numerous other ambitions of this government – more people at work, payable pensions and a greening of taxation – are linked to such a reform as an integral part of the process.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Two significant tax measures were part of the “COVID-19 – fiscal bazooka:”
  - ▶ The carryback for 2020 losses: This measure was already implemented in 2020 for 2020 losses but will also have effect in the coming years.
  - ▶ The reconstitution reserve: During three consecutive taxable periods relating to tax years 2022, 2023 and 2024 (income years 2021, 2022 and 2023), companies may create a special reserve corresponding to the amount of losses suffered in 2020 under the condition of maintaining their equity position as well as their existing employment level.
- ▶ Exclusions may apply to both provisions.
- ▶ Other measures include:
  - ▶ Increased investment deduction for SMEs of 25%
  - ▶ Introduction of a new payroll tax exemption for employers attributing more training hours to their employees than regulatorily prescribed as well as researchers with a bachelor’s degree
  - ▶ Implementation of the VAT e-commerce directive
  - ▶ Reduced VAT rate for the demolition and reconstruction of residential buildings extended to the entire Belgian territory and for a period of two years

## 2.7 Major pending tax proposals not otherwise covered

- ▶ Bill of Program law
- ▶ Bill of law containing various tax provisions and anti-fraud measures
- ▶ Draft law interpreting tax nondeductibility of settlement agreements
- ▶ Draft law with respect to the implementation of the new double tax treaty between Belgium and France
- ▶ Draft law containing various VAT provisions

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ Due to the COVID-19 situation, the tax authorities did not publish their annual focus areas in relation to tax audits.
- ▶ In the field of taxation and tax audits, efforts were made by the tax authority to:
  - ▶ Increase the number of participants in the Co-operative Tax Compliance Programme (CTCP) for large companies
  - ▶ Use e-audits
  - ▶ Focus on the fight against tax and social fraud in a more integrated way
  - ▶ Fully commit to international cooperation and data exchange
- ▶ With regard to the collection and recovery of tax debts, efforts were made by the tax authority:
  - ▶ On digitalization
  - ▶ To stimulate the voluntary payment of taxes and repayment of overpayments and forced payment when necessary

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Correct and fair calculation of taxes, improvement of tax audits and better collection of taxes (the federal government as a “shared service center” for the collection for (non-)tax debts), with a focus on taxpayers who fail to meet their obligations or respond to a risk profile
- ▶ Additional tax inspectors and new methods to focus on transfer pricing investigations and detect fraud
- ▶ Application of the code of conduct and a broadening of the definition of harmful tax practices

### 3.4 Which four expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Introduction of a legal framework for cooperation between the tax administration, Public Prosecution Service and the Federal Judicial Police in view of combating tax fraud with mixed multidisciplinary investigations teams
- ▶ A reform of tax procedures for administrative efficiency; an administrative appeal to become possible in pre-tax disputes
- ▶ Implementation of a new VAT chain and incentives, encouraging businesses to better meet their VAT obligations
- ▶ Use of internationally exchanged data and multilateral cooperation to combat fraud effectively and efficiently

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ Important steps have already been taken in the field of digital services and this will continue in 2022, with the emphasis on further development of user-friendly and accessible platforms so that citizens and businesses can communicate in two directions with the government.

## Belgium

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input checked="" type="checkbox"/> R&D and withholding tax measures
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input checked="" type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Incentives – R&D	Anti-abuse of incentives; audits occurring with respect to R&D wage tax exemption
2	Transfer pricing	Transfer pricing audits, including financing transactions
3	Withholding taxes	Abusive application of the withholding tax exemption
4	Beneficial ownership	Tax audits in which the Belgian tax authorities intend to apply the principles of the Danish court cases
5	Permanent establishment	Existence of a personal PE





Rio de Janeiro Sunrise

# Brazil

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*This information is current as of 15 December 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	34% <sup>1</sup>	34%	–
Personal income tax – top rate	27.5% <sup>2</sup>	27.5%	–
VAT, GST or sales tax – standard rate	18%-19% <sup>3</sup>	12%-25%	Varies

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

<sup>2</sup> Law 11,482/2011, Article 1.

<sup>3</sup> ICMS (state; VAT; initialism from Portuguese) rates vary per state and are based in different laws issued per state.



## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Executive and legislative branches of the Brazilian Federal Government are committed to implementing comprehensive tax reforms addressing unification of taxes and contributions charged on consumption and/or changes to income taxation.
- ▶ It is expected that Brazil will keep introducing measures to demonstrate Brazil's commitment to align with the OECD guidelines, as Brazil is committed to become an OECD member. Transfer pricing is expected to be the area most impacted in view of the potential ascension of Brazil to the OECD.
- ▶ In 2021, during the 37th Working Group on State Property and Privatization Practices (WPSOPP), the OECD accepted the corporate governance guidelines of state companies in Brazil as compliance to the entity's rules. Considering the adoption of the Recommendation on Competitive Neutrality, Brazil completes 100 instruments in compliance, with more than 40% of OECD norms.
- ▶ Digital tax environment – Tax authorities anticipate becoming more digital and having increased control over taxpayer information by means of automated procedures. In addition, there are now discussions about the adoption of different forms of digital taxation, both focused on payments, on digital services and on digital platforms. Five related bills have already been presented to Congress.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Brazil

Tax types	Likelihood of changes in 2022	Direction of change
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input checked="" type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input checked="" type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022

Tax types	Likelihood of changes in 2022	Direction of change
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

### 2.3 Tax policy outlook for 2022 – summary

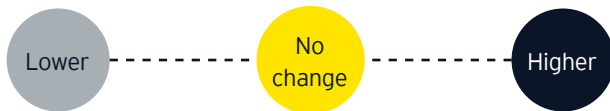
**Overall corporate income tax responsibility  
(the combined effect of base/rate)**



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



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



● Denotes level of change

## Brazil

### 2.4 Tax policy outlook for 2022 – detail

A comprehensive income tax reform has been discussed in the National Congress in the last couple of months (Bill 2.337). Among other changes, Bill 2.337 proposed:

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

However, due to a recent development, the chances of the Brazil income tax reform being approved within 2021 were considered to be significantly reduced.

One of the reasons why the executive branch needed to pass Bill 2.337 in 2021 was to generate means to fund Brazil's welfare program (Auxílio Brasil). Although the bill proposed to reduce the local corporate income tax rate, it created withholding tax on dividends and eliminated certain deductions, such as the interest on net equity (INE). The extra tax collected was then be used to partially fund the program. The Senate showed no intention to rush the analysis of, or approve, Bill 2.337, so the Brazilian Government articulated a second funding alternative: amend constitutional provisions to allow them to defer payment of debts from judicial decisions (bill referred to in Portuguese as "PEC do Precatório").

This constitutional amendment (PEC) has now been approved and sanctioned by the executive branch. Within this context, the Brazilian Government would not need to pressure the Senate to approve the tax reform, and accordingly, it became very unlikely that the tax reform would be approved within 2021.

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

- ▶ Currently, there are several separate bills proposing to establish some form of a digital services tax in Brazil. These bills are still being discussed, and further changes will be monitored to confirm if a digital service tax will be introduced in 2022.

#### **Taxes related to climate change or sustainability**

- ▶ No significant developments are expected.

#### **VAT/GST or sales taxes**

- ▶ In recent years, different bills have been proposed with the purpose of introducing changes to simplify taxation on consumption.
- ▶ In 2020, the Brazilian Government proposed a bill that would replace the Program of Social Integration and the contribution for the financing of social security (PIS and COFINS for their Portuguese initialism and acronym, respectively) with a new tax, the contribution on goods and services (CBS for its Portuguese initialism). Like the PIS and COFINS, the CBS would apply to local sales, as well as imports, of goods and services, and exports of goods and services remain exempt from the CBS. The bill would include in services (especially imports of services)

payments for licensing of rights and intangibles. The bill would also simplify and reduce the number of ancillary obligations related to the CBS, and eliminate several tax incentives and tax regimes, in an effort to simplify the Brazilian tax system.

- ▶ On 5 October 2021, the report of a major bill (constitutional amendment PEC 110/2019) was presented, which foresees the introduction of a comprehensive indirect tax reform and the implementation of a dual VAT system: (i) a federal VAT called CBS that would replace PIS/COFINS and IPI (federal excise tax; initialism from Portuguese); and a state VAT called tax on goods and services (IBS for its Portuguese initialism) that would replace ICMS and ISS (municipal service tax; initialism from Portuguese). The idea is to incorporate some of the major changes proposed in other bills, including constitutional amendment PEC 45/2019.
- ▶ On 8 December 2021, the president of the Senate's Constitution and Justice Committee was asked if the draft bill would still be voted on this year, and he answered that there is still resistance to the wording of the report and that the discussions may be postponed to next year.
- ▶ In 2022, there will be general elections, and as such comprehensive reform may not be approved in 2022, especially considering resistance to the wording, voting rounds and quorums for approval.

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

- ▶ Bill for income tax reform proposes to increase the amount of income exempt from income taxes every month from BRL 1,903.98 to BRL 2,500. In addition, the bill would reduce access to the simplified method, which allows individuals to deduct a presumed amount of expenses. Under the bill, only taxpayers with annual income of BRL 40k or less would be entitled to the simplified method.

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

- ▶ In 2021, the Brazilian Government increased financial transaction tax (IOF-Credit for its partial Portuguese initialism) rate on credit transactions carried out between 20 September 2021 and 31 December 2021. The president indicated that the revenues collected through the increase of the IOF-Credit rate would be applied to specific government programs for low-income families.

#### **Developments in the governance of cryptocurrency**

- ▶ In August 2021, Bill 2140/21 was approved, establishing a period of 180 days for the executive branch to regulate financial transactions with cryptocurrencies.
- ▶ Currently, the regulation of virtual currencies by the Central Bank is under discussion in the Chamber of Deputies (PL 2303/15). The project is still pending approval.
- ▶ In September 2021, the president of the Central Bank of Brazil (BC for its Portuguese initialism) informed that the regulation of cryptocurrencies is being discussed. However, regulation will be done first as an investment and then as a means of payment.

- ▶ The BC has also been talking to the Brazilian Securities Commission (CVM for its Portuguese initialism) about the regulation of Bitcoin in Brazil.

## 2.5 Political landscape

- ▶ Considering that there are upcoming elections in 2022, it is expected that the Brazilian Government will try to introduce measures to address popular demands, such as the expansion of social welfare projects and reduction of income tax obligation on low-income individuals. In this context, a bill was recently approved by the Congress allowing for the expansion of the “Bolsa Familia,” which is Brazil’s most significant social welfare program.

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

- ▶ The Federal Revenue of Brazil (RFB for its Portuguese initialism) has been focused on:
  - ▶ Strengthening the cross-checking of data from individuals to prevent omissions that imply tax evasion
  - ▶ The development of tax evasion identification tools
  - ▶ The prevention of tax illicit activities
  - ▶ Tax planning involving undercover equity and nonresident investment funds
  - ▶ Abusive international tax planning and erosion of the IRPJ (corporate income tax; initialism from Portuguese) tax base
  - ▶ Nonpayment of withholding tax, declared in the DIRF (withholding income tax return; initialism from Portuguese)
  - ▶ Omission of income earned on fixed income financial investments or interest about equity

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Supreme Court ruling on the exclusion of full amount of ICMS from PIS and COFINS
- ▶ New bill proposing the introduction of a digital services tax in Brazil

### 2.7 Major pending tax proposals not otherwise covered

- ▶ N/A

### 3.3 What are the four leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

RFB still has not released the Annual Audit Plan for 2022, but based on the Annual Audit Plan for 2021, we would expect:

- ▶ Abusive tax plannings, especially those involving corporate restructurings generating amortizable goodwill and private equity investment funds
- ▶ Tax evasion in the tobacco, beverage and fuel industries
- ▶ Social contributions
- ▶ Lack of payment of WHT declared in the DIRF

### 3.4 Which expected or ongoing development in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ CBS will be introduced assuming the tax reform is approved as is; given that there will be general elections in Brazil in 2022, no other significant tax change is expected to take place as of now.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ Each year, the local tax administration is going more digital and strategic in tax inspections. It has been very focused on developing existing reports to drive compliance and collection and has developed new technologies to combat tax evasion.

## Brazil

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	CFC issues	Issues resulting from different interpretations concerning the Brazilian CFC rules, especially regarding use of foreign tax credits
2	Tax planning	Internal restructurings generating amortizable goodwill, misuse of investment funds to conduit abusive tax planning and investors of the financial market registered as “nonresidents” that benefit from tax benefits applicable to fixed and variable income securities without making the proof of their nationality
3	Tax credit refunds/offsetting	Considering that most of the ancillary tax obligations in Brazil (including income tax returns and VAT returns) are submitted electronically and that the Brazilian IRS has well-developed, sophisticated electronic compliance and audit system, the taxpayers have received thousands of notifications related to refunds and offsetting of tax credits.
4	Transfer pricing	Discussions about the appropriate calculation or adoption of the Brazilian traditional transfer pricing methods





Banff National Park, Alberta, Canada

# Canada

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 6 December 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	27.54%	27.42% <sup>1</sup>	Varies Nova Scotia's calendar year-end combined rate fell from 29.5% to 29.0% due to a reduction in its own general corporate tax rate from 16% to 14%, effective 1 April 2020; Alberta's calendar year-end combined rate fell from 24% to 23% when it accelerated the phase-in of tax rate cuts that were enacted in 2019 (from 10% to 9% to 8%).

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



Personal income tax – top rate	50.44%	50.44% Combined federal and provincial tax rates vary by province and territory. <sup>2, 3, 4</sup> Tax brackets and indexed income thresholds vary by province/territory.	–
VAT, GST or sales tax – standard rate	Combined rates varied by province and territory, ranging from a low of 5% in Alberta and the three territories (where only the federal GST applies) to a high of 15% (in each of the four Maritime provinces).	Combined rates vary by province and territory, ranging from 5% to 15% <sup>5, 6</sup> Manitoba reduced its RST from 8% to 7%, effective 1 July 2019. A further drop to 6% was to have taken place on 1 July 2020, but due to the COVID-19 pandemic the reduction has been postponed until further notice.	–

<sup>2</sup> The top combined rate is in Nova Scotia with federal of 33% and provincial of 21% for a marginal rate of 54%. Other top combined provincial/territorial marginal rates range from a low of 44.5% (Nunavut) to a high of 53.53% (Ontario).

<sup>3</sup> Eight of Canada's 10 provinces have top personal marginal tax rates in excess of 50%. Only Alberta (48%) and Saskatchewan (47.5%) have top marginal rates below 50%.

<sup>4</sup> Federal *Income Tax Act*, s. 117; various provincial/territorial tax statutes

<sup>5</sup> Five provinces have a multi-stage VAT administered by the Canada Revenue Agency called the Harmonized Sales Tax (HST), which consists of a 5% federal component (the GST) and the respective provincial component: New Brunswick, Nova Scotia, Newfoundland & Labrador, Ontario and Prince Edward Island. Three provinces have a retail sales tax that they administer: British Columbia, Manitoba and Saskatchewan. These are called Provincial Sales Tax (PST) in British Columbia and Saskatchewan and Retail Sales Tax (RST) in Manitoba. The GST also applies in these three provinces and is administered by the Canada Revenue Agency (CRA). Quebec administers both the federal GST and its own multi-stage VAT known as the Quebec Sales Tax or QST (*Taxe de vente de Québec* or *TVQ* in French). Alberta has no provincial sales tax. Only the 5% federal GST applies, as is the case in the three territories.

<sup>6</sup> Federal *Excise Tax Act*, s. 165; various provincial tax statutes

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Regarding the ongoing COVID-19 pandemic – two factors come into play: (1) how much ongoing government support will be needed for individuals and businesses until the spread of the virus can be contained, and (2) how quickly the Canadian economy can recover and what fiscal stimulus governments can contribute.
- ▶ Significant increase in federal and provincial deficit and debt levels, largely due to COVID-19-related economic relief programs for businesses and individuals and extension of eligibility for these programs into 2022 (though on a more targeted basis).
- ▶ At the federal level, a minority government is still in power (meaning the governing Liberal Party needs the support of at least one opposition party to pass key legislation without risking a defeat that would trigger another election). The government may move to implement some of the proposed tax measures it announced in Budget 2021, including a luxury tax, international measures that include a new interest deductibility limit and new rules on hybrid mismatch arrangements.
- ▶ The federal government still intends to move ahead with legislation finalizing the enactment of a 3% DST despite action on the BEPS 2.0 project. The DST would only be imposed as of 1 January 2024 (rather than 1 January 2022 as originally announced) and only if the convention implementing the BEPS 2.0 tax regime under the international agreement has not come into force by 31 December 2023.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022 (Budget 2021 proposed the introduction of an earnings stripping rule consistent with the OECD BEPS Action 4 recommendations, but it is not yet enacted.)

Tax types	Likelihood of changes in 2022	Direction of change
4. Anti-hybrid rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022 (Budget 2021 proposed the introduction of new hybrid mismatch arrangements rules consistent with the OECD BEPS Action 2 recommendations, but they are not yet enacted.)
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022 (The existing thin cap rules are being retained in parallel with the new earnings stripping rule mentioned on page 4.)
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022 (As a result of an adverse court decision, Budget 2021 announced the government's intention to consult on Canada's transfer pricing rules "with a view to protecting the integrity of the tax system while preserving Canada's attractiveness as a destination for new investment and business activity." No formal consultation process has yet been announced.)
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Canada

Tax types	Likelihood of changes in 2022	Direction of change
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ The need for additional tax revenue to reduce the substantial increase in the budgetary deficit caused by COVID-19-related support program expenditures is offset by the need to stimulate economic recovery. For this reason, there is no expectation of corporate tax rate increases other than selective ones outlined in Budget 2021, at least in the near term.

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

- ▶ The federal government intends to move ahead with legislation finalizing the enactment of a 3% DST in keeping with a proposal first announced in the 2020 Fall Economic Statement and again in Budget 2021.

### Taxes related to climate change or sustainability

- ▶ Under the Greenhouse Gas Pollution Pricing Act, the federal carbon pollution pricing system has two parts:
  - A regulatory charge on fuel (the federal fuel charge)
  - A regulatory trading system for industry – the federal Output-Based Pricing System (OBPS)
- ▶ In December 2020, the federal government announced it would increase the existing price on carbon from its then current \$30/ton of GHG emissions to \$170/ton by 2030. It had been scheduled to increase by \$10 annually until it reached \$50/ton in 2023. It will instead rise by \$15/ton per year, i.e., to \$65/ton in 2023 until it reaches \$170/ton in 2030.
- ▶ Budget 2021 included a proposed investment tax credit for capital invested in Carbon Capture Utilization and Storage (CCUS) projects to come into effect in 2022 but provided few details. It afterward concluded a formal consultation process but has not yet introduced draft legislation.

### VAT/GST or sales taxes

- ▶ No significant developments are expected.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ Budget 2021 included a proposed luxury tax on high-end cars, planes and recreational boats for private use and launched a formal consultation process inviting submissions on the proposal. It is not yet understood whether the government will proceed with its enactment.

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

- ▶ During the 2021 election, the governing Liberal Party's election platform included a proposal to "raise corporate income taxes on the largest, most profitable banks and insurance companies who earn more than \$1 billion per year and introduce a temporary Canada Recovery Dividend that these companies would pay in recognition of the fact they have recovered faster and stronger than many other industries." It is not yet clear whether the government will proceed with this proposal.

### Developments in the governance of cryptocurrency

- ▶ No significant developments are expected.

## 2.5 Political landscape

- ▶ On the one hand, governments are looking for more tax revenue to reduce their budgetary deficits and debt servicing charges; on the other hand, tax rate increases, base broadening or new tax measures would risk jeopardizing economic recovery.

## Canada

### 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ No significant developments are expected.

### 2.7 Major pending tax proposals not otherwise covered

- ▶ N/A

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

- ▶ The CRA is well-funded for enforcement activities, particularly focusing on transfer pricing and international tax planning.
- ▶ The CRA deploys a high audit coverage and high intensity approach to large corporations.
- ▶ The Liberal Party's 2021 election platform contained the following commitment: "Significantly increase the resources of the Canada Revenue Agency to combat aggressive tax planning and tax avoidance that allows the wealthiest to avoid paying the taxes they owe. This will increase CRA's resources by up to \$1 billion per year in order to close Canada's tax gap."

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Continued focus on transfer pricing
- ▶ Continued CRA development of risk-based audit selection tools
- ▶ Increased remote enforcement activities

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Discontinuance of pandemic-related relief programs
- ▶ Increased digital administrative and enforcement capabilities of CRA
- ▶ Focus on transfer pricing and international tax planning

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ Focus to date has been on improving digital access to taxpayer services.
- ▶ CRA risk assessment and remote audit functions are continuing to develop.
- ▶ Electronic communications with taxpayers have increased substantially in the pandemic period.

### 3.6 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2022?

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Transfer pricing	Continued high CRA coverage of all transfer pricing transactions, with strong reassessment positions often observed
2	Indirect taxes	HST/GST enforcement
3	Incentives – other	COVID-19 relief programs to be reviewed for recipient eligibility and subsequent reporting
4	Withholding taxes	Continuing focus on enforcement of nonresident employee and service provider withholding requirements
5	Losses	Expected widespread utilization of pandemic-induced losses likely to spark refund requests and associated scrutiny



Plaza de Armas, Santiago de Chile

# Chile

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*This information is current as of 28 January 2022.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	27% (10% SMEs)	27% (10% SMEs)	–
Personal income tax – top rate	40%	40%	–
VAT, GST or sales tax – standard rate	19%	19%	–



## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ On 26 January 2022, the Chilean Senate approved tax reform bill (the Bill) that reduces or eliminates certain tax exemptions, with the purpose of financing the new pensions bill introduced in parallel to Congress. The Bill will become law once ratified by the President of the Republic and published in the Official Gazette. The new set of measures included in the Bill will (1) impose a new 10% tax on capital gains derived from stock transactions, (2) progressively eliminate VAT incentives for construction companies, (3) generally apply a 19% VAT to all services, (4) impose a tax on inheritances and donations of life insurance benefits, (5) impose a new tax on luxury goods, (6) modify the mining concession system, (7) modify the financial leasing contracts tax treatment, (8) eliminate the fixed asset investment credits for large companies, (9) increase the property tax rate and (10) eliminate a tax benefits for housing subject to Decree with Force of Law 2 acquired prior to 2010.
- ▶ Also on 26 January 2022, the Chilean Senate approved a tax reform bill that creates a donation regime with tax benefits in support of nonprofit entities. However, said bill now will have to be reviewed by the Constitutional Court and by the President.
- ▶ A key tax policy objective that the government has been encouraging is the use of preventive and collaboration measures stated in numeral iii of the recently modified Article 33 of the Tax Code. Those measures promote that taxpayers voluntarily comply with their obligations, granting the following powers to the Chilean tax authority:
  - ▶ To request background information, indicating clearly and precisely the request's purposes, the matter consulted and other grounds for the action
  - ▶ To request in certain cases specific, concrete and in a determined manner, certain background information regarding transactions of which it has become aware, which occurred during the monthly or annual period, and which could have a direct impact on the tax return to be filed by the taxpayer concerning the respective period

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input checked="" type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022

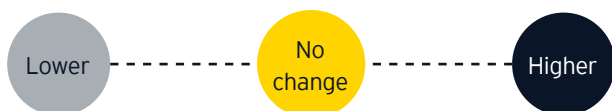
## Chile

Tax types	Likelihood of changes in 2022	Direction of change
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input checked="" type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input checked="" type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022

Tax types	Likelihood of changes in 2022	Direction of change
16. Do you expect changes to tax enforcement generally?	<input checked="" type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

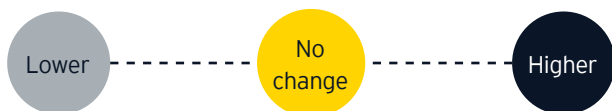
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ No major changes are expected, but the recently elected President, in December 2021, is proposing to modify the tax legislation in this regard.

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

- ▶ No major changes are expected since 19% VAT on digital services rendered by foreign digital service providers recently entered into force in June 2020.

### Taxes related to climate change or sustainability

- ▶ No major changes are expected, but the recently elected President is proposing to modify the tax legislation in this regard.

### VAT/GST or sales taxes

- ▶ No major changes are expected in 2022, but according to the pension system bill, from 1 January 2023, VAT will be applied broadly to all services unless the service is explicitly exempt or subject to a different treatment.
- ▶ Health care, education and public transport services will be expressly exempt. Conversely, technical and professional advice and consulting services in general will be affected by VAT.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ The Bill introduces a new tax on luxury goods with a 2% rate of their corresponding market value.
- ▶ This tax will be levied on the following goods: yachts, helicopters and manned aircraft (whose market value exceeds UTA 122, approx. USD \$95,000); and automobiles, station wagons and similar vehicles (whose market value exceeds UTA 62, approx. USD \$48,000).

## Chile

- ▶ This tax will not apply on luxury goods owned by companies that carry out activities listed in Articles 20(1), (3), (4) and (5) of the Income Tax Law, provided that they are effectively destined and indispensable for the development of said activities.

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

- ▶ No major changes are expected, but the recently elected President is proposing to modify the tax legislation in this regard.

### **Developments in the governance of cryptocurrency**

- ▶ No major changes are expected, but the recently elected President is proposing to modify the tax legislation in this regard.

## 2.5 Political landscape

- ▶ Presidential elections were held on 19 December 2021. The new President's term is from 11 March 2022. The elected candidate has included major tax reforms on his government program, but he will need approval from the recently elected Congress, which has both left and right parties represented.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Law 20,210 was published in the Official Gazette on 24 February and entered into force on 1 March 2020. During 2021, the Chilean tax authority issued several rulings and circular letters addressing different questions from taxpayers and providing guidance and interpretation of the tax law.

## 2.7 Major pending tax proposals not otherwise covered

- ▶ Pension system bill recently approved on 26 January 2022, not yet entered into force
- ▶ Pending Congress ratification approval for Double Tax Treaties signed with the Netherlands, India and the United Arab Emirates

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ There is no regular basis schedule for tax audits. They depend on the audit planning, which is established by the tax authorities and based on taxpayer behavior. Taxpayers deemed "large business taxpayers" are audited more frequently, at least once per year.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ With respect to large taxpayers, the most relevant lines of action have been to audit multinationals, large mining entities and high net worth taxpayers.

- ▶ Another trend in relation to tax enforcement during 2021 that will continue during 2022 is the permanent audit of digital services providers in order to confirm the correct compliance to the new information obligations and tax declarations incorporated by the 2020 tax reform.
- ▶ Finally, the tax authority has confirmed that they are working on updating the real estate registry in order to assess that each person pays the correct amount of territorial tax and real estate surcharge created by 2020 tax reform.

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Significant increase in unilateral APAs is expected (no bilateral APAs have been signed by the tax administration yet).
- ▶ The newly elected President is expected to introduce the reforms promised in the campaign, especially considering the high need for revenue the government will require amid the sanitary/social crisis aftermath.
- ▶ Since the left-wing candidate won the election, the tax administration high officials are likely to be replaced.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The Chilean tax authority is a highly digitalized government institution. It seeks to improve the experience of taxpayers through the different channels of communication, especially the digital channels, to facilitate the compliance of the tax obligations.
- ▶ Currently most of the audits are carried out through online notifications, in which taxpayers need to upload the required supporting information to the electronic file and continue the process virtually.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

## Chile

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Losses	<ul style="list-style-type: none"><li>▶ Detection of fictitious losses and audit over the origin of the carryforward losses when deducted from income</li></ul>
2	High net worth taxpayers	<ul style="list-style-type: none"><li>▶ Creation of a sworn statement by which the loss of residence must be informed.</li><li>▶ Implementation of the Joint International Tax Shelter Information Centre (JITSIC) project (high net work individual-residency-endorsement income), which will detect gaps in information regarding the end of the residence or domicile of the taxpayers in the country, to carry out the necessary controls for the effects that the loss of residence has on their personal taxation or their companies</li></ul>
3	Disallowance of deductions	<ul style="list-style-type: none"><li>▶ Expense deductibility rules widely used by the local tax authority in audits, and it has caused significant litigation</li></ul>
4	Multinational groups and transfer pricing	<ul style="list-style-type: none"><li>▶ Creation of a specialized team that reviews, analyzes and negotiates APAs</li><li>▶ Creation of specialized groups for the control of international operations and transfer pricing policies within the region</li><li>▶ Development of platforms to structure and monitor the information received through the automatic exchange information, CRS and CbCR.</li></ul>
5	Digital taxes	<ul style="list-style-type: none"><li>▶ To control the correct payment of the DSTs by the taxpayers, incorporating new information that allows the monitoring of transactions and amounts declared to timely identify those who are not fulfilling their obligations in an adequate manner either by under declaring or not declaring and paying the corresponding tax</li></ul>





Busy street in China

# China Mainland<sup>1</sup>

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 8 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	25%	25%	–
Personal income tax – top rate	Different individual income tax (IIT) rates applicable subject to income types: <sup>2</sup> <ul style="list-style-type: none"> <li>▶ General consolidated income (wages): 45%</li> <li>▶ Business operation income: 35%</li> <li>▶ Interest and dividend: 20%</li> </ul>	Different IIT rates applicable subject to income types: <ul style="list-style-type: none"> <li>▶ General consolidated income (wages): 45%</li> <li>▶ Business operation income: 35%</li> <li>▶ Interest and dividend: 20%</li> </ul>	–
VAT, GST or sales tax – standard rate	6%, 9%, 13% (depending on the industries) and 0% for certain eligible activities as well as export of goods and services	6%, 9%, 13% (depending on the industries) and 0% for certain eligible activities as well as export of goods and services	–

<sup>1</sup> “China” in this publication refers to the mainland China tax jurisdiction.

<sup>2</sup> Order of the President [2018] No. 9



## Section 2: Tax policy in 2022

---

### 2.1 Key drivers of tax policy change

#### ▶ 14th Five-Year Plan and 2035 Visions

In March 2021, the National People's Congress (NPC) released the 14th Five-Year Plan of the People's Republic of China (PRC) on National Economic and Social Development and 2035 (14th Five-Year Plan and 2035 Visions), setting out the overarching goals and determining the focused areas.

**Short-term plan** for the next five years, including to achieve:

- ▶ Innovation-driven economy with at least 7% of a proposed average annual growth rate of the R&D expenditure for the whole society
- ▶ More robust fair competition system
- ▶ Higher-level open economy
- ▶ Green and sustainable economy
- ▶ Expansions of various types of special zones, etc.
- ▶ Further opening up for foreign direct investment (FDI)

**Mid-/long-term plan** for the next 15 years (through 2035), including focusing on:

- ▶ Major breakthrough in key technologies
- ▶ The rule of law and governance
- ▶ Carbon peak by 2030, neutral by 2060
- ▶ Well structured and robust opening market for FDI

#### ▶ Sixth Plenary Session of the 19th Central Committee of the Communist Party of China (CCCCP) November 2021 – resolution on vision for the next 100 years:

- ▶ Pursuit common prosperity
- ▶ Deepening reform and open up
- ▶ Speed up innovation
- ▶ Enhance rule of law and governance
- ▶ Sustainable and quality growth

#### ▶ Sustainability

The State Council issued guidelines for achieving carbon peak by 2030 and carbon neutral by 2060. Details are to be set but may include tax measures, such as:

- ▶ Conducive to green and low-carbon development
- ▶ Provide preferential tax policies for energy and water conservation, recycling businesses, etc.

#### ▶ Digitization of tax administration

Deepening the application of big data, AI, cloud computing, data analytics, to:

- ▶ Empower more efficient tax administrations, coordination with other non-tax departments, and more targeted tax risks audits
- ▶ Enhancing information exchange between other tax administrations

#### ▶ Tax audit trend

Recently, tax authorities are focusing on the following sectors: agricultural products, acquisition and utilization of waste, purchase and sale of bulk commodities (such as coal, steel, electrolytic copper and gold), for-profit education institutions, medical cosmetology, live broadcast platforms, agency and share transfer of high net worth individuals.

Also, the tax audit bureau will focus on investigating tax-related violations, such as issuing/accepting fake invoices, concealing revenues, related-party transactions and tax evasion by using new business models.

#### ▶ Property tax reform and legislation

- ▶ On 23 October 2021, China NPC announced the decision on 5-year pilot property tax reforms in selected regions, following a 10-year of pilot run that started in 2011 in Shanghai and Chongqing.
- ▶ The details are yet to be announced.

#### ▶ BEPS 2.0 – official response from the Ministry of Finance (MOF)

- ▶ In response to the BEPS 2.0 October joint Statement, Minister Liu Kun of the MOF mentioned that China supports multinationalism as well as international tax cooperation and also echoes the importance of the establishment of a fair, stable and sustainable international tax system.

#### ▶ Belt and Road Initiative (BRI)

- ▶ Continually enhancing the respective programs and using various policies (customs, tax, etc.) to support high-quality developments

## China Mainland

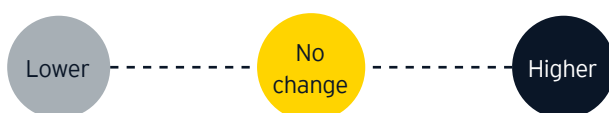
### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022

Tax types	Likelihood of changes in 2022	Direction of change
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

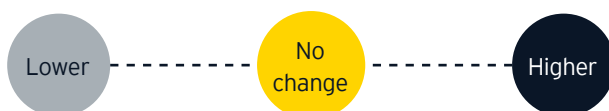
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## China Mainland

### 2.4 Tax policy outlook for 2022 – detail

#### Corporate income taxes

China continues to announce the various establishment of special zones for modern and financial services, industries and innovation, e.g.:

- ▶ Guangdong-Macao Comprehensive Collaboration Zone in Hengqin (Hengqin Zone)
- ▶ Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone and Fujian Pingtan Comprehensive Experimental Zone
- ▶ Pudong New Area of Shanghai
- ▶ To facilitate investments, innovation, services, and R&D for core technologies
- ▶ Details found in the China Investments and Tax Weekly<sup>3</sup>

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

- ▶ No specific DST is applied in China at the current stage.

#### VAT/GST or sales taxes

- ▶ The draft VAT Law was released for public consultation on 27 November 2019, and the public comments closed on 26 December 2019. The draft VAT Law would:
  - ▶ Redefine VAT taxpayer and VAT withholding agent
  - ▶ Officially update VAT rates (13%, 9%, 6%, 0%)
  - ▶ Introduce provisional refunds of input VAT credit brought forward from previous periods
  - ▶ Tax reduction/exemption procedures: empower the State Council to formulate VAT preferential policies and shall submit to the Standing Committee of the National People's Congress for record filing purpose

#### Consumption tax (CT)

- ▶ China plans to reform the CT system and the changes may be focused in areas aligned with the goals of “common prosperity” and carbon neutrality; details are yet to be announced.

#### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ IIT preferential policies will be introduced in the Hengqin Zone.
- ▶ China will strengthen administration of IIT on stock incentives.
- ▶ The existing deductible allowance for expats expired on 31 December 2021.

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

- ▶ On 23 October 2021, the central government announced the decision on pilot property tax reforms in selected regions. The pilot aims to garner experiences before proceeding with formal legislation.

#### Developments in the governance of cryptocurrency

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

### 2.5 Political landscape

- ▶ No change in broad directions relating to FDI, continue to:
  - ▶ Attract FDI
  - ▶ Expand special zones
  - ▶ Collaborate with Belt Road and the international tax communities

### 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

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

- ▶ CIT
  - ▶ R&D promotion – 200% super deduction on eligible R&D expenses and one-off deduction of newly purchased eligible equipment and appliances
- ▶ VAT
  - ▶ Starting from 1 April 2021, eligible taxpayers engaging in the advanced manufacturing industry can apply to the competent tax authority for the refund of input VAT credits brought forward from the previous periods.
  - ▶ From 1 October 2021, enterprises engaging in residential rental businesses may be entitled to a reduced VAT collection rate of 1.5%.
  - ▶ Preferential VAT policies for the cultural promotion industry are continuously being implemented.
- ▶ Deed tax (DT)
  - ▶ DT policies for supporting the reorganization and restructuring of enterprises and public institutions extended to 31 December 2023
- ▶ Land appreciation tax (LAT)
  - ▶ LAT policies for supporting reorganization and restructuring of enterprises extended to 31 December 2023
- ▶ Real estate tax
  - ▶ For businesses that rent houses to individuals and specialized large-scale housing leasing companies, the real estate tax will be reduced to 4% from 12%.
  - ▶ Property tax 5-year pilot for individually owned properties in selected regions following a 10-year trial from 2011 in Shanghai and Chongqing; details yet to be announced

► **Stamp duty**

- The Stamp Duty Law was passed on 10 June 2021 and will take effect from 1 July 2022.

**Regional tax incentives**

China provides income tax incentives (including CIT and IIT) to different designated special zones/areas, in accordance with respective local strengths and economic development focuses. The goals of these incentives are mainly designed to promote innovation, talent attraction and investments.

These zones and areas include Go West, Greater Bay Area, Pingtan, Qianhai, Shanghai Pudong, and the Guangdong Macao Zone in Hengqin, as well as other Pilot Free Trade Zones.

**Other updates related treaty network**

- The double taxation agreement (DTA) and its protocol between PRC and Spain took effect from 2 May 2021.
- The Protocol to the PRC-Qatar DTA took effect from 24 August 2021.

## 2.7 Major pending tax proposals not otherwise covered

- VAT Law (Draft)<sup>4</sup>
- Consumption Tax Law (Draft)<sup>5</sup>
- LAT Law (Discussion Draft)<sup>6</sup>
- Revised Draft of the Tax Collection and Administration Law (Discussion Draft)<sup>7</sup>

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

- **General tax audit procedures:** In July 2021, State Taxation Administration issued Order No. 52 to stipulate the procedures of the tax audit. The tax audit procedures become transparent and open to the public.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- **Tax audit trend:** Recently, tax authorities are focusing on the following sectors: agricultural products, acquisition and utilization of waste, purchase and sale of bulk commodities (such as coal, steel, electrolytic copper and gold), for-profit education institutions, medical cosmetology, live broadcast platform, agency and share transfer of high net worth individuals.

Besides, the tax audit bureau will focus on investigating with tax-related violations, such as issuing/accepting fake invoices, concealing revenues, related-party transactions and tax evasion by using new business models.

- **Cracking down crimes on issuing/accepting fake invoices:** In recent years, tax authorities have performed audits jointly with other government authorities to crack down on crimes around issuing/accepting fake invoices.
- **General tax audit programs:** In 2021, the State Administration of Taxation frequently assigned officials to visit the local tax authorities and supervise their tax collection/audit activities.

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<sup>3</sup> [https://www.ey.com/en\\_cn/china-tax-alerts](https://www.ey.com/en_cn/china-tax-alerts)

<sup>4</sup> <http://www.chinatax.gov.cn/chinatax/n810356/n810961/c5140207/content.html?from=timeline&isappinstalled=0>

<sup>5</sup> [http://www.gov.cn/xinwen/2019-12/04/content\\_5458247.htm](http://www.gov.cn/xinwen/2019-12/04/content_5458247.htm)

<sup>6</sup> <http://www.chinatax.gov.cn/chinatax/n810356/n810961/c5136578/content.html>

<sup>7</sup> [http://www.gov.cn/xinwen/2015-01/05/content\\_2800208.htm](http://www.gov.cn/xinwen/2015-01/05/content_2800208.htm)

## China Mainland

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ **Indirect taxes:** In the recent years, value-added tax and consumption tax are in the process of legislation.
- ▶ **Cross-border taxation:** China State Administration of Taxation (SAT) has been planning to issue a new tax rule, aiming to extend special tax reorganization treatment to a broader scope of cross-border transactions than what has been provided under Circular 59, Article 7. It is expected that China SAT will announce domestic tax rules on BEPS 2.0 (Pillar One and Pillar Two).
- ▶ **Customs:** Transfer pricing has become a hot topic in Customs valuation area in recent years – not only Tax Collection and Administrative Bureau of Customs (TCAB) but also the audit departments of local Customs are looking at the transfer pricing of imported goods.

With the enforcement of Regional Comprehensive Economic Partnership (RCEP), the average duty rates of imported goods from RCEP countries would be reduced. Customs is expected to closely review and audit the validity on the preferential duty rates under the Free Trade Agreement.

In addition to import tax collection, it is a trend that Customs will put more efforts on the supervision and controls over importing and exporting, e.g., import/export licensing, commodity inspection, export control.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ In recent years, the China tax authorities have upgraded its tax collection system (with data analytic functions). Taxpayers are now required to upload/submit financial documents/information onto the system on a regular basis. The detailed level of the documents/information is subject to the status of the enterprise, e.g., size/tax contribution. Enterprises may be requested to provide further information if certain issues or significant transactions attract the tax authorities' attention.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Primary purpose test for capital gain exemption provided by the tax treaties	There have been some cases where the tax authorities performed an active post-check on the eligibility of capital gain exemption provided by the tax treaties if the tax-exempt amount exceeds certain threshold after the record filing made by the nonresident for treaty benefit. In such post-check events, some tax authorities took the primary purpose test for capital gain exemption, and private funds would be in a difficult position, even though they indeed have offices, employees and decision-making in those treaty countries/regions. If the treaty benefit is revoked, there would be late payment interests on the top of capital gain tax that needs to be paid back to China.
2	Outbound payments of related-party royalties	The Chinese tax authorities would challenge the necessity of the royalty (i.e., whether the IP is outdated and still valuable), the substance of the royalty recipient and whether it has economic ownership of the IP, as well as the arm's-length nature of the royalty rate.
3	Tax incentives provided to high and new technology enterprises (HNTEs)	There are various tax incentives provided to HNTEs, e.g., reduced CIT rate of 15%, tax holiday of "two-year exemption and three-year half" and super deduction of qualified R&D expenditures. In recent years, tax authorities are conducting more strict reviews on HNTEs by assessing whether conditions are met to enjoy the above mentioned tax incentives, including, but not limited to, volume of R&D expenditures, percentage of qualified income, number of headcounts of R&D team, etc.
4	Tax administration on the share transfer for the individual shareholders	In 2021, several provincial tax authorities and market regulation authorities have jointly issued local regulations to stipulate that the individual shareholders are required to perform the tax filing for the share transfer transactions prior to the shareholder alternation registration process with the market regulation authorities. The tax authorities would also strengthen their follow-up tax review procedure to assess the tax filing results at a later stage.
5	Special tax inspections for live streamers, online influencers in e-commerce industry	PRC tax authorities are also taking actions to improve the compliance and sustainable development for the platform economy and the e-commerce industry. According to the latest regulation in relation to the live streaming marketing administrations issued on 25 May 2021, the live platform parties are required to report the personal information as well as the tax-related profiles of those live streamers to tax authorities.



Torre Colpatria (Bogota)

# Colombia

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 6 December 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	31%	35% <sup>1</sup> 3% surcharge for financial institutions	+13%
Personal income tax – top rate	39%	39%	–
VAT, GST or sales tax – standard rate	19% (and 5% for some of the basic family basket products)	19% (and 5% for some of the basic family basket products)	–

<sup>1</sup> The CIT was set to lower to 30% in 2022, but tax reform in late 2021 raised the tax rate.



## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Suspension of the fiscal rule to limit the fiscal deficit to guarantee the sustainability of the public debt and the country's economy
- ▶ Tax reform in September 2021
- ▶ 17% increase in the normalization tax, a tax collection of COP \$760,000mm is estimated
- ▶ Taxpayers limited to claiming 50% of the turnover tax as a CIT credit; a previously enacted law would have allowed taxpayers to claim 100% of the turnover tax beginning in 2022
- ▶ Extension to 10 years of the term to use the surplus tax profits against the commercial profits obtained, within the framework of the concession contract
- ▶ Expansion of tax amnesties

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

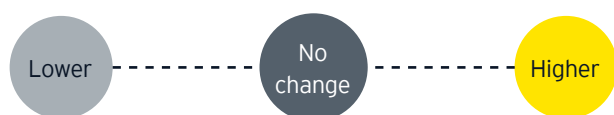
## Colombia

Tax types	Likelihood of changes in 2022	Direction of change
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022

Tax types	Likelihood of changes in 2022	Direction of change
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ According to article 240 of the Colombian Tax Code (CTC), the income tax for corporations (legal entities) was going to be 30% for 2022, but instead increased to 35% with tax reform in late 2021 to pay for expenses associated with the COVID-19 pandemic.
- ▶ For financial institutions with taxable income of more than 120,000 tax units (approximately US\$1.1 million), the tax reform law imposes a 3% surtax on income from 2022 to 2025 (for a total income tax rate of 38%). The law establishes an advance collection mechanism for the surtax.

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

- ▶ No changes are currently expected.

### Taxes related to climate change or sustainability

- ▶ The National Carbon Tax rate for 2021-23 is COP \$17,660 per ton of CO<sub>2</sub> (carbon dioxide).

### VAT/GST or sales taxes

- ▶ No changes are currently expected.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ No changes are currently expected.

## Colombia

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

- ▶ The 4 x 1,000, a tax that charges \$4 for every \$1,000 pesos (COP) that passes through a bank transaction in Colombia, will be gradually eliminated. The tax will be reduced proportionally over a period of 4 years, e.g., 3 x 1,000, 2 x 1,000 and 1 x 1,000, until this tribute is no longer available in 2026.

### Developments in the governance of cryptocurrency

- ▶ No changes are currently expected.

## 2.5 Political landscape

- ▶ On 29 May 2022, the presidential elections will occur to choose the president and vice president of the republic for 2022-2026.
- ▶ On 13 March 2022, legislative elections will occur to choose the 108 members of the Senate and the 188 members of the House of Representatives.

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

- ▶ Currently, the tax authorities are sending reports to national companies and starting collection processes if signs of inaccuracy are found.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ **Transfer pricing:**
  - Extension of the deadline to present the master report
  - COVID-19 effects on the analysis made in transfer pricing
  - Application of transfer pricing methods
- ▶ **Balances in favor refunds:** Due to COVID-19, many companies found it necessary to request payment of the balances in their favor to meet the needs of the company.

### 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ On 14 September 2021, Colombia enacted Law 2155 (the Social Investment Act), which includes the 2021 tax reform as well as rules to increase social expenditures, reduce public expenditures and adjust the 2021 budget. The law became effective 14 September 2021.
- ▶ Changes were made to the tax incentives in the Orange Economy program,<sup>2</sup> including:
  - ▶ Repeal of the minimum investment amount required to access the tax incentive
  - ▶ Reduction of the term of the exempt income from activities carried out by Orange Economy companies from seven to five years
  - ▶ Extension of access to the benefit until 30 June 2022

### 2.7 Major pending tax proposals not otherwise covered

- ▶ N/A

### ▶ Electronic billing system:

The billing system includes the sales invoice, the equivalent documents and the "electronic documents" determined by the National Directorate of Taxes and Customs (DIAN, per its Spanish acronym).

The power to establish equivalent documents will be with the director of DIAN and not the national government.

### 3.4 Which two expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Increase in the corporate tax rate
- ▶ Electronic billing system

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The tax authority is sufficiently digitalized to allow for the efficient and effective functioning of the tax system, especially in the presentation of tax returns, hearings and electronic audit processes.

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<sup>2</sup> Art. 235-2 CTC and Art. 44 and 65 Law 2155 of 2021.

### 3.6 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2022?

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	COVID-19-related impacts and outcomes	Due to the serious economic effects that COVID-19 had on the business sector, many companies found it necessary to request payment of the balances in their favor to meet the needs of the company.
2	Tax refunds	
3	Incentives – other (location, investment, etc.)	<p>Tax incentives for the following environmental activities:</p> <ol style="list-style-type: none"> <li>1. Control, conservation and environmental improvement investments</li> <li>2. Investments made in control, conservation and improvement of the environment in tourist activities</li> <li>3. Environmental monitoring and control system</li> <li>4. Environmental monitoring and control system to comply with the commitments of the Montreal protocol (environmental agreement)</li> <li>5. Environmental control and monitoring system for the development of garbage recycling and processing activities, among others</li> <li>6. Purchase of biofuels of vegetable or animal origin</li> <li>7. The utilization of new plantations</li> <li>8. Ecological tourism</li> <li>9. Coffee growers</li> <li>10. VAT exclusion for agricultural sector goods and others</li> </ol>

## Colombia

		<ol style="list-style-type: none"> <li>11. Being the owner or possessor of properties that carry out flora conservation activities</li> <li>12. Tariff reduction for electric vehicles or with exclusive natural gas operation</li> <li>13. Payment for environmental services</li> <li>14. Incentives for investment in alternative energy – Clean Development Mechanism (CDM)</li> <li>15. Investments made in projects of non-conventional sources of energy – FNCE (per its Spanish acronym)</li> <li>16. Investments made in efficient energy management projects</li> </ol>
4	Transfer pricing: headquarter and management services transactions; intercompany financing transactions	<ul style="list-style-type: none"> <li>▶ Extension of the deadline to present the master report</li> <li>▶ COVID-19 effects on the analysis made in transfer pricing</li> <li>▶ Application of transfer pricing methods</li> </ul>
5	Treaty benefits Form No. 150	<p>The DIAN published a resolution defining the procedure and prescribes Form No. 150 for presentation of the income tax return for change of ownership of direct foreign investment and indirect disposals, for 2021 and subsequent years.</p> <p>In accordance with the provisions of articles 90-3, 326 and 327 of the CTC, the form is mandatory for taxpayers who changed ownership of the investment and/or when some of the events that constitute indirect alienation occur.</p>





San Jose, Costa Rica

# Costa Rica

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 24 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	30%	30%	–
Personal income tax – top rate	25%	25%	–
VAT, GST or sales tax – standard rate	13%	13%	–



## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Obtain a loan from the International Monetary Fund (IMF)
- ▶ Increase the flow of revenues
- ▶ Reduce expenditures

### 2.2 Tax changes in 2022

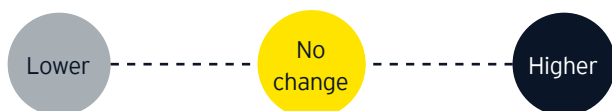
Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Costa Rica

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

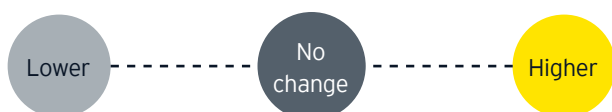
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ None currently known

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

- ▶ Application of VAT on cross-border digital service providers

### Taxes related to climate change or sustainability

- ▶ None currently known

### VAT/GST or sales taxes

- ▶ None currently known

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ There is a bill that proposes to tax luxury homes, those with a value greater than 150,000,000 million colones (approximately USD 233,000).
- ▶ There is a bill that proposes to include world income in the Costa Rican tax system.

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

- ▶ None currently known

### Developments in the governance of cryptocurrency

- ▶ None currently known

## 2.5 Political landscape

- ▶ Elections are upcoming in February 2022.
- ▶ The coalition government, which is in control through 2022, has stated tax reform is a priority to obtain the loan from the IMF.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ None

## 2.7 Major pending tax proposals not otherwise covered

- ▶ Bill on reduction of tax benefits and adjustments in income rates and capital gains to strengthen the fiscal system
- ▶ Bill for the inclusion of world income in the Costa Rican tax system

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ There is a strong need for the government to raise revenue to cover new fiscal deficits as well as deficits resulting from COVID-19.
- ▶ Costa Rica requested a loan to the IMF that includes, as part of its conditions, raising revenue through new taxes as well as enhancing tax compliance, which may result in an increase of tax audits and controls over taxpayers.
- ▶ Costa Rican tax authority challenging behavior is the driver toward the relationships with taxpayers and within tax audits.
- ▶ A lot of politicization of tax issues is resulting in an increase of tax audits and controls and greater pressure over taxpayers.
- ▶ The tax authority is focusing on certain tax types, such as corporate income tax, withholding taxes, transfer pricing, cross-border transactions and deductible expenses.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Increase revenue
- ▶ Reduce tax evasion
- ▶ Greater controls, requirements and increased scrutiny over taxpayers

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Bill on dual global income
- ▶ Bill on reduction of tax benefits and adjustments in income rates and capital gains to strengthen the fiscal system
- ▶ Bill on taxation of luxury real estate for residential, occasional or recreational use

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The tax authorities have gradually implemented digitalization, but the pandemic advanced the process. Currently, TRAVI (Spanish acronym for Trámites Virtuales; "Virtual Platform") allows taxpayers to perform many processes that previously could only be done in person.

### 3.6 in terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures?

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other	<input checked="" type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Interest deductions/limitations	Maximum deduction for interest: 20% Review of income tax deductions by the tax authorities
2	Disallowance of deductions	Review of income tax deductions by the tax authorities
3	Payments to no- or low-tax/ blacklisted jurisdictions	Review by the tax authorities of payments to nonrelevant jurisdictions
4	Transfer pricing	Review of the application of transfer pricing policies by the authorities
5	Treaty benefits	Review of the jurisdiction's tax benefits under international treaties



Croatia - View of Rovinj

# Croatia

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## EY key contacts

### Tax policy and controversy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 23 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	18%	18%	–
Personal income tax – top rate	30%	30%	–
VAT, GST or sales tax – standard rate	25%	25%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ In 2021, under the Program of the Government of the Republic of Croatia for period 2020-2024 (the Program), multiple legislative changes took place with the aim, inter alia, to reduce overall taxes and reduce administrative processes.
- ▶ There were no major tax policy changes in 2021 with effect for 2022. The legislative changes adopted under the Program are being evaluated and monitored.
- ▶ The government is expected to continue to implement the policy of relieving both citizens and companies to help the Croatian economy combat uncertainties from the COVID-19 pandemic.
- ▶ In July 2020, Croatia was admitted into the European Exchange Rate Mechanism (ERM II), a preparatory phase for euro adoption. The adoption of the euro is envisaged for 1 January 2023, and changes in the laws governing taxes have been announced to reflect the change of currency.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Croatia

Tax types	Likelihood of changes in 2022	Direction of change
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input checked="" type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022



Tax types	Likelihood of changes in 2022	Direction of change
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

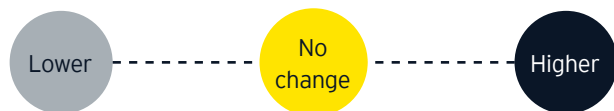
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ As of 1 January 2022, anti-reverse hybrid mismatch rules will be implemented in accordance with EU Council Directive 2017/952 of 29 May 2017 amending EU Directive 2016/1164 as regards hybrid mismatches with third countries.
- ▶ As of 1 January 2022, the following reverse hybrid mismatch provisions enter into force:
  - ▶ Where one or more associated nonresident entities holding in aggregate a direct or indirect interest in 50% or more of the voting rights, capital interests or rights to a share of profit in a hybrid entity that is incorporated or established in the Republic of Croatia are located in a jurisdiction or jurisdictions that regard the hybrid entity as a taxable

person, the hybrid entity shall be regarded as a resident and taxed on its income to the extent that that income is not otherwise taxed under the laws of any other jurisdiction. These provisions do not apply to a collective investment vehicle.

- ▶ The hybrid entity is obligated to pay the determined tax liability for the amount of income determined in accordance with anti-reverse hybrid mismatch rules, within the deadline prescribed for filing of the corporate income tax return.

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

- ▶ No significant developments are expected.

### Taxes related to climate change or sustainability

- ▶ No significant developments are expected.

## Croatia

### VAT/GST or sales taxes

- ▶ Rules implementing the Council Directive (EU) 2019/2235 of 16 December 2019 amending Directive 2006/112/EC on the common system of value-added tax and Directive 2008/118/EC on general arrangements for excise duties with regard to defense efforts within the framework of Union enter into force on 1 July 2022.
- ▶ As of 1 July 2022, several provisions take effect relating to the import and export of goods or services to meet the needs of the armed forces of other member states in relation to EU common security and defense.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ No significant developments are expected.

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

- ▶ No significant developments are expected.

### Developments in the governance of cryptocurrency

- ▶ No significant developments are expected.

## 2.5 Political landscape

- ▶ In 2021, under the Program, multiple legislative changes occurred, inter alia, to lower taxes and reduce administrative processes. The changes are being evaluated and monitored.

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ Continuous harmonization with the EU legislation regarding counter tax avoidance practices that directly affect the functioning of the EU internal market by moving profits out of the boundaries where profit is made in terms of exit taxation and hybrid mismatches
- ▶ Implementation of the OECD/G20 Inclusive Framework on BEPS solutions to address tax avoidance and the tax challenges arising from the digitalization of the economy
- ▶ Legislative solutions incentivizing transparent and complete tax reporting

- ▶ In July 2020, Croatia was admitted into the ERM II, a preparatory phase for euro adoption. The adoption of the euro is envisaged for 1 January 2023, and changes in the laws governing taxes have been announced to reflect the change of currency.

### 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ There are no major tax policy changes in 2021 with effect for 2022. The legislative changes adopted under the Program for the period 2020 through 2024, among others, include:
  - ▶ A reduction of the corporate income tax rate from 12% to 10% for taxpayers who generate income up to HRK 7,500,000.00
  - ▶ A reduction of the withholding tax rate from 12% to 10% for dividends
  - ▶ A reduction of the withholding tax rate from 15% to 10% on the fees for foreign performers
  - ▶ A reduction of the tax rates applicable to annual and final income from 24% to 20% and from 36% to 30%
  - ▶ A reduction of the tax rate applicable to final income and flat rate scheme from 12% to 10%

### 2.7 Major pending tax proposals not otherwise covered

- ▶ N/A

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Harmonization with the EU legislation
- ▶ Implementation of the OECD/G20 Inclusive Framework on BEPS
- ▶ Legislative solutions incentivizing transparent and complete tax reporting

### 3.4 Which two expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Reducing taxes overall under the Program
- ▶ Reducing administrative processes under the Program

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The tax authorities offer services online to both legal and natural persons through the ePorezna portal. A large number of services are already available on the ePorezna portal, which taxpayers can use without going to the tax authority in person.
- ▶ The Ministry of Finance is developing a mobile application (mPorezna) that allows taxable persons to have access to their data, communicate with tax authorities, submit reports and get information.

### 3.6 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2022?

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

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



Kyrenia marina in Cyprus

# Cyprus

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## EY key contacts

### Tax policy and controversy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 13 December 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	12.5%	12.5%	–
Personal income tax – top rate	35%	35%	–
VAT, GST or sales tax – standard rate	19%	19%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ The Cyprus Government's priority is to access funding originated in the EU.
- ▶ Cyprus is participating in the Resilience and Recovery Fund of the EU.
- ▶ The global tax reform and the OECD BEPS 2.0 developments provide an opportunity for improving the tax framework, decreasing the administrative burden and the tax burden to businesses, and pursuing a neutral but holistic tax reform.
- ▶ The measures that are currently under examination relate to the increase of the corporate tax rate (12.5-15%), reduction/removal of the special defense tax on the deemed or even actual dividend distribution, reduction in the rate of the special defense tax on interest income, removal/reduction of the annual levy for companies, introduction of a carbon tax and water levy, and landfill tax adjustment of the VAT rates relating to products and services in the field of public health, green and digital transformation, and electricity.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

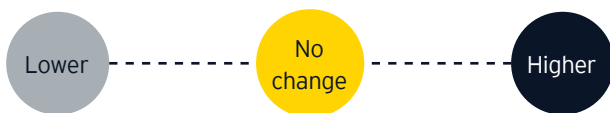
## Cyprus

Tax types	Likelihood of changes in 2022	Direction of change
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022

Tax types	Likelihood of changes in 2022	Direction of change
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input checked="" type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

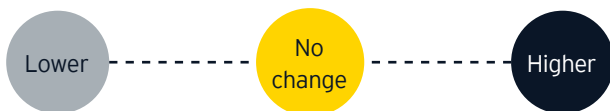
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ The intention to increase the corporate tax rate to 15% has been expressed, and this is expected to take place 2023.

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

- ▶ No significant developments are expected.

### Taxes related to climate change or sustainability

- ▶ Introduction of carbon tax
- ▶ Introduction of water levy
- ▶ Introduction of landfill tax

The above taxes are currently under review at the Ministry of Finance level with support from the EU Commission.

### VAT/GST or sales taxes

- ▶ Adjustment of VAT rates; public consultation to be initiated

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ No significant developments are expected.

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

- ▶ No significant developments are expected.

### Developments in the governance of cryptocurrency

- ▶ A circular governing the taxation of cryptocurrency from direct and VAT perspectives is currently being drafted by the Cypriot tax authorities.

### 2.5 Political landscape

- ▶ On 9 December 2021, Cyprus Finance Minister, Mr. Constantinos Petrides, presented the 2022 Budget to the House of Representatives and announced the government's priorities for the Cypriot economy in the coming year. One of the government's priorities is to reform the country's tax framework in order to strengthen the competitiveness of the Cypriot economy and enhance Cyprus's position as a business center. The Minister also said the objectives of the tax reform are to reduce tax inequality, enhance transparency, simplify the tax system and reduce the administrative compliance burden.

### 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ EU VAT e-commerce rules was harmonized in domestic legislation.

### 2.7 Major pending tax proposals not otherwise covered

- ▶ VAT rate decrease with respect to electricity consumption

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

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

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Transfer pricing
- ▶ New exchange of information and tax transparency initiatives
- ▶ Immovable property transactions

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Introduction of a wider transfer pricing legislation
- ▶ DAC 6 legislation
- ▶ Examination by the tax authorities of recent legislation introduced by the EU ATAD (e.g., CFC, interest limitation, exit taxes)

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ This is clearly stipulated in the EU's Recovery and Resilience Fund. There is a clear commitment to proceed with the digitalization of the Cyprus tax department.
- ▶ No definite timeline or initiatives have been released.



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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Tax refunds	–
2	Transfer pricing	Intercompany financing transactions
3	Interest deductions	–
4	VAT	VAT treatment of FinTech, immovable property transactions, payment – processing systems, holding – financing companies, missing trader fraud
5	Disallowance of deductions	–



Czech national museum in Prague

# Czech Republic

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## EY key contacts

### Tax policy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 18 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	19%	19%	–
Personal income tax – top rate	23%	23%	–
VAT, GST or sales tax – standard rate	21%	21%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Reduce tax crimes and tax avoidance
- ▶ Decrease the of negative impact of the COVID-19 pandemic on companies
- ▶ Decrease administration burdens
- ▶ Digitize tax administration
- ▶ Reduce negative behavior in society utilizing an increase of excise duties or tax on hazardous games

### 2.2 Tax changes in 2022

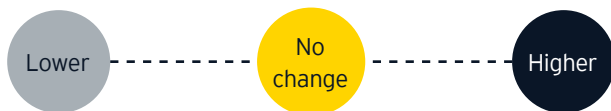
Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Czech Republic

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ Plans to decrease the time period for tax depreciation of assets and number of depreciation groups
- ▶ Support EU and OECD efforts on a minimum tax on the grounds that the profits of international companies are taxed where they are created

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

- ▶ Digital tax plans are currently on hold.

### Taxes related to climate change or sustainability

- ▶ No significant developments are expected.

### VAT/GST or sales taxes

- ▶ Increase of the limit for mandatory VAT registration to CZK 2m from CZK 1m
- ▶ Amount of excise tax will be based on its impact on society

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ Decrease of social insurance contribution of employer, if certain conditions are met
- ▶ Tax holidays for families with three or more kids or if the family receives parental allowance
- ▶ Valorization of taxpayer discount

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

- ▶ Review of options for abolition of nonsystemic tax exemptions
- ▶ Offshore companies to not have access to government support

### Developments in the governance of cryptocurrency

- ▶ No significant developments are expected.

## 2.5 Political landscape

- ▶ Elections took place in the fall of 2021; changes are expected but are not yet known.
- ▶ There will be a focus on recovering public finances after COVID-19 expenditures.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Abolition of super-gross salary
- ▶ Temporary changes to help with cash flow of companies due to the COVID-19 pandemic, e.g., introduction of extraordinary depreciation, carryback losses
- ▶ Implementation of EU directives

## 2.7 Major pending tax proposals not otherwise covered

- ▶ Digital tax discussions are postponed.

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

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

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Decrease of tax evasions
- ▶ Improvement of transfer pricing
- ▶ Decrease of administration burden

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Potential increase in taxes and tax collection in an attempt to cover the COVID-19-related negative budget
- ▶ Further digitalization of tax administration
- ▶ Joint efforts and mutual cooperation among tax administrators from more jurisdictions.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ Steps to digitalize tax administration include simplification of the administration and make tax obligations more transparent for companies and individuals
- ▶ Steps to improve communication with the tax authorities

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Transfer pricing	Focus on tax losses in years affected by the COVID-19 pandemic
2	Transfer pricing	Proof of receiving services from intercompany entities, robust documentation required
3	Marketing costs	Substantiation and adequacy of received services on marketing
4	Costs on services	Focus on determination of adequacy of charged costs
5	Costs related to holding shares in a subsidiary	Calculation of costs related to holding shares in a subsidiary



Copenhagen Skyline

# Denmark

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## EY key contacts

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 17 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	22%	22%	–
Personal income tax – top rate	55.9%	55.9%	–
VAT, GST or sales tax – standard rate	25%	25%	–



## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

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

### 2.2 Tax changes in 2022

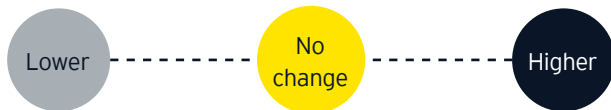
Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Denmark

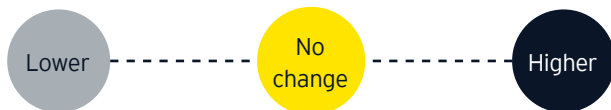
Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ No major changes are expected except for Denmark's support of the OECD's Pillar I and II agreements (BEPS 2.0).

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

- ▶ No taxes are expected outside of the BEPS 2.0 agreement.

### Taxes related to climate change or sustainability

- ▶ No major changes have been published.

### VAT/GST or sales taxes

- ▶ No major changes are expected.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ No major changes are expected.

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

- ▶ No major changes are expected.

### Developments in the governance of cryptocurrency

- ▶ N/A

## 2.5 Political landscape

- ▶ No major changes are expected by the current government.
- ▶ The next general election is not slated until 4 June 2023.
- ▶ The current center-left (social democratic) government has enjoyed dominant popularity during the COVID-19 crisis.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ No major changes

## 2.7 Major pending tax proposals not otherwise covered

- ▶ None

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

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

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What is the leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Fight against international tax avoidance

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Transfer pricing documentation change: must be uploaded to the tax authority (previously, only submitted upon request)
- ▶ CFC taxation
- ▶ R&D tax incentive

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The tax administration is already highly digitalized but has experienced significant issues and delays in updating existing systems as well as in implementing new systems.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Transfer pricing	Compliance with the arm's-length principle
2	Withholding taxes	Compliance with withholding tax on dividends, interests and royalties, including a review of beneficial owner and the general anti-avoidance rule
3	Organized tax fraud	Close review of organized fraud in the context of direct and indirect taxation
4	International tax avoidance	Compliance with general and specific anti-avoidance rules dealing with hybrid mismatch, limitation on interest deductibility, etc.

# Dominican Republic

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 19 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	27%	27%	–
Personal income tax – top rate	According to a tax scale exempted, 15%, 20% or 25%	According to a tax scale exempted, 15%, 20% or 25%.	–
VAT, GST or sales tax – standard rate	18%	18%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Tax simplification
- ▶ Potential tax reform
- ▶ Alleviate effects of the COVID-19 pandemic
- ▶ Transform public spending to meet needs

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

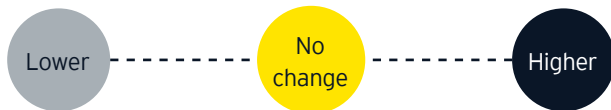
## Dominican Republic

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
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14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

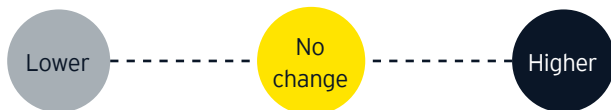


## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ Discussion of potential tax reform could occur in 2022, which might increase the tax rate, but effect is unlikely before 2023.

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

- ▶ A digital services tax could be included in potential tax reform conversations, but effect is unlikely before 2023.

### Taxes related to climate change or sustainability

- ▶ N/A

### VAT/GST or sales taxes

- ▶ An increase in the tax base could be included in potential tax reform conversations, but effect is unlikely before 2023.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ A tax rate or base increase could be included in potential tax reform conversations, but effect is unlikely before 2023.

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

- ▶ N/A

### Developments in the governance of cryptocurrency

- ▶ N/A

## 2.5 Political landscape

- ▶ The government acknowledges the need for tax policy change as country's expenses exceed income.
- ▶ Several proposals for tax reforms were recently disclosed informally but were widely unpopular among the citizens and businesses. The President stated that no tax reform would be considered for 2022.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Inclusion of country-by-country reports regulations
- ▶ Implementation of a law with: (i) tax amnesty plan, (ii) facilities for tax debt settlements and (iii) declaration or revaluation of assets
- ▶ Mitigation of COVID-19 effects on taxpayers
- ▶ Advancement in implementing electronic invoices
- ▶ Enactment of new customs law

## 2.7 Major pending tax proposals not otherwise covered

- ▶ Potential for renewed tax reform

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ An expressed understanding that there is a pressing need for tax reform because of the financial situation of the country
- ▶ Current focus to settle or complete current cases (audits, litigations, etc.) to alleviate accumulated work and to focus on new cases
- ▶ Educate taxpayers to increase taxpayer's base or avoid tax evasion
- ▶ Implementation of programs, such as electronic invoices in order to have more control of taxpayer operations

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ VAT
- ▶ Tax deductions of income tax or income not declared
- ▶ Transfer pricing issues

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Electronic invoicing implementation
- ▶ Country-by-country reports
- ▶ Increase of tax audit processes

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The tax authorities have shown efforts to digitalize their system in attempts to simplify the tax compliance process and to have more control of taxpayer's operations.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	VAT	Income or activities subject to VAT that have not been declared by taxpayers
2	Capital gains	Operations subject to capital gains taxes (sale of shares, real estate property, etc.)
3	Disallowance of deductions	Tax deductions that do not comply with law requirements
4	Transfer pricing	High-value services transactions
5	Withholding taxes	WHT on payments abroad or to local individuals and WHT of VAT to local taxpayers



Giza, Egypt

# Egypt

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 17 February 2022.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	22.5%	22.5%	–
Personal income tax – top rate	Progressive rates starting from 10% up to 25%	Progressive rates starting from 10% up to 25%	–
VAT, GST or sales tax – standard rate	14%	14%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Improving tax legislation and modernizing tax administrations
- ▶ Applying digital portals to monitor revenues and public expenditures
- ▶ Providing incentives, discouraging noncompliance

### 2.2 Tax changes in 2022

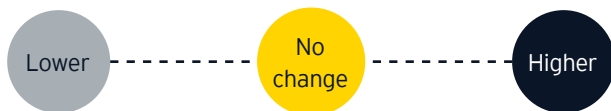
Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
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7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Egypt

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
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14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ No significant developments are expected.

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

- ▶ No significant developments are expected.

### Taxes related to climate change or sustainability

- ▶ N/A

### VAT/GST or sales taxes

- ▶ No significant developments are expected.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ Progressive rates can go up to 22.5%.
- ▶ There were some changes applied on the taxes on wages in mid-2020 that change the salary tax brackets and the exemptions.
- ▶ There are no further changes expected on the taxes on wages in 2022.

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

- ▶ No significant developments are expected.

### Developments in the governance of cryptocurrency

- ▶ The Egyptian tax authority is not currently dealing with any cryptocurrency cases.

## 2.5 Political landscape

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

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ The Unified Tax Procedures Law was issued in December 2020, replacing most tax law provisions regulating tax disputes, penalties and punishments.

## 2.7 Major pending tax proposals not otherwise covered

- ▶ Taxes on individual gains from sale of shares and securities

## Section 3: Tax enforcement in 2022

### 3.1 Current general approach to tax enforcement

- N/A

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- Digitalization
- Electronic transformation and tax audit

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- United Tax Procedures Law issued in 2020
- Transfer pricing
- Reverse charge

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- The Egyptian tax authorities are applying pillars of digitalization to enhance and monitor revenues recognized and expenditures.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
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Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>



### 3.7 Top tax audit issues in 2022

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



Tazumal Mayan Ruins in El Salvador, Santa Ana

# El Salvador

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*This information is current as of 17 January 2022.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	30% 25% if entity obtains taxable income of USD 150,000 or less	30% 25% if entity obtains taxable income of USD 150,000 or less	–
Personal income tax – top rate	Progressive rates, ranging from 10% to 30%	Progressive rates, ranging from 10% to 30%	–
VAT, GST or sales tax – standard rate	13% 0% exports	13% 0% exports	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Tax revenue increased.
- ▶ Tax evasion was addressed through audits and the creation of the Unit for the Repatriation of Tax Evasion.
- ▶ The Minister of Finance has expressed its interest in modernizing and digitalizing the tax administration (TA). Recently a law was approved to unify the personal ID and

the Tax ID for individual taxpayers and the digitalization of the Tax ID. This law was promoted by the Salvadoran government. Likewise, the Ministry of Finance is in the process of implementing a pilot plan for electronic invoicing.

### 2.2 Tax changes in 2022

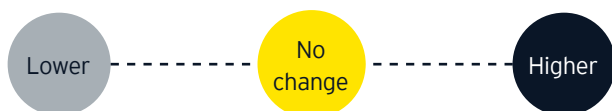
Tax types	Likelihood of changes in 2022	Direction of change
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7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## El Salvador

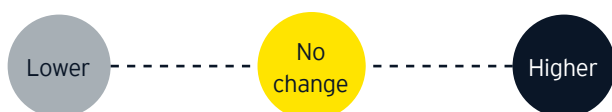
Tax types	Likelihood of changes in 2022	Direction of change
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9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
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12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ No significant developments are expected.

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

- ▶ In 2021, the Minister of Finance announced its interest in taxing electronically supplied services provided by non-domiciled multinational entities. This was an informal announcement, and no actual project has been presented to execute this nor have any reform measurements been announced.

### Taxes related to climate change or sustainability

- ▶ Not applicable to El Salvador

### VAT/GST or sales taxes

- ▶ No significant developments are expected.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ No significant developments are expected.

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

- ▶ No significant developments are expected.

### Developments in the governance of cryptocurrency

- ▶ In 2021, El Salvador made bitcoin legal tender. The law that introduced this reform was enforced on September 2021. The government has not announced any other measure related to other cryptocurrencies.

## 2.5 Political landscape

- ▶ The El Salvador Government's political party has an overwhelming majority in the Legislative Assembly; of the 84 members of the Legislative Assembly, 64 are of a pro-government coalition and of those, 56 are from the government's political party.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Bitcoin was made legal tender.

## 2.7 Major pending tax proposals not otherwise covered

- ▶ Currently, the Legislative Assembly is analyzing a reform on the Free Trade Zone Law.

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ Focus on revision of intercompany transactions and their materialization
- ▶ Focus on restarting tax audits that were annulled by a law issued in 2018, which was recently declared unconstitutional)

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the five leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Review of intercompany transactions and materialization of services
- ▶ Address tax evasion through audits and the creation of the Unit for the Repatriation of Tax Evasion
- ▶ Application of income tax withholdings on transactions with non-domiciled subjects and entities

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Potential Free Trade Zone Law reform
- ▶ Electronic invoicing trial program
- ▶ Tax treatment applicable to transactions with cryptocurrencies

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The TA and Ministry of Finance have announced their interest in modernizing the TA. Aligned with this is the electronic invoicing trial program that is currently being implemented with several large taxpayers.
- ▶ On December 2021, a law was approved to digitalize the tax Identification process and to use the personal ID number as Tax ID for individual taxpayers. Along with the physical Tax ID, it is possible to use a digital version of this, which will be free of charge for all taxpayers.

### 3.6 in terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures?

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

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



# Estonia

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 17 December 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	20%	20%	–
Personal income tax – top rate	20%	20%	–
VAT, GST or sales tax – standard rate	20%	20%	–



## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

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

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Estonia

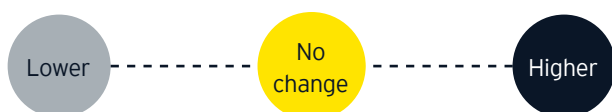
Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ No significant developments are expected.

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

- ▶ No significant developments are expected.

### Taxes related to climate change or sustainability

- ▶ No significant developments are expected

### VAT/GST or sales taxes

- ▶ From 1 January 2022, a supplier can claim relief from VAT on bad debts incurred, provided that certain conditions are met.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ CFC rules are applied based on the EU list of noncooperative tax jurisdictions.

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

- ▶ Land tax – assessment of land in 2022. The Land Board will hold the next regular land valuation in 2022, with valuations taking place every four years after that.
- ▶ The assessment of land is a mass assessment, in the course of which the market-based value of each plot of land, i.e., the taxable price of land, is found by analyzing real estate transactions and land-related data using statistical valuation methods. Valuation of all 753,000 cadastral units takes place. Only land is valued, growing forests and buildings are not valued.

### Developments in the governance of cryptocurrency

- ▶ The Estonian tax authority has posted on its website instructions and examples on how an individual must declare income received in cryptocurrency.
- ▶ In summary, for an individual, a tax liability may arise in five cases: by converting cryptocurrency into a common currency; exchanging cryptocurrency for another cryptocurrency; using cryptocurrency to pay for goods or services, mining cryptocurrency, rental of computer data, or receiving payment in cryptocurrency for the work done.

## 2.5 Political landscape

- ▶ Estonia prefers to await the outcome of the OECD-led global tax reform before embarking on amending the Code of Conduct on (Business Taxation), says the Minister of Finance, Keit Pentus-Rosimannus.
- ▶ Estonia reacts quickly to the risks of the field of virtual currency. The aim of the government is to make sure that in the field of virtual currencies the risks of money laundering and terrorism financing would be maximally mitigated.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ The ratification letter of the MLI signed by Estonia was submitted to the OECD on 15 January 2021.
- ▶ The land tax database is transferred from the Estonian Land Board to the Estonian Tax and Customs Board (ETCB), meaning that future taxpayers will receive their land tax price acts (currently being issued by local authorities) together with their land tax notices from the ETCB. Due to developments needed in IT systems, the ETCB will start issuing the land tax price acts as of 2023.

## Estonia

- ▶ Changes related to distance selling, existing Mini One Stop Shop (MOSS) special scheme and VAT exemption for import of goods sent by post are in force as of 1 July 2021.
- ▶ Starting from 1 July 2021, the current list of low-tax territories indicated in the Estonian Income Tax Act (ITA) is replaced by the European Union list of noncooperative tax jurisdictions (EU list).
- ▶ ETCB explains how to pay taxes on cryptocurrencies.
- ▶ On 1 July 2021, 139 OECD countries discussed international corporate tax reform and presented their views on both digital taxation and minimum taxation. Estonia reaffirmed its support for the international digital tax. Estonia disagreed with the proposed wording of the minimum global income tax rate and expressed its readiness to continue negotiations to find a compromise.
- ▶ Estonia did not support the minimum tax solution for several reasons. First, the current version gives the right to tax profits earned in Estonia by the head office state if Estonia has not taxed the profits of its local subsidiary or permanent establishment for three or four years. Estonia's proposal has been to implement a solution for jurisdictions that use a corporate income tax system similar to Estonia that would cover the entire economic cycle in order to enable the ability to pay dividends after unprofitable years. Estonian entrepreneurs have also supported such a solution.
- ▶ Secondly, Estonia expects that a minimum turnover should be set for the groups from which a minimum tax may be levied, rather than being left open. The margins for formula-based exclusion, which would allow companies with a genuine economic activity to be excluded from the scope of the minimum tax, were also too low.
- ▶ XML option for DAC6 reporting is now available for Estonia.
- ▶ The Ministry of Finance sent amendments to the law for feedback, which will make it possible to make fund pension payments from the third pillar from 2022 onward similarly to the second pillar of pensions.

### 2.7 Major pending tax proposals not otherwise covered

- ▶ The OECD-coordinated Inclusive Framework approved the statement on International Tax Reform on 1 July 2021. The two-pillar reform comprises so-called digital tax for corporations with group revenue exceeding EUR 20 billion, and global minimum tax at the rate of 15% for corporations with revenue exceeding EUR 750 million.

The new digital tax has Estonia's full support. Although it spans wider than strictly digital revenue, it is a necessary tool to allocate taxing rights to the jurisdictions where corporations earn income without being physically present.

The global minimum tax, on the other hand, fails to take into account Estonia's current distribution tax system. Therefore, Estonia did not sign the July statement, but later accepted the October statement.

According to the Minister of Finance, Estonia is ready to defend its corporate tax system at EU negotiations over the EU directive on the OECD-led global minimum tax.

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

Same as for 2021, the Estonian government's goal is to shift the tax liability from taxation of income to taxation of consumption, use of natural resources and pollution of the environment. At the same time, the system should remain simple and transparent with as few exceptions and differences as possible.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the five leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ OECD international tax reform, so-called digital tax and global minimum tax
- ▶ As of 1 May 2022, conclusion of temporary reduction of excise taxes in relation to the COVID-19 pandemic
- ▶ Changes in transfer pricing regulations

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ OECD international tax reform, so-called digital tax and global minimum tax, is expected.
- ▶ Changes in transfer pricing regulations from 2022 are expected.
- ▶ Reduced default tax interest period ended on 31 December 2021, and from 1 January 2022, usual default tax interest 0.06% per day is applied in respect of tax arrears and tax assessments.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The tax authority is very digitally advanced.
- ▶ The ETCB and the Finnish Tax Administration have started to exchange data in real time, which enhances tax control, saves resources and improves the quality of services offered to customers.
- ▶ Tax behavior ratings will be a new service.
- ▶ A new web page is being built.
- ▶ New service: The customer can prepare a certificate of residence and a certificate of registration as a person liable to VAT in the tax authority's self-service environment of the e-MTA ("MTA" is the Estonian initialism for the ETCB).
- ▶ From July 2021, the ETCB launched a new customs import system called Impulss, mainly for companies and customs agencies importing goods from outside the EU.

Tax authority's ongoing digitalization work, including a new software solution for the monitoring of employees and transparency of the use of IT systems at the ETCB.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

## Estonia

### 3.7 Top tax audit issues in 2022

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



# Finland

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 28 December 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	20%	20%	–
Personal income tax – top rate	56.75%	56.75%	–
VAT, GST or sales tax – standard rate	24%	24%	–



## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Digital tax: The view of the Finnish government is that the digital and traditional economies should be taxed where the value is generated.
- ▶ Ensuring revenue to the government and tax base in the future.
- ▶ There is an increased focus on battling the grey economy.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022

## Finland

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

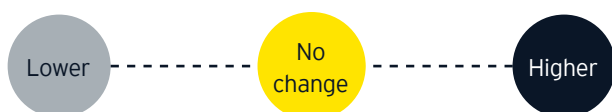
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ There will be changes for interest deduction limits and for provisions regarding adjusting transfer pricing. Further, the tax laws that limit tax benefits relating to hybrid mismatch structures will also cover reverse hybrid structures.
- ▶ In 2022-2027, a company may make an additional tax deduction of 150% on R&D expenditures based on cooperation between the taxpayer and the research organization's R&D activities.
- ▶ Accelerated depreciations for machinery and equipment are continued for years 2024-2025.

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

- ▶ Currently, there is no specific digital tax-related tax laws in place in Finland, but the Nordic countries, including Finland, are generally at the forefront of the global battle against tax avoidance and have actively participated in the work done within the EU and OECD to combat base erosion and profit shifting.
- ▶ The Finnish Government believes the digital and traditional economy should be taxed where the value is generated. The approach of the Finnish Government in FY 2019 is the same as in the joint statement issued on 1 June 2018 in which the Finance Ministers of Denmark, Finland and Sweden called for a reform of the digital tax system to be taken forward at the global level by OECD and European Commission's digital tax proposals should be put on hold.

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

### Taxes related to climate change or sustainability

- ▶ Sustainability tax programs are well-established in Finland. There are many environmental taxes and fees in place, and for example, changes to current and/or new excise duties are constantly in public discussions to be implemented as a tool to achieve Finland's climate change policies.
- ▶ Finland is part of the EU Emissions Trading System (ETS). Recently, there have also been discussions on plans to implement a national emission trading system for fossil fuels used for transportation, but no decisions have been made.
- ▶ Several changes are expected for 2022 related to taxation of electricity to promote non-combustion heat production. For instance, data centers, heat pumps and electric boilers producing heat for the district heating network will be transferred to the lower electricity tax category two. Data centers outside the district heating network that meet the criteria for energy efficiency, energy recovery and industrial-sized building-specific heat pumps are also eligible for a reduced electricity tax. The electricity tax reduction also applies to circulator pumps from geothermal heating plants. Also, the recycling industry will be transferred to the industrial electricity tax category. The amendments will enter into force from the beginning of 2022, subject to the necessary approval from the EU.

## Finland

- ▶ Biogas used for transportation is no longer tax exempt. Sustainably produced biogas for transportation would have more favorable tax treatment than unsustainably produced biogas. Biogas used for heating and work machines is still tax exempt.
- ▶ All-electric cars will be exempt from the car tax and, correspondingly, the basic vehicle tax will be increased by EUR 65 per year.

### VAT/GST or sales taxes

- ▶ The EU cross-border e-commerce VAT package was implemented as of 1 July 2021. This extended the VAT base regarding low-value shipments coming outside from the EU into consumers in Finland. Place-of-taxation rules for cross-border consumer shipments within the EU were also revised.
- ▶ No changes to VAT rates or VAT base are expected or discussed for 2022, apart from the recent Government Bill published, which states that COVID-19 home tests would be zero rated temporarily (from 1 January 2022 to 31 December 2022).
- ▶ Some public discussions appear every now and then around how the taxation of “healthy” food and “unhealthy” food (like sweets, ice cream, soft drinks, etc.) should be differentiated (now all are under a 14% VAT rate for foodstuff). Defining this would be very difficult on a practical level, and no swift progress is expected.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ The income brackets for earned income tax will be adjusted for the year 2022 following the general development of average salaries, i.e., the income brackets will be increased slightly. Further, health insurance contribution rates will also be reduced slightly for the year 2022. On the other hand, the employee unemployment insurance contribution rate will be increased slightly. The overall impact of these changes will be

a slight decrease in the combined employee tax and employee social security tax rate on the same income level. However, considering the general development of salaries, the average income tax and social tax rate will remain approximately on the same level as for the year 2021.

- ▶ The inheritance tax rates and taxable base will remain unchanged.
- ▶ Finland does not levy the wealth tax.

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

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

### Developments in the governance of cryptocurrency

- ▶ The tax authorities will continue to emphasize that capital gains related to cryptocurrencies are taxable income.

## 2.5 Political landscape

- ▶ The same parliament and government from 2021 will continue.
- ▶ There are not any major changes expected in tax policy in 2022.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ No significant developments are expected.

## 2.7 Major pending tax proposals not otherwise covered

- ▶ Proposals: Proposal regarding amending transfer pricing adjustment provisions and a proposal regarding business interest deductibility

## Section 3: Tax enforcement in 2022

### 3.1 Current general approach to tax enforcement

- ▶ The Finnish Tax Administration has made major investments toward real-time, self-assessment taxation and collaborating with both corporations and individual taxpayers.
- ▶ The investments comprise various digital services, and furthermore, the trend is to relegate more responsibility of the correctness of tax filings to the taxpayer itself. In addition, legislation has been updated regarding the tax procedure. Updates relate to more real-time processes and eliminating the excess bureaucracy within these processes.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the five leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ The trend to engage in informal meetings is likely to increase.
- ▶ The number of tax audits will pick up as the COVID-19 pandemic gradually clears.
- ▶ With a focus on the grey economy, the Finnish tax authorities have recruited new tax inspectors to concentrate on this issue.

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ The Finnish transfer pricing rules will allow for recharacterization of transactions as of 2022.
- ▶ Tax deductibility of interest expenses will be under higher scrutiny as of 2022 since the balance sheet test will change and the Supreme Administrative Court has issued case law concerning the tax treatment of derivatives and the tax deductibility of interest expenses.
- ▶ There will continue to be a focus on the battle against the grey economy.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The Finnish Tax Administration has made major investments to digital services. The trend is to relegate more responsibility of the correctness of tax filings to the taxpayer itself. In addition, legislation has been updated regarding the tax procedure, and these updates relate to more real-time processes and eliminate the excess bureaucracy within these processes.

### 3.6 in terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures?

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

## Finland

### 3.7 Top tax audit issues in 2022

	<b>Issue name</b>	<b>Description</b>
1	Interest expenses	Tax authorities are eager to challenge group internal debt push downs.
2	Cross-border transfer of intangibles	Review of cross-border transfer of intangibles are a priority to the local tax authority.
3	Disallowance of deductions	Expenses relating to share acquisition should be activated to the purchased shares.
4	Indirect taxes	VAT can be deducted if the company is engaged in financing activities.
5	Grey economy	The Finnish tax authorities have recruited new tax inspectors to investigate the grey economy.





Eiffel tower from Arc de triomphe

# France

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## EY key contacts

### Tax policy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 18 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	CA<250m€: 26.5% CA>250m€: 27.5%	25%	-9%
Personal income tax – top rate	< 10,084€: 0% < 25,710€: 11% < 73,516€: 30% < 158,122€: 41% > 158,123€: 45%	< 10,225€: 0% < 26,070€: 11% < 74,545€: 30% < 160,336€: 41% > 160,337€: 45%	–
VAT, GST or sales tax – standard rate	20%	20%	–



## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ The 2022 Finance Law does not change the CIT rate reduction in Article 219 of the French Tax Code (FTC) that started in 2019. As a result, for fiscal years beginning on or after 1 January 2022, the CIT rate will be 25%, unless provided otherwise.
- ▶ In order to comply with EU law and the case law of the French Supreme Court, the withholding tax of the Article 182 B of the FTC (withholding tax on royalties, noncommercial profits, remuneration for any kind of services, including sports services) should be computed based on the gross amount of the sums paid, minus a 10% allowance, when the eligible beneficiary is subject to local CIT outside of France and established either in a EU/EEA other than a non-cooperative state or territory (NCST) that has concluded a treaty with France that includes an administrative assistance provision aimed at combating tax fraud and tax evasion. The Finance Law would also grant taxpayers the right to claim a refund for the difference between the withholding tax amount paid and the withholding tax amount computed on a net basis, i.e., after subtracting the expenses incurred for the acquisition and conservation of the income. This would also apply to entities receiving income subject to withholding tax under FTC Article 182 A bis (sums related to artistic services provided or used in France and paid by a debtor who carries out an activity in France to individuals and/or companies without a permanent business establishment in France) and Article 119 bis 2 (income from movable property).
- ▶ For the tax research credit, there was a difference between expenses subcontracted to public entities and those that were subcontracted to private entities. The latter were included in the tax research credit for their exact amount while the former were doubled. As from 1 January 2022, all expenses subcontracted will be included in the tax research credit basis for their exact amount.
- ▶ As a temporary measure to the principle that depreciation of goodwill is not deductible, the 2022 Finance Law provides for the possibility to deduct for tax purpose the amortization of goodwill for small businesses between 1 January 2022 and 31 December 2023.
- ▶ In terms of VAT, the 2022 Finance Law modifies the option to the banking and financial services tax regime under Article 260 B of the FTC. The option to tax (OTT) for the application of VAT, which is currently global, could become selective so that the taxpayer could choose to apply the OTT on transaction-by-transaction and customer-by-customer bases.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

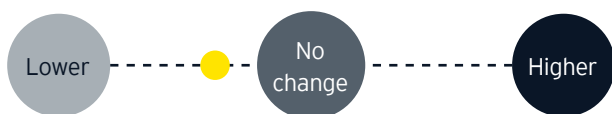
## France

Tax types	Likelihood of changes in 2022	Direction of change
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input checked="" type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022

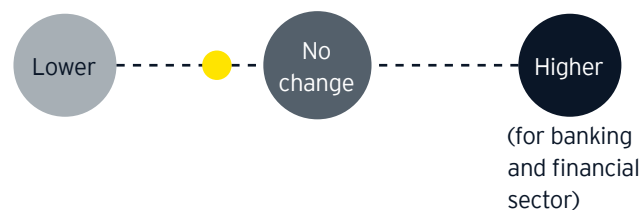
Tax types	Likelihood of changes in 2022	Direction of change
13. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input checked="" type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

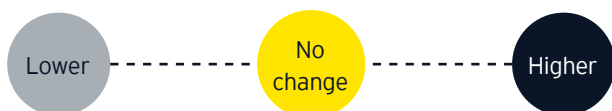
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## France

### 2.4 Tax policy outlook for 2022 – detail

#### Corporate income taxes

- ▶ Despite the COVID-19 pandemic, the 2022 Finance Law maintains the corporate income tax rate reduction trajectory for 2022. The CIT rate for fiscal years starting on or after 1 January 2022 will set at 25% for all companies.
- ▶ Recent decisions of the French Supreme Court found that the FTC violates EU law as some withholding taxes imposed on nonresident EU companies apply to gross income, whereas a French company in the same situation would be taxed on the gain after deducting the expenses incurred for the acquisition and conservation of the income. The 2022 Finance Law would change Article 182 B of the FTC by allowing a 10% withholding tax basis reduction on payments made to nonresident companies located in an EU/EEA country that receive French-source income within the scope of the article. The eligible beneficiary could also claim, provided that it cannot offset the French withholding tax on its local CIT liability, a refund of the portion exceeding the taxation that would have been due in France on said income, taking into account the corresponding expenses directly incurred to generate that revenue, which would have been tax deductible if the beneficiary had been located in France. This claim extends to withholding taxes under Article 182 A bis of the FTC, applicable to payments made for the provision of artistic services provided or used in France, and under Article 199 bis 2 of the FTC to withholding taxes applicable to French-source dividends.
- ▶ Article 214-3 of the French General Chart of Accounts allows small businesses within the meaning of Article L. 123-16 of the French Commercial Code to amortize their goodwill over a 10-year period, for French GAAP purposes. However, such amortization is not deductible for tax purposes. As a temporary measure, the 2022 Finance Law provides for the possibility to deduct for tax purposes the amortization of goodwill acquired between 1 January 2022 and 31 December 2023.
- ▶ According to Article 238 quinquies of the FTC, capital gains realized on the sale of an individual company or full branch of activity can be exempt from individual income tax provided certain conditions are met, and in particular the value of the items transferred. The 2022 Finance Law provides for a limit increased to EUR 1 million, as follows: full tax exemption if the value of the items does not exceed EUR 500,000 (instead of EUR 300,000) and partial and degressive tax exemption if the value of the items ranges between EUR 500,000 and EUR 1 million (instead of EUR 300,000 and EUR 500 000).

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

- ▶ No changes are currently expected.

#### Taxes related to climate change or sustainability

- ▶ No changes are currently expected.

#### VAT/GST or sales taxes

- ▶ Article 260 B of the FTC allows taxable persons who usually carry out VAT exempt banking and financial transactions as described in Article 261 C, 1° of the FTC to opt for the application VAT. The OTT allows the person exercising it to benefit from a right to deduct input VAT and has a favorable impact on the salaries tax liability ratio. However, it generates the charging of VAT on the concerned services located in France, which may be economically disadvantageous compared to the exemption, depending on whether the customers are able to recover input VAT. The OTT applies globally to banking and financial transactions carried out by the taxpayer. A relaxation of this regime is proposed in the 2022 Finance Law because the OTT could henceforth become “selective.” Thus, the taxpayer could choose to apply the OTT on a transaction-by-transaction and customer-by-customer bases.
- ▶ In order to comply with Article 65 of Directive 2006/112/EC, the 2022 Finance Law proposes to rewrite Article 269(2)(a) of the FTC by providing that, for supplies of goods giving rise to the advance payment of a deposit, VAT becomes chargeable at the time of collection, up to the amount collected. This change will enable businesses to deduct VAT more quickly. This new provision should come into force on 1 January 2023 and apply to payments on account received from that date onward.

#### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ To account for price inflation, the 2022 Finance Law revalorizes the income tax brackets and the thresholds of tax reductions by indexation to the forecast change in the price index in 2021 compared to 2020, i.e., 1.4%. These adjustments apply to the income tax due for 2021 and the following years.
- ▶ According to Article 151 septies A of the FTC, capital gains realized on the sale of a SME subject to individual income tax due to the retirement of its owner may be tax exempt, provided certain conditions are met. In certain cases, this capital gains tax exemption may also apply to the sale of an activity that is subject to a business lease agreement, provided that the SME is sold to the lessee. However, the 2022 Finance Law would allow for a more flexible mechanism. When an SME subject to a business lease is transferred, the capital gains could be

exempted from tax, even if the SME is transferred to a person other than the lessee, provided that the contract is respected, and that the sale includes all items contributing to the activity covered by the business lease agreement.

- ▶ According to Article 150-0 D ter of the FTC, capital gains realized by managers who sell their company on their retirement are reduced by a fixed allowance of €500,000. Among the conditions for benefiting from the allowance, the transferor must cease his functions in the company and claim his retirement rights within two years following or preceding the transfer. In consideration for the COVID-19 pandemic, the 2022 Finance Law plans that when the transferor retires between 1 January 2019 and 31 December 2021, the period between the transfer and retirement would be extended from two years to three years. This measure would apply for the determination of the amount due for 2021 and the following years. The benefit of the fixed allowance would be extended and would apply to sales and redemptions made until 31 December 2024.

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

- ▶ No changes are currently expected.

**Developments in the governance of cryptocurrency**

- ▶ No changes are currently expected.

## 2.5 Political landscape

- ▶ In September 2021, the Minister of Economy and Finance reminded that the government was not planning to raise taxes to finance the economic effects of the COVID-19 pandemic.
- ▶ The next presidential election is in May 2022, and thus, significant tax measures are not expected for 2022.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ The CIT rate reduction trajectory from 28% in FY2020 to 26.5% for companies with annual turnover lower than €250 million and 27.5% for companies with minimum annual turnover of €250 million in FY2021.
- ▶ The government introduced a decrease in production taxes due to a halved reduction of the rate of the contribution on added value of enterprises (CVAE) from 1.5% to 0.75% and of the taxable basis of the property tax on built properties of industrial facilities and a cap of 2% instead of 3% for the territorial economic contribution (TEC).
- ▶ The 2021 Finance Law marked the government's commitment to the ecological transition. The government financed €18.4 billion in ecological actions, including incentives for renewable energies, the reduction of greenhouse gas emissions and the fight against soil artificialization.

## 2.7 Major pending tax proposals not otherwise covered

- ▶ None

- ▶ Conversely, the French Law strengthened the tools given to criminal and tax law enforcement authorities to fight against tax fraud in France. In the last few years, the criminalization of taxation has developed – criminal proceedings have doubled, and the penalties incurred have increased.

## 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

- ▶ For some years, the French tax authorities (FTA) have been developing a cooperative approach with companies: the aim is to improve the cooperation between the tax administration and companies and promote the legal security of companies. Recently, the FTA also opened a regularization desk for companies to deal with spontaneous requests for compliance on all tax anomalies discovered by new business owners or buyers as well as on certain international tax issues. In return, the FTA applies a reduced penalty scale, known in advance and nonnegotiable.

## France

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ A cooperative approach is used by the FTA with companies and taxpayers who are tax compliant.
- ▶ The French Law strengthens the tools given to criminal and tax law enforcement authorities when combating tax fraud in France.
- ▶ The continuous digitalization of the tax administration and the development of the data mining for tax audit.

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ A revision of the tax rules concerning the digitalization of the economy

- ▶ A thorough review of the rules governing the taxation of management packages due to the recent decisions of the French Supreme Court in July 2021

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The digitalization of the tax administration has been steadily increasing in recent years and affects the administration actions by facilitating interaction with taxpayers.
- ▶ The FTA currently uses innovative data mining techniques to detect tax fraud and target taxpayers for tax reassessment. The development of data mining illustrates the willingness of the FTA to rationalize tax reassessment and procedural deadlines. In 2020, 32% of tax audits were scheduled using data analysis methods and FTA's aim is to reach 50% by 2022.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Permanent establishment	Permanent establishment issues continue to be a significant source of litigation and the FTA continues to challenge companies on a regular basis on this matter due to a recent case decision in favor of the FTA. This decision seems to pave the way for a French systematic application of the broad OECD interpretation of the traditional concept of an “agent habitually exercising the authority to conclude contracts in the name of the enterprise,” by extending it to situations where the agent plays the principal role leading to the conclusion of contracts that are routinely concluded without material modification by the company.
2	Transfer pricing	In terms of transfer pricing, among the reassessments analyzed, interest deductibility issues are the main source of litigation with the royalty or commission rates. Moreover, the transfer pricing policy is being challenged by the FTA; when a profit split or a cost-plus method applies, the FTA tends to apply the transactional net margin method.
3	Reorganizations/sales and acquisitions of other companies	The FTA monitors whether these operations conceal a transfer of activity or a transfer of taxable base from France to a foreign country, either by a concealed transfer or by an insufficient transfer remuneration.
4	Book to tax adjustments	There has been a significant increase in tax reassessments based on book to tax adjustments. The FTA is not hesitating to justify tax adjustments by questioning the accounting treatment of companies (amortization, restructuring provision, etc.).
5	Tax fraud	The FTA is using data mining techniques to detect fraud.



Berlin Spree River

# Germany

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 6 December 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	Top federal (national) CIT rate: 15% (plus solidarity surcharge of 5.5%)	Top federal (national) CIT rate: <sup>1</sup> 15% (plus <sup>2</sup> solidarity surcharge of 5.5% <sup>3</sup> )	(Somewhat possible that solidarity surcharge might be suspended for all taxpayers – up to pending decision of Federal Constitutional Court)
	Trade tax (local): 7%-19.25%	Trade tax (local): 7%-19.72% <sup>4</sup>	
	Total average: ~30%	Total average: ~30%	
Personal income tax – top rate	45% (plus solidarity surcharge of 5.5%)	45% <sup>5</sup> (plus <sup>6</sup> solidarity surcharge of 5.5% <sup>7</sup> )	(Somewhat possible that solidarity surcharge might be suspended for all taxpayers – up to pending decision of Federal Constitutional Court)

<sup>1</sup> Sec. 23, para. 1, KStG (Corporation Tax Act).  
<sup>2</sup> The combined burden of CIT and solidarity surcharge is 15.825%.  
<sup>3</sup> Sec. 4, SolzG (Solidarity Surcharge Act).  
<sup>4</sup> Only very few small municipalities have higher trade tax rates.  
<sup>5</sup> Sec. 32a, para. 1, EStG (Personal Income Tax Act).  
<sup>6</sup> The combined burden of PIT and solidarity surcharge is 47.48%.  
<sup>7</sup> Sec. 4, SolzG (Solidarity Surcharge Act). Starting in 2020, the solidarity surcharge was abolished for personal income taxpayers with low and middle incomes.



VAT, GST or sales tax – standard rate	19% (reduced rate of 7% applies in many areas) <sup>8</sup>  Food service: temporarily reduced rate of 7%	19% (reduced rate of 7% applies in many areas) <sup>9</sup>  Food service: temporarily reduced rate of 7% prolonged until 31 December 2022	–
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## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

#### Tax policy after the general election in 2021

- ▶ In its coalition agreement published on 24 November 2021, the new coalition of the Social Democrats (SPD), the Greens and the Free Democrats (FDP) presented a detailed tax policy program. The three coalition parties had diverging concepts for tax policy, as such tax policy was one of the most controversial points in the coalition negotiations.
- ▶ There will be no wealth tax, no increase in inheritance tax and no significant business tax reform. Instead, the coalition plans contain numerous minor changes in tax policy.

- ▶ The coalition is committed to the constitutional debt brake. From 2023, the federal budget is expected to again meet their requirements, and borrowing would only be possible within narrow limits. Financial leeway is, among other measures, planned to be created by an announced review of the budget for superfluous, ineffective and climate-damaging subsidies.
- ▶ The new coalition does not hold a majority in the upper chamber (Bundesrat), which is, with very few exceptions, typically required to pass tax legislation. Therefore, the coalition needs support of the conservatives to pass most of the coalition's tax agenda.

<sup>8</sup> Sec. 12, para 1, UStG (VAT Act).

<sup>9</sup> Sec. 12, para 1, UStG (VAT Act).

## Germany

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

Tax types	Likelihood of changes in 2022	Direction of change
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

# Germany

## 2.3 Tax policy outlook for 2022 – summary

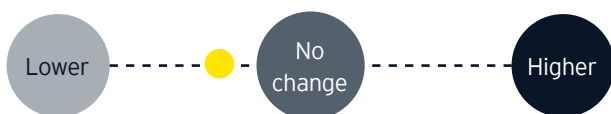
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ Evaluation of taxation of business partnerships – The coalition partners announced plans to evaluate the newly introduced check-the-box election as well as the rules on the taxation of retained earnings. The evaluation may be followed by adjustments that could significantly improve, especially the taxation of retained earnings of partnerships.
- ▶ Coalition plans – The coalition partners are discussing an investment premium for climate protection and digital assets in 2022 and 2023. The exact design is not yet agreed upon, but the aim is to enable a so-called “super depreciation,” which may enable businesses to offset more than 100% of the purchase costs or at least allow for depreciation based on a significantly shortened useful life.

The coalition wants to extend the currently expanded loss offsetting (due to the COVID-19 pandemic) until the end of 2023 and permanently extend the loss carryback to the immediately preceding two assessment periods. An expansion of withholding taxation has been announced. The interest barrier is expected to be supplemented by a, so far, unspecified “interest rate limit.” Related to the current international tax discussion, the new coalition partners state their will to engage actively for the introduction of the global minimum taxation.

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

- ▶ Germany supports efforts at the OECD/G20 level on implementing the new tax rules for multinationals under Action 1 of BEPS 2.0. Germany politically supported the current version of the so-called “blueprints” and is expected to press for a swift implementation in the EU and domestically.
- ▶ In the field of tax administration, the prospective new government plans to promote digitalization, especially by modernizing and accelerating tax audits, digitizing the

taxation procedure through the use of new technologies and improvement of interfaces. New regulations shall be aimed at being digitally implementable.

### Taxes related to climate change or sustainability

- ▶ The coalition plans to continue with the previous CO<sub>2</sub>-pricing pathway and is working on a proposal for the design of the market phase after 2026. The financing of the renewable energy levy via electricity price shall be terminated and adopted in the budget as of 1 January 2023 (financing via energy and climate funds). Beyond this, a social compensation mechanism (“climate dividend”) is planned to be developed.
- ▶ In the same course, the exemptions from the renewable energy surcharge and energy taxes will be revised and adjusted for reduction of tax advantages, which focus on the economical use of electricity. In doing so, the relief due to the abolition of the renewable energy surcharge shall be considered in a way that no additional load for companies results.
- ▶ In the course of the implementation of the EU’s Energy Taxation Directive, which provides, inter alia, for the fiscal alignment of diesel fuel and petrol (in relation to calorific value), there shall be a review of the tax treatment of diesel vehicles in the motor vehicle tax.
- ▶ The plastic levy introduced under the EU Own Resources Decision is planned to be applicable for manufacturers and distributors of plastics, which could mean the introduction of a new “plastic tax.”
- ▶ The coalition plans a revision of the company car taxation. Among other things, there is expected to be a stronger focus on purely electric driving performance for plug-in hybrid vehicles.
- ▶ Additional budgetary leeway through reduction of superfluous, ineffective and environmentally and climate-damaging subsidies and expenditures is expected.

## VAT/GST or sales taxes

- ▶ The new governing coalition plans to introduce a new electronic reporting system for the creation, review and delivery of invoices, so-called “e-invoicing” or “e-reporting.”
- ▶ It is also expected to adjust the import VAT in order to achieve a level playing field in European competition.
- ▶ Some minor points in the coalition plan contain a reduction of tax hurdles for food donations and donations in kind to nonprofit organizations, which presumably aims at VAT taxation. Furthermore, VAT privileges are planned for certain educational services in accordance with EU law and for “inclusion companies,” such as workshops for disabled people.

## Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ The coalition’s agreement states no introduction of a wealth tax, no increase in inheritance tax, and no abolition of the solidarity surcharge or a reform of the income tax rate. Smaller points regarding personal taxes include:
  - ▶ Avoidance of double taxation of pensions
  - ▶ More attractive models for employee equity participation, including a further increase in the tax-free allowance
  - ▶ Increase in the investment allowance to EUR 1,000 or EUR 2,000 in the case of joint assessment, in the tax-free Care Bonus to EUR 3,000 and introduction of a tax exemption for surcharges in nursing professions as well as increase in the education allowance from EUR 924 to EUR 1,200
  - ▶ Extension of the lump-sum deduction for work from home until 31 December 2022 (currently until 31 December 2021)

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

- ▶ RETT – To facilitate the acquisition of owner-occupied residential property, federal states will be given the opportunity for flexible rules in RETT, which may lead to the introduction of personal allowances. To fund this measure, a higher RETT will be imposed on corporate real estate acquisitions via share deals.

## Developments in the governance of cryptocurrency

- ▶ There is still a lack of clear legislative or administrative opinion on the income tax treatment of cryptocurrencies and tokens. A first draft circular by the the Ministry of Finance was published in summer 2021. It is expected to be finalized in early 2022.
- ▶ In terms of income tax in the draft proposal, the Ministry of Finance states that various types of income can exist with virtual currencies and tokens, and it differentiates between whether the virtual currencies or tokens are held as business or private assets. In business assets, the units of a virtual currency are to be accounted for as non-depreciable assets according to the general principles. For privately held assets, the disposal period pursuant to Section 23 (1) sentence 1 no. 2 EStG is to start anew with each transfer between different coins or tokens.

Due to the Fund Location Act (FoStoG) cryptocurrencies were admitted as assets of a special investment fund.

## 2.5 Political landscape

- ▶ The federal election in September 2021 marked the end of “Merkel Era” after 16 years. The new coalition (see 2.1) aims at being a progressive government with a focus on climate policy, social policy and digitalization/modernization. However, many coalition partners have different positions on major policy objectives, such as budget planning, climate policy or tax policy.
- ▶ The new Chancellor will be the former social democratic Finance Minister Olaf Scholz. The Ministry of Finance will be led by the chairman of the FDP, Christian Lindner, and the Ministry of Economic Affairs, which has traditionally also been closely involved in the tax policy, will in the future be headed by Robert Habeck, the co-chairman of the Greens, and expanded to include responsibility for climate matters.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ ATAD 2 implementation includes, among others, new anti-hybrid legislation and reform of CFC rules as well as strengthening of exit taxation for individuals.
- ▶ A check-the-box-election for partnerships and sole traders to be taxed as corporates was introduced.
- ▶ The amount of loss carryback to EUR 10 million for losses caused in 2020 and 2021 was expanded further.
- ▶ The EU VAT eCommerce Package, including one-stop-shop (OSS) regime as of July 2021 can now be applied.
- ▶ Key aspects of RETT reform include a general decrease of the RETT triggering threshold from 95% to 90% for share deals as well as an extension of some legal time limits/periods and an extension of the so-called “partnership transfer rule” to transfers of shares in a corporation.
- ▶ Employee equity participation, the tax-free allowance for the free or reduced-price transfer of asset shares to employees, was doubled from EUR 360 to EUR 720 (Sec. 3 no. 39 Income Tax Act). In addition, a new Section 19a Income Tax Act has been introduced specifically for employees in SMEs, according to which the transfer of capital shares is not to be taxed as noncash benefits at the time of transfer to an employee (but at the latest after 10 years).
- ▶ Anti-Tax Haven Act includes strict rules on business relationships with noncooperative jurisdictions (EU-Blacklist jurisdictions), such as the denial of expense deduction and tougher CFC taxation.

## Germany

### 2.7 Major pending tax proposals not otherwise covered

- ▶ Since the end of the legislation period and the principle of legislative discontinuity, there are no concrete pending tax proposals. However, besides the measures that can be expected due to the coalition's plans, one major expected change in 2022 is forced by jurisprudence of the Federal Constitutional Court.

The court ruled on 8 July 2021 that the interest rate of 6% on back taxes and tax refunds is not realistic in times of zero interests and is, therefore, unconstitutional. The legislator has to implement a new rule by 31 July 2022. Another pending constitutional court ruling on the interest on pension provisions may cause the need for further adjustments.

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

- ▶ Influenced by the ongoing discussions around OECD BEPS 2.0, tax enforcement has become more assertive in Germany in recent years. An increasing focus on transfer pricing but also sector-related specialties can be observed.
- ▶ While there are still differences in the way tax authorities in federal states approach tax enforcement, increased exchange and coordination has led to a more aligned approach.
- ▶ State tax authorities are proactively influencing federal tax policy in order to close (alleged) loopholes, backed by an increasing public awareness around recent discussions about OECD BEPS 2.0 and tax-driven dividend transactions.
- ▶ Current developments in the electronic transmission of relevant tax data (tax returns, balance sheets, profit and loss statements and other reports) have led to an increasing availability of digital data to the tax authorities. Tax authorities are slowly extending the use of such digitally available data, e.g., to identify potential audit subjects and areas.
- ▶ The COVID-19 pandemic disrupted many tax audits; during 2021, most tax audits resumed. Many audits are partially conducted remotely, which is a new experience for German tax auditors and taxpayers. However, an increasing number of tax auditors have also returned to performing parts of their audits on site at the taxpayers' premises.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Tax audits are expected to further strengthen the general tendency toward more integrated audits between different federal states as well as increasing focus on international topics (e.g., transfer pricing).
- ▶ Increased involvement of specialized auditors and federal auditors can be expected.
- ▶ German tax authorities have expanded the use of international information exchange prior to and during tax audits.

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ The anticipated first measures of the new center-left federal government are anticipated to have an impact on the current regime. From the ongoing coalition-forming talks, no substantial tax increases have become public; however, tax cuts are also not yet planned. The prospective coalitionists have not yet made a statement as to which of the parties should take over the Ministry of Finance.
- ▶ Changes in German tax legislation, related to several EU directives and other international movements (e.g., OECD BEPS 2.0) but also COVID-19-relief measures, are expected to provide increasing complexity with regards to tax compliance.
- ▶ Tax auditors' activity decreased especially in the beginning of the COVID-19 pandemic, since then their work has resumed during 2021 and will likely aim at working through their backlog in 2022. Due to ongoing COVID-19-related restrictions and tax auditors' habits having changed during the pandemic, audits will likely be conducted remotely to an increased extent.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ Correspondence with tax auditors is becoming more digital due to the COVID-19 pandemic.
- ▶ Tax auditors are making more use of the digital data available to them, opening new ways of auditing, e.g., identifying potential areas of investigation.
- ▶ German financial authorities are slowly but steadily digitizing their internal and external processes. New compliance requirements, for example, must always be met digitally. Existing processes are being digitized step-by-step basis.

### 3.6 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2022?

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>

## Germany

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Transfer pricing – IP allocation, unilateral adjustments	<ul style="list-style-type: none"> <li>▶ Influenced by the ongoing BEPS discussions, tax authorities increasingly question the location of IP based on an analysis of the respective functions of developing, enhancing, maintaining, protecting and exploiting of such IP (DEMPE functions).</li> <li>▶ Viable global transfer pricing model and respective documentation is required.</li> <li>▶ Risk of unilateral adjustments can be countered with multilateral instruments, such as advance pricing agreements, joint audits or mutual agreement procedures.</li> </ul>
2	Tax policies and controls	<ul style="list-style-type: none"> <li>▶ Missing or ineffective tax compliance policies and controls can lead to a lack in oversight of tax positions and inaccuracies or omissions in tax returns.</li> <li>▶ Initiating the rights steps after discovering such inaccuracies is crucial to protect a company and its employees against potential tax criminal investigations based on the accusation of gross negligence.</li> <li>▶ Tax compliance management systems (Tax CMS) help managing tax compliance risks and are an instrument acknowledged by the tax authorities that mitigates criminal accusations in cases of potential negligence.</li> </ul>
3	Digitalization	<ul style="list-style-type: none"> <li>▶ The tax auditors make more and more use of the digital data available to them opening new ways of auditing, e.g., identifying potential areas of investigation.</li> <li>▶ Knowing the data provided to the tax authorities and predicting potential focus areas of an audit can help companies to better defend their positions.</li> </ul>
4	VAT – missing or incomplete documentation	<ul style="list-style-type: none"> <li>▶ German VAT law imposes many formal requirements when it comes to documentation of tax-exempt supplies, such as exports or intracommunity supplies. In many cases, failure in meeting these requirements may lead to significant additional tax charges.</li> </ul>
5	Direct taxes – accruals and capitalization of expenses	<ul style="list-style-type: none"> <li>▶ The disallowance of accruals and capitalization of expenses are prevailing areas of adjustments in German tax audits often prompted by sector-specific knowledge of the tax auditors.</li> <li>▶ Missing documentation in later tax audits due to time lapse and personnel changes can be avoided by timely preparing documentation and having tax requirements in mind.</li> <li>▶ Knowing the industries' typical tax audit issues and leading practices may help companies to defend their positions in tax audits.</li> </ul>







Santorini sunset at dawn village of Oia, Greece

# Greece

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 19 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	22%	22%	–
Personal income tax – top rate	(PIT) top rate 44% > €40,001  Solidarity tax top rate 10% > €220,000 (for FY 2021 the income earned by employees of the private sector, including income from capital and capital gains, is exempt from solidarity tax)  WHT on dividends 5%	(PIT) top rate 44% > €40,001  Solidarity tax top rate 10% > €220,000 (for FY 2022 the income earned by employees of the private sector is exempt from solidarity tax)  WHT on dividends 5%	–
VAT, GST or sales tax – standard rate	24%  Reduced VAT rates of 13% and 6% are provided for specific goods and services.	24%  Reduced VAT rates of 13% and 6% are provided for specific goods and services.	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

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

- ▶ Enhanced transparency and reduced tax evasion and shadow economic activities
- ▶ Digitalization of the tax administration
- ▶ Reduce the bureaucratic burden on tax administration and businesses
- ▶ Green budgeting
- ▶ COVID-19 pandemic implications on revenues and on administrative issues (e.g., contact with the tax authorities)
- ▶ R&D incentives

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input checked="" type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input checked="" type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Greece

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	

Tax types	Likelihood of changes in 2022	Direction of change
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

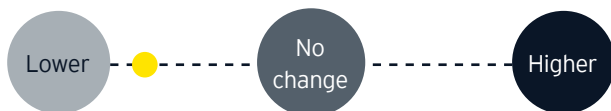
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ The Greek Government promotes R&D incentives, such as by increasing the deduction of R&D expenses by 100% and adding new categories of expenses that qualify.

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

- ▶ No changes expected at this time.

### Taxes related to climate change or sustainability

- ▶ The following green taxes have been introduced to the Greek tax legislation:
  - ▶ Environmental duty on plastic carrier bags at a rate of €0.07 per plastic bag (excluding VAT) (art. 79 of L. 4819/2021)
  - ▶ Recycling fee on PVC plastic bottles at a rate of €0.08 per plastic bottle (excluding VAT), effective as of 1 June 2022 (art. 80 of L. 4819/2021)
  - ▶ Environmental contribution on plastic packaging products at a rate of €0.04 per item of each plastic product (excluding VAT), effective as of 1 January 2022 (art. 4 par. 3 of L. 4736/2020)

- ▶ Landfill waste duty at a rate of €20 per ton of waste, effective as of 1 January 2022; said amount is increased annually by €5 per ton and up to €35 per ton, and as of 1 January 2026, a rate of €45 per ton will be applicable whereas as of 1 January 2027 onward the applicable rate will be €55 per ton (art. 38 of L. 4819/2021)

- ▶ Incentives for zero or low emission means of transportation apply, namely more favorable tax deduction and depreciation rates regarding specific expenses, such as the leasing and cost of purchases related to low-emission vehicles.

- ▶ An environmental duty applies on importations of high pollutant cars using old technology (Euro 4: €3.000, Euro 5a: €1.000). Imports of cars using even older technology (Euro 1,2,3) are, in principle, prohibited (art. 5 of L. 4710/2020).

### VAT/GST or sales taxes

- ▶ VAT rate on vaccines and diagnostic medical devices for COVID-19 is 0%.
- ▶ E-books are subject to a super reduced VAT rate of 6%.

## Greece

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

- ▶ For tax year 2021, the special solidarity tax exemption applied to employment income earned by employees of the private sector is extended to business income, income from capital (dividends, interest, royalties, and real estate income) and capital gains. The exemption does not apply to the employment income earned by employees of the public sector and pension income.
- ▶ For tax year 2022, the special solidarity tax exemption applies to the employment income earned by employees of the private sector.
- ▶ Instructions were issued on the interpretation and application of the new favorable income tax regime regarding the granting of stock options and free share distribution programs.
- ▶ Tax incentives for the transfer of the tax residence of individuals in Greece were introduced by virtue of L. 4758/2020. In particular, individuals earning employment income in Greece, who transfer their tax residence in Greece, may choose to be subject to a favorable tax regime regarding their employment income for services rendered in Greece (i.e., exemption from paying income tax and solidarity tax on 50% of their Greek employment income). The aforementioned favorable regime applies also to individuals who transfer their tax residence in Greece with an intention to undertake business activity in Greece. Specific requirements shall be met in both the aforementioned cases in order for the favorable tax regime to apply.

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

- ▶ A deduction on the special real estate tax (SRET) imposed on individuals based on the total value of their real estate property subject to SRET applies for FY 2021 (art. 153 L. 4808/2021), as follows:
  - ▶ For real estate property with a value up to €60,000, a deduction of 30% will apply.
  - ▶ For real estate property with a value up to €70,000, a deduction of 27% will apply.
  - ▶ For real estate property with a value up to €80,000, a deduction of 25% will apply.
  - ▶ For real estate property with a value up to €1,000,000, a deduction of 20% will apply.
  - ▶ For real estate property with a value above €1,000,000, a deduction of 10% will apply.
- ▶ The tax authority provided a new interpretation of the provisions regarding sales tax on stock exchange transactions. Although no substantial changes regarding the scope of the tax were introduced, the context of application of the tax was clarified and certain provisions were introduced regarding the

process for the collection and attribution of the tax, as well the imposition of relevant penalties in case of noncompliance (L. 4799/2021).

### **Developments in the governance of cryptocurrency**

- ▶ No changes are currently expected.

## 2.5 Political landscape

- ▶ Stable political landscape
- ▶ Government goals are:
  - ▶ Establishment of a solid and trusted tax administration through digitalization, reduction of the shadow economy and combating tax evasion
  - ▶ Implementation of green taxes and tax incentives for less emissions caused by means of transportation
  - ▶ Support businesses and employees with measures to overcome the financial crisis caused by COVID-19

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Gradual implementation of e-books maintenance and transmission of data to the new e-platform called "My Digital Accounting and Tax Application" (myDATA). More specifically, by virtue of Decision A. 1156/2021, the obligation for transmitting the summaries and classifications of revenues starts from 1 October 2021 and 1 November 2021, depending on the type of accounting books that the liable entities maintain and their turnover, while the summaries and classifications of expenses corresponding to FY 2021 should be transmitted up to 31 May 2022.
- ▶ Amendment of the Greek Tax Procedure Code regarding tax evasion crimes by virtue of L. 4764/2020. Pursuant to such amendment, the statute of limitations of tax evasion crimes starts to run at the end of the period within which the tax administration may issue an act of administrative, assessed or corrective tax assessment, unless such an act has already been issued. In the latter case, the statute of limitations starts from the issuance of this act.
- ▶ The Greek Administrative Supreme Court, by virtue of landmark decision 2163/2020, ruled that the granting of nonbanking loans in return for consideration (interest) by persons who carry out an independent economic activity falls within the scope of VAT and, therefore, is exempt from stamp duty.
- ▶ Ratification of the OECD MLI by virtue of L. 4768/2021. The MLI will enable the Greek State to ensure that the profits are taxed in the state where they are created and will result in modifications to bilateral tax treaties to eliminate double taxation.

- ▶ Transposition of the EU Directives 2017/2455 and 2019/1995, which introduced the new VAT rules for online cross-border transactions, both for shipments within EU and for imports from third countries, providing clear advantages for public revenues and business community, by virtue of L. 4818/2021. The new rules entered into force on 1 July 2021.
- ▶ Reduction of capital concentration tax from 1% to 0.5% by virtue of art. 57 of L. 4839/2021. The reduction is applicable as of 1 October 2021.
- ▶ The Greek Minister of Finance issued a press release on 9 October 2021 welcoming finalization of the OECD/G20 “Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalization of the Economy.”
- ▶ Introduction of the following income tax changes by virtue of L. 4799/2021: decrease of income tax prepayment, reduction of CIT for FY 2021 onward, suspension from the imposition of special solidarity tax for specific categories of income for FY 2021 and 2022, distribution of the benefit resulting from the offset of the automatic return (clawback) of the

pharmaceutical expenditure with research and development expenses for pharmaceutical companies and marketing authorization holders (MAHs) of pharmaceutical products, and interpretation of the provisions related to the imposition of sales tax on stock exchange transactions.

- ▶ Green taxes, such as duty for landfilling, duty for recycling etc., have been introduced by virtue of L. 4819/2021 and L. 4736/2020. Moreover, the Greek Government by virtue of L. 4819/2021 has adopted the polluter-pays principle, where the costs of waste management, including for the necessary infrastructure and its operation, shall be borne by the original waste producer or by the current or previous waste holders.

## 2.7 Major pending tax proposals not otherwise covered

- ▶ A draft bill for business development incentives was under public consultation until 1 November 2021.

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

- ▶ There are efforts by the Greek tax authorities to increase voluntary compliance and tackle tax evasion as well as to manage the risks faced by the tax administration to increase taxpayer compliance.
- ▶ The Greek tax authorities aim to increase audit systems’ sophistication and overall promote the digitalization of the tax administration.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Increase electronic compliance
- ▶ Efforts to increase audit systems sophistication
- ▶ Overall promotion of the digitalization of the tax administration

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ The full implementation of MyDATA
- ▶ Abolishment of the taxpayer’s obligation to file customer-supplier list (following full implementation of MyDATA)
- ▶ Prefiling of tax returns

### 3.5 How would you describe the tax authority’s approach to and overall status of the digitalization of the tax administration?

- ▶ Due to the unprecedented COVID-19 situation, the Greek tax administration made important steps regarding the digitalization of its services, especially those including communication with taxpayers. There are still more actions to take in order to have a digitalized tax administration.

## Greece

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Transfer pricing	Intercompany transactions may trigger TP audits and appear to be under increased scrutiny by the tax authorities.
2	Corporate transformations	Tax neutral corporate transformations performed pursuant to various tax incentive laws or in a tax-neutral manner may trigger tax audits, also by virtue of the application of the GAAR/TAAR provisions.
3	Tax refunds	Tax refunds claims submitted by taxpayers both for income tax and for VAT are often challenged by the tax authorities.
4	Permanent establishment	Tax audits may be triggered on the basis of the dependent agent notion and the negotiation or conclusion of offshore contracts.
5	Tax issues related to an entity's funding	Issues related to an entity's funding, such as compliance with the interest limitation (thin cap) rule as well as interest deductibility/limitations, often spark tax audits.
6	Disallowance of deductions	Tax authorities frequently challenge the deductibility of expenses in tax audits.







Antigua City at Sunrise

# Guatemala

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 19 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	25% regime on profits from business activities  5-7% optional simplified regime on revenue from business activities	25% regime on profits from business activities  5-7% optional simplified regime on revenue from business activities	–
Personal income tax – top rate	5-7% optional simplified regime on revenue from business activities	5-7% optional simplified regime on revenue from business activities	–
VAT, GST or sales tax – standard rate	12%	12%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Economic sector audit and verification processes
- ▶ COVID-19-related expenses
- ▶ Digital platform services taxation
- ▶ Enforcing customs control to avoid customs fraud

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Guatemala

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	

Tax types	Likelihood of changes in 2022	Direction of change
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ In October, the tax administration presented the Institutional Strategic Plan for 2021-2025. The strategic objectives outlined in the 2021-2025 plan are:
  - ▶ Increase collection in a sustained manner and reduce the tax noncompliance gap
  - ▶ Facilitate taxpayer compliance and payment of tax and customs obligations
  - ▶ Promote an assertive examination that increases the perception of risk and effective collection and reduces tax noncompliance
  - ▶ Efficient administrative and judicial collection
  - ▶ Integrally modernize the Customs and Foreign Trade Service
  - ▶ Strengthen the capacities of management and institutional transparency

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

- ▶ Regarding e-commerce, the tax authorities have been supervising taxpayers who disproportionately increase their tax credit balances and focus on the controls of purchases and sales reported by companies. Additionally, control mechanisms are continuously implemented by tax authorities.
- ▶ The tax authorities are currently notifying taxpayers of a tax requirement model that, as of 2022, will include the submission of monthly bank reconciliation for tax audits as determined in such model. Such reconciliation will allow the tax authorities to obtain the following information at the income and expense level:
  - ▶ Accounts receivable/payable domestic and foreign clients/suppliers
  - ▶ Accounts receivable/payable to partners
  - ▶ Accounts receivable from employees
  - ▶ Advance on customers/suppliers
  - ▶ Interest earned/paid
  - ▶ Transfer of funds (incoming and outgoing) between bank accounts

# Guatemala

## Taxes related to climate change or sustainability

- ▶ There are no current developments.

## VAT/GST or sales taxes

- ▶ The tax administration is currently developing the Digital Economy Compliance tool to register and control services rendered by companies that carry out cross-border operations in a jurisdiction without any physical presence; this includes: applications, programs, videos, music, games, credits, direct credits, texts, magazines, newspapers, books, social networks, marketing, rental services, cloud storage, storage cloud, IT infrastructure, firewall, antivirus services, computer filtering system, big data analysis and results, communications, streaming, delivery, virtual private network (VPN) services, videoconferencing services, intermediation of these services, and others.

## Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ There are no current developments.

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

- ▶ There are no current developments.

## Developments in the governance of cryptocurrency

- ▶ There are no current developments.

## 2.5 Political landscape

- ▶ Newly designated tax authorities are tasked with reinforcing tax collection and inspection processes and fighting tax fraud and evasion.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Companies and individual persons are now required to register and update most of their information in the Tax Virtual Agency.
- ▶ This measure had the most impact on companies that were required to provide information related to shareholders distribution and domicile even if they were foreign individuals in order to have an updated status.

## 2.7 Major pending tax proposals not otherwise covered

- ▶ N/A

# Section 3: Tax enforcement in 2022

---

## 3.1 Current general approach to tax enforcement

- ▶ The recently presented Institutional Strategic Plan for 2021-2025 states an intent to improve administrative and judicial tax collection and implement inspection processes based on economic and commercial sectors.

## 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

## 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Reduce the tax noncompliance gap
- ▶ Facilitate the compliance of tax obligations through digital platforms
- ▶ Strengthen inspection on overlooked economic activities or processes

## 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Currently, we do not foresee any tax-related regulations that could have an impact on companies in 2022.

## 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ We have seen a constant intent by the tax administration to improve and increase the type of tax compliance processes and other related obligations.
- ▶ Most of the tax forms can be completed digitally. Customs imports and exports are partially carried out digitally, and corporate tax-related data can be updated and modified digitally by taxpayers almost entirely.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Multilateral (such as ICAP)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input checked="" type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Capital gains	Company capital gain transactions and acquisitions have historically been one of the main inspection points of the tax administration.
2	COVID-19-related impacts and outcomes	Taxpayers have been subject to questioning and verification processes regarding COVID-19-related expenses for VAT credit reimbursements and income tax deductibility.
3	Tax residency	The tax administration has consistent audit criteria on identifying the tax residency of foreign entities performing transactions in Guatemala on their own behalf or through branch offices.
4	Withholding taxes	The tax administration focuses on income tax withholding performed over payments to nonresidents or related entities abroad. The verification processes may vary depending on the transaction; however, they mostly focus on the type of service and which withholding tax rate was applied to the payment, in order to avoid tax burden reduction.
5	Tax refunds	Tax refunds are analyzed carefully by the tax administration in order to determine if the tax credit is legitimate and in accordance with tax refund regulations. In this sense, considering that the recently designated tax authorities are using strict audit criteria, it should be expected that tax refunds requests are going to be strictly and carefully inspected before authorizing any refund.



Aerial View downtown Tegucigalpa Honduras

# Honduras

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 3 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	25%	25%	–
Personal income tax – top rate	0.53% of income greater than L150,000.00, approx. USD\$6,128.00	0.53% of income greater than L150,000.00, approx. USD\$6,128.00	–
VAT, GST or sales tax – standard rate	15%	15%	–



## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ A territorial tax system is in place in Honduras as of 2017. However, the income tax law statute has not been officially amended to reflect this change.
- ▶ The tax authority is more assertive in collection of taxes every year, especially in election years.
- ▶ Special customs and tax regimes are being developed to attract foreign investment. Zones of Employment and Economic Development (ZEDES) are currently being developed, but face some opposition due to questions in relation to property protection and privatization of public services. ZEDES are expected to grow in the next few years.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Honduras

Tax types	Likelihood of changes in 2022	Direction of change
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	

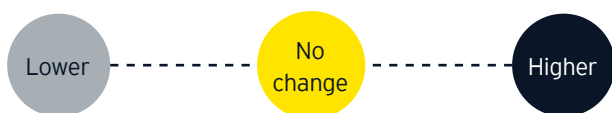
Tax types	Likelihood of changes in 2022	Direction of change
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

#### Corporate tax rate

- ▶ Uncertainty is expected in relation to the territorial tax system for corporate income taxes.
- ▶ More audits are expected due to the previous decrease in audits because of the COVID-19 pandemic and lockdown.

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

- ▶ VAT is expected to be applied to digital services, as announced by the tax authority.

#### Taxes related to climate change or sustainability

- ▶ N/A

#### VAT/GST or sales taxes

- ▶ No other changes in relation to VAT are foreseen.

#### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ No foreseen changes, even though at a municipal level these rates can be modified on a yearly basis as they are enacted through municipality tax plans.

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

- ▶ N/A

### Developments in the governance of cryptocurrency

- ▶ N/A

## 2.5 Political landscape

- ▶ Elections are upcoming.
- ▶ The current presidential candidates for government control through 2024 have not announced any plans regarding tax reform.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ There were no major tax policy changes.
- ▶ Certain income tax rates for people over 65 years old and minor administrative policies were changed.

## 2.7 Major pending tax proposals not otherwise covered

- ▶ N/A

## Section 3: Tax enforcement in 2022

### 3.1 Current general approach to tax enforcement

- ▶ Subject to change as political priorities change due to upcoming elections

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Transfer pricing matters
- ▶ Electronic invoicing
- ▶ ZEDES

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Electronic invoicing platform implementation
- ▶ VAT application to digital services
- ▶ Electronic filing expansion to more tax administration procedures

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The tax administration has been working on implementing an adequate digital tax platform. Development accelerated due to the COVID-19 pandemic lockdown, with the tax authority providing more options for procedures that can be carried out online instead of through physical filling.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	<b>Issue name</b>	<b>Description</b>
1	Deductibility	Incorrect deductibility of expenses
2	Depreciation	Incorrect use of depreciation rules
3	Withholding	Incorrect or no withholdings applied to payments abroad
4	Invoicing	Incorrect use of invoice and receipts, and other tax documents
5	Transfer pricing	Incorrect use of transfer pricing rules (e.g., arm's length principle, intercompany loans, permanent establishment)



Aerial scene of Hong Kong

# Hong Kong

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*This information is current as of 19 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	16.5% Under the two-tiered regime, the rate of tax for the first HK\$2 million of profits of corporations will be reduced by half to 8.25% (7.5% for unincorporated businesses). The remainder of the profits will continue to be taxed at the normal applicable rate of 16.5%. However, each group of “connected entities” can only elect one entity in the group to benefit from the two-tiered regime for a given year of assessment.	16.5% Under the two-tiered regime, the rate of tax for the first HK\$2 million of profits of corporations will be reduced by half to 8.25% (7.5% for unincorporated businesses). The remainder of the profits will continue to be taxed at the normal applicable rate of 16.5%. However, each group of “connected entities” can only elect one entity in the group to benefit from the two-tiered regime for a given year of assessment.	–

Personal income tax – top rate	15% Note: The PIT charge is the lower of: (a) the standard rate of 15% applying to net chargeable income before personal allowances and (b) the progressive rates of 2%, 6%, 10%, 14% and 17% applying to net chargeable income.	15% Note: The PIT charge is the lower of: (a) the standard rate of 15% applying to net chargeable income before personal allowances and (b) the progressive rates of 2%, 6%, 10%, 14% and 17% applying to net chargeable income.	–
VAT, GST or sales tax – standard rate	NIL	NIL	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ The Hong Kong Special Administrative Region (Hong Kong) Government has a long-standing stated objective to maintain a simple and low tax regime, which is one of the important competitive advantages of Hong Kong.
- ▶ Tax measures will be used to promote the development of certain targeted industries and sectors in Hong Kong.
- ▶ Also, as an international financial and business center, Hong Kong will actively implement the BEPS 2.0 initiatives according to international consensus.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022

## Hong Kong

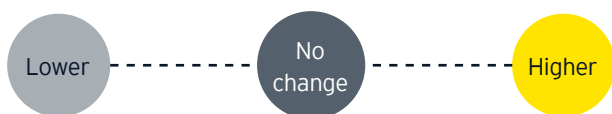
Tax types	Likelihood of changes in 2022	Direction of change
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022



Tax types	Likelihood of changes in 2022	Direction of change
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

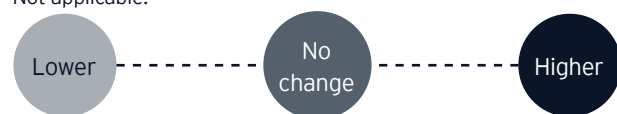
## 2.3 Tax policy outlook for 2022 – summary

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

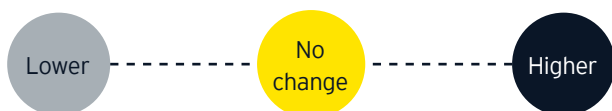


### Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Not applicable.



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



● Denotes level of change

## Hong Kong

### 2.4 Tax policy outlook for 2022 – detail

#### Corporate income taxes

- ▶ Hong Kong has agreed to the OECD/G20 October Statement on BEPS 2.0 initiatives, and as such, Hong Kong will likely implement Pillar One and Pillar Two based on the timeline as indicated in the October Statement.
- ▶ In addition, the EU recently concluded that Hong Kong's offshore income exemption regime as it regards passive income is harmful.

To avoid getting blacklisted, the Hong Kong Government has committed to amend or impose additional conditions by the end of 2022 before such passive income could be claimed as being offshore-sourced in Hong Kong.

The above changes are expected to pose a significant impact on the tax base of in-scope and affected taxpayers in 2023.

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

- ▶ No changes are expected.

#### Taxes related to climate change or sustainability

- ▶ No changes are expected.

#### VAT/GST or sales taxes

- ▶ N/A

#### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ No changes are expected.

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

- ▶ No changes are expected.

#### Developments in the governance of cryptocurrency

- ▶ No changes are expected.

### 2.5 Political landscape

- ▶ The 2022 Hong Kong chief executive election will be held in March 2022.
- ▶ There are uncertainties whether the policy measures announced in the recent 2021 Policy Address will continue or not if there is a change in the chief executive.
- ▶ Key policies to further develop Hong Kong's economy include:
  - Further attracting family offices to establish a presence in Hong Kong by considering tax concessions

Building new towns in the northern part of Hong Kong to facilitate deeper integration with mainland China, in particular with cities in the Greater Bay Area

Improving the listing regime, expanding offshore Renminbi business and growing a green and sustainable financial sector

### 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Hong Kong passed legislation addressing the tax treatment of court-free amalgamations and deduction of foreign tax paid in June 2021. The new law adopts a succession approach to a qualifying amalgamation (i.e., that is undertaken under the Companies Ordinance of Hong Kong (Cap. 622)). Under such an approach, upon election by the taxpayer, the transfer of assets from an amalgamating company to the amalgamated company (i.e., the surviving entity) will generally be treated as being made at book value and, therefore, be tax neutral. The amalgamated company will be entitled to continue to claim tax deductions or allowances in respect of the unrelieved tax costs of the assets so transferred or succeeded from the amalgamating company.

In addition, the new law also specifies the restrictive conditions under which pre-amalgamation tax losses sustained by the amalgamating and amalgamated companies can be utilized post-amalgamation. The above special tax treatment, however, does not apply to a merger of the Hong Kong branches of two or more foreign companies under a foreign law.

The new law also introduces provisions to allow tax deduction of foreign taxes under certain circumstances.

- ▶ A new law was also passed in April 2021 to grant tax incentives to carried interest as a means of further developing the Hong Kong asset management industry. The new law provides that eligible carried interest received by, or accrued to, a qualifying person on or after 1 April 2020 from the provision of investment management services in Hong Kong to a qualifying payer, where the eligible carried interest arises from profits earned from in-scope transactions of the qualifying payer and provided that the substantial activities requirements are met, the amount of eligible carried interest would be eligible for a 0% profits tax rate. In the case of qualifying employees, 100% of employment income paid out of the eligible carried interest of the qualifying person to which profits tax exemption under the new law applies can be excluded for ascertaining the salaries tax liabilities of the qualifying employees.

### 2.7 Major pending tax proposals not otherwise covered

- ▶ None

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

- ▶ Hong Kong adopted the Assess-First-Audit-Later (AFAL) approach where most tax assessments are processed automatically.
- ▶ The Hong Kong Inland Revenue Department (HKIRD) has been developing advanced analytical tools to screen taxpayers' data for potential tax audit targets.
- ▶ With the AFAL system in place, HKIRD puts strong emphasis on selecting appropriate cases for tax audits and investigations.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Hong Kong will continue to adopt the territorial source principle of taxation.
- ▶ MNCs with no substantial economic activity in Hong Kong, that make use of passive income to evade tax across a border will potentially be subject to tax audit.
- ▶ As to financial institutions, their offshore interest income is already subject to profits tax under the Inland Revenue Ordinance at present, and hence tax enforcement in Hong Kong will not increase their tax burden.

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Potential change to Hong Kong's offshore income exemption regime on passive income (such as interest and royalties), in view of the EU grey list status
- ▶ Payments to no- or low-tax jurisdictions
- ▶ Strengthening of TP regulations and TP documentation requirement

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The Inland Revenue Department (IRD) is undertaking a project on electronic filing (e-filing) of profits tax returns (the e-Filing Project).
- ▶ The IRD issued a consultation paper in January 2021, which provides background information on the e-Filing Project and seeks views on the proposed IRD Taxonomy Package, which is currently at the development phase, with a view to facilitating electronic submission of financial statements and tax computations in inline eXtensible Business Reporting Language (iXBRL) format.
- ▶ In June 2021, the Inland Revenue (Amendment) (Miscellaneous Provisions) Ordinance 2021 was enacted, among other things, to enhance the mechanism for furnishing tax returns.
- ▶ On 4 November 2021, the IRD issued a consultation paper setting out proposals for taking forward the e-Filing Project.

## Hong Kong

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Offshore claim	Offshore trading and service fee income
2	Transfer pricing	IP-related issues; intercompany financing transactions
3	Capital gains	Disposal of properties
4	Disallowance of deductions	Lack of supporting documentation; payments to no- or low-tax jurisdictions
5	Losses	Revisit prior year tax losses claims





Panorama of summer Budapest

# Hungary

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## EY key contacts

### Tax policy and controversy

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## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	9%	9%	–
Personal income tax – top rate	15%	15%	–
VAT, GST or sales tax – standard rate	27%	27%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Reducing taxes on labor
- ▶ Supporting small and medium-sized enterprises
- ▶ Shifting toward digitalization
- ▶ Developments in the tax treatment of cryptocurrency
- ▶ Introducing COVID-19 relief packages in response to the pandemic

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Hungary

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	



Tax types	Likelihood of changes in 2022	Direction of change
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

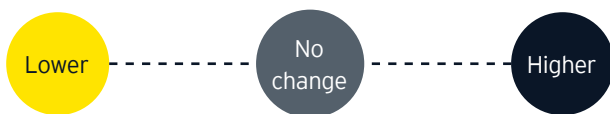
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ Effective 1 January 2022, the simplified small business taxation rate will be reduced to 10%.
- ▶ Extension of the temporary local business tax relief for small and medium-sized enterprises: the applicable local business tax rate should not exceed 1% for businesses whose net turnover or balance sheet total for the tax year ending in 2021 does not exceed HUF 4 billion.

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

- ▶ Hungarian regulations follow the general EU principles (e.g., VAT Directive).

### Taxes related to climate change or sustainability

- ▶ There are no changes currently expected.

### VAT/GST or sales taxes

- ▶ The Hungarian regulation adapted in line with the previous recent decisions of the European Court of Justice with regard to irrecoverable VAT reclaims was revisited. Based on the Hungarian regulation introduced on 1 January 2020, VAT

could only be reclaimed if the claims concerned goods supplied after 31 December 2015. Based on a recent decision of the Hungarian Tax Authority, the limitation period for VAT reclaim is calculated from the date on which the claim is likely to become irrecoverable (instead of the date of submission of the VAT return).

- ▶ Based on the recent decision of the European Court of Justice, VAT reclaims may be submitted on payments made by a pharmaceutical company based on price volume agreements with the state health insurance fund (note that no official guidance has been published yet).

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ Reducing taxes on labor from July 2022:
  - ▶ The social contribution tax will be reduced by 2.5 percentage points to 13% (compared by the current 15.5%).
  - ▶ The 1.5% vocational training tax will be abolished.
- ▶ A personal income tax exemption (capped at the official average gross wage) for under 25-year-olds is effective from 1 January 2022.
- ▶ Flat-rate tax options will be extended to more freelancers from 2022.

## Hungary

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

- ▶ The special tax on financial organizations will be canceled: the tax liability of venture capital fund managers, the stock exchange and commodity exchange service providers financial institutions will be abolished from 2022.

### **Developments in the governance of cryptocurrency**

- ▶ New tax treatment of cryptocurrency: from 1 January 2022, revenues from cryptocurrency mining and trading will be subject to only the 15% personal income tax (instead of the current 30%), will not be subject to any social contributions and the investors will be able to deduct their losses from their tax base.

## 2.5 Political landscape

- ▶ The next Hungarian parliamentary elections will be held in April or May 2022.

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

- ▶ The tax authority's approach in general has shifted toward helping taxpayers to be compliant with their tax obligations.
- ▶ Tax audits are generally initiated based on a risk assessment performed automatically.
- ▶ The number of tax audits is consistently growing each year.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ No changes are expected regarding the general approach of tax enforcement.
- ▶ In accordance with the EU Money Laundering Directive, the ultimate beneficial owner (UBO) database of the effective owners has been set up and its first round of data has been uploaded. This will further enhance full transparency to prevent any money laundering.

### 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Several COVID-19 pandemic relief packages were introduced.
- ▶ A tax allowance for small and medium-sized businesses requires that the applicable local business tax rate should not exceed 1% for businesses whose net turnover or balance sheet total for the tax year ending in 2021 does not exceed HUF 4 billion.
- ▶ Taxpayers became entitled to reclaim paid VAT if their receivables qualify as likely to be irrecoverable.

### 2.7 Major pending tax proposals not otherwise covered

- ▶ None

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Reducing taxes on labor
- ▶ Shifting toward digitalization
- ▶ Introducing further COVID-19 relief packages

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The tax office's reliance on digitalized databases and tools to gain information on taxpayers has increased significantly.
- ▶ Recent changes with respect to the digitalization of the tax administration include the following:
  - ▶ A real-time invoice reporting obligation has been established for taxpayers. As a result, an almost fully extended online invoice data reporting tool is now available to the tax authorities.
  - ▶ The tax administration has set up an online platform for businesses where it will prepare their VAT return drafts in advance.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Intra-community transactions	Intra-community transactions will likely still continue to be a main focus of tax audits.
2	Mismatch in VAT data reported	Mismatch of the reported VAT data from the taxpayer and the supplier is usually subject to tax audits, examining any potential tax fraud within the supply chain.
3	Incentives – R&D	The tax office is expected to keep monitoring the use of incentives.
4	Complex risk management	Tax audits are generally initiated based on a risk assessment performed automatically.
5	TP – CbCR from foreign countries	Tax audits also tend to focus on TP and CbCR cases involving foreign countries.



Mumbai City, India

# India

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## EY key contacts

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 15 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	<ul style="list-style-type: none"> <li>▶ The following rates are now applicable to companies:               <ul style="list-style-type: none"> <li>(A) Domestic company that opts for lower tax rate without claiming any incentives – 25.17%<sup>1</sup></li> <li>(B) For new manufacturing companies set up/registered on or after 1 October 2019 and that commence manufacturing up to 31 March 2023 – 17.16%<sup>2</sup></li> <li>(C) Domestic company that does not opt for lower tax rate and chooses to avail current incentives and deductions:                   <ul style="list-style-type: none"> <li>▶ Companies having total turnover or gross receipts in FY 2017-18 ≤ INR 4,000m                       <ul style="list-style-type: none"> <li>▶ Income &lt; INR 10m – 26%<sup>3</sup></li> <li>▶ Income &gt; INR 10m; &lt; INR 100m – 27.82%<sup>4</sup></li> <li>▶ Income &gt; INR 100m – 29.12%<sup>5</sup></li> </ul> </li> <li>▶ Other companies claiming incentives and having total turnover or gross receipts in FY 2017-18 more than 4,000m                       <ul style="list-style-type: none"> <li>▶ Income &lt; INR 10m – 31.20%<sup>6</sup></li> <li>▶ Income &gt; INR 10m; &lt;100m – 33.38%<sup>7</sup></li> <li>▶ Income &gt; INR 100m – 34.94%<sup>8</sup></li> </ul> </li> </ul> </li> </ul> </li> </ul>	The rates for the next financial year, i.e., April 2022-March 2023, will be notified in the upcoming budget, which was set to be presented on 1 February 2022.	–

<p>Personal income tax – top rate</p>	<p>▶ The following rates are now applicable on individuals:</p> <p>(A) Individuals do not avail of any tax incentives or deductions:</p> <ul style="list-style-type: none"> <li>▶ Up to INR 250,000 – Nil</li> <li>▶ INR 250,001-500,000 – 5%</li> <li>▶ INR 500,001-750,000 – 10%</li> <li>▶ INR 750,000-1,000,000 – 15%</li> <li>▶ INR 1,000,000-1,250,000 – 20%</li> <li>▶ INR 1,250,000-1,500,000 – 25%</li> <li>▶ Above 1,500,000 – 30%</li> </ul> <p>(B) In other cases:</p> <ul style="list-style-type: none"> <li>▶ Up to INR 250,000 – Nil</li> <li>▶ INR 250,001-500,000 – 5%</li> </ul>	<p>The rates for the next financial year, i.e., April 2022-March 2023, will be notified in the upcoming budget, which was set to be presented on 1 February 2022.</p>	
<p>VAT, GST or sales tax – standard rate</p>	<p>GST rates of 5%, 12%, 18% and 28% are applicable to bulk of goods and services. Exports are zero rated.</p> <p>A special rate of 3% applies to gold, gold jewelry, precious stones and precious metals.</p> <p>(The India Government has set up a constitutional body i.e., GST Council for making recommendations to the Union and State Governments on issues related to GST.</p> <p>The GST Council regularly meets and makes recommendations to the Union and the States on important issues related to GST, like the goods and services that may be subjected or exempted from GST, GST rates that include the floor rates with bands, special rates for raising additional resources during natural calamities/disasters, special provisions for certain States, etc.</p>	<p>The GST rates for specific goods and services may undergo revision from time to time based on the decisions taken by the GST Council.</p>	

<sup>1</sup> Inclusive of applicable surcharges and cesses. Base rate is 22%

<sup>2</sup> Inclusive of applicable surcharges and cesses. Base rate is 15%.

<sup>3</sup> Inclusive of applicable cess. Base rate is 25%.

<sup>4</sup> Inclusive of applicable surcharge at 7% and cess. Base rates is 25%.

<sup>5</sup> Inclusive of applicable surcharge at 12% and cess. Base rate is 25%.

<sup>6</sup> Inclusive of applicable cess. Base rate is 30%.

<sup>7</sup> Inclusive of applicable surcharge at 7% and cess. Base rate is 30%.

<sup>8</sup> Inclusive of applicable surcharge at 12% and cess. Base rate is 30%.

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

The key drivers of tax policy are:

- ▶ Reviving economic growth, stimulating demand and investments
- ▶ Incentivizing manufacturing in India
- ▶ Making tax administration simpler, more transparent, accountable and technologically savvy
- ▶ Improving ease of doing business for taxpayers
- ▶ Expansion of the tax base
- ▶ Incentivizing micro, small and medium entrepreneurs and providing relief to the middle- and low-income taxpayers

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

# India

## 2.3 Tax policy outlook for 2022 – summary

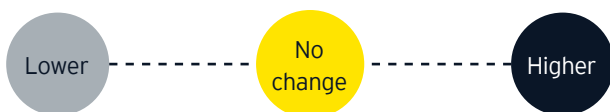
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ The Indian Government has significantly reduced the corporate tax rates. The tax on dividends was also shifted from the corporate level to the shareholder level.
- ▶ The Indian Government's focus is now expected to be on bringing simplicity and certainty in law, expanding the tax base and minimizing disputes.

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

- ▶ India is actively involved in OECD BEPS Pillars One and Two developments. In line with the Inclusive Framework (IF) consensus, India may do away with unilateral digital tax measures like the equalization levy (EL) and provisions for significant economic presence (SEP). However, at this juncture, there is no official statement from the Indian Government. India may decide on the digital levy depending on measures taken by other jurisdictions.

### Taxes related to climate change or sustainability

- ▶ India does not have an explicit carbon tax; yet, taxes on fuels (e.g., coal, petrol, diesel) are considerably high. These act as an implicit carbon tax.
- ▶ At the sub-national level, some states impose a Vehicle tax or Green tax.

### VAT/GST or sales taxes

- ▶ The Indian Government's focus is on improving compliance and increasing revenue.
- ▶ Several amendments were made recently to curtail evasion, and punitive measures were introduced to reduce fraud.

- ▶ In 2022, the following areas are likely to receive focus:
  - ▶ GST rate rationalization
  - ▶ Minimizing system glitches by improving infrastructure
  - ▶ Legislative reform for GST laws to create more certainty and simplification in doing business

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ The Indian Government has been following a policy of imposing a higher tax on HNWIs while providing a respite to middle- and lower income-tax payers. For instance, in the Union Budget 2019, a super-rich tax in the form of an enhanced surcharge was levied on HNWIs. However, in Union Budget 2020, some relief was given on the personal income tax front by introducing a lower slab rate with a view to increase the disposable income in the hands of the people and to spur demand.
- ▶ No further changes in personal tax rates are anticipated as the current focus of the government is reviving demand and providing tax stability.

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

- ▶ No significant developments are expected.

### Developments in the governance of cryptocurrency

- ▶ The Indian Government is actively looking at cryptocurrency. It is expected that the government may introduce a bill on cryptocurrencies during the forthcoming winter session of Parliament.
- ▶ The Reserve Bank of India is of the view that cryptocurrencies pose a serious concern from macroeconomic and financial stability standpoints.



## 2.5 Political landscape

- ▶ The current government will stay in power until the end of its term in 2024.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

### Tax policy leaders

- ▶ Nirmala Sitharaman, Finance Minister
- ▶ Pankaj Chaudhary, Minister of State for Finance
- ▶ Bhagwat Kishanrao Karad, Minister of State for Finance
- ▶ Tarun Bajaj, Revenue Secretary

### Tax administration leaders

- ▶ J B Mohapatra, Chairman, Central Board of Direct Taxes (CBDT)
- ▶ M. Ajit Kumar, Chairperson, Central Board of Indirect taxes and Customs (CBIC)

## 2.7 Major pending tax proposals not otherwise covered

- ▶ Union Budget to be presented on 1 February 2022

# Section 3: Tax enforcement in 2022

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## 3.1 Current general approach to tax enforcement

- ▶ The last two budgets introduced many new withholding tax provisions (tax deducted at source (TDS)/tax collected at source (TCS)) that have cast new obligations and compliance requirements on the taxpayers.
- ▶ In addition, the Indian Government has increased the use of technology and data intelligence through information tracking, taxpayer profiling and bringing more taxpayers in the tax net.

## 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

## 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Digital tax
- ▶ Faceless tax administration, including both assessments and appeals
- ▶ Greater focus on collection of information by increasing withholding taxes requirement

## 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Digital tax
- ▶ Faceless tax administration, including both assessments as well as appeals
- ▶ Greater focus on collection of information by increasing withholding taxes requirement

## 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ Increasing reliance on technology for data gathering, taxpayer profiling and data analysis
- ▶ Moving toward reducing interface between tax authorities and taxpayers through initiatives like faceless assessments and appeals
- ▶ Measures such as pre-filing of returns being taken to widen the tax base
- ▶ Issuance of Income Tax orders, notices, summons, letters, etc., through a centralized system

## India

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Treaty benefits	Denial of treaty benefit to a taxpayer in the absence of a valid tax residency certificate or based on interpretation of treaty provisions due to a difference in language between domestic tax provisions and treaty provisions
2	Business restructuring transactions	Focus on global restructuring transactions involving the sale of an Indian business; questions from tax officers regarding assumptions for arriving at valuation from a transfer pricing perspective
3	Marketing Intangible	Focus on how much Indian companies spend on marketing and brand promotion activities related to marketing intangibles owned by its overseas affiliates that warrant a reimbursement of such spend, which is over and above the bright line limit, and a mark-up on such expense as a compensation for this intragroup service being rendered by the Indian affiliate; DEMPE issues, including location of people and IP
4	Disallowance of deductions	Challenge claim of tax incentives provided to taxpayers for undertaking activities of a particular nature or in a particular operation zone and definition of activities provided under each of the tax incentive provisions
5	Tax losses and tax refund	Trigger point for initiation of tax audit proceedings: high claim of tax losses with a tax refund





Jakarta by Night, Indonesia

# Indonesia

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## EY key contacts

### Tax policy and controversy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 22 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	22% <sup>1</sup>	22% <sup>1</sup>	–
Personal income tax – top rate	30% <sup>2</sup>	35% <sup>2</sup>	+17%
VAT, GST or sales tax – standard rate	10% for domestic deliveries and 0% for export of goods and for export of certain services <sup>3</sup>	10% through March 2022 11% starting April 2022 <sup>4</sup>	+10%

<sup>1</sup> Article 5 (1a) of Law Number 2 Year 2020

<sup>2</sup> Article 17 (1a) of Indonesian Income Tax Law Number 36 Year 2008

<sup>3</sup> Article 7 of Indonesian Value Added Taxes Law Number 42 Year 2009

<sup>4</sup> Law on Harmonization of Tax Regulation that has been agreed between Government and Parliament

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Expanding the tax base
- ▶ Responding to the challenges of competitiveness
- ▶ Focusing tax incentives on projects that add significant value and on labor-intensive industries
- ▶ Improving tax progressivity
- ▶ Conducting simple and efficient tax administration
- ▶ Optimally using financial data and information
- ▶ Adapting to developments in the structure of the economy, including digital developments and economic transactions
- ▶ Following global tax trends and leading practices

### 2.2 Tax changes in 2022

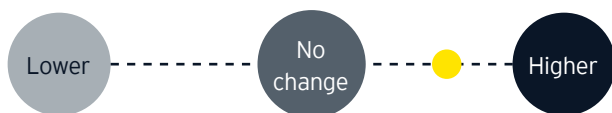
Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Indonesia

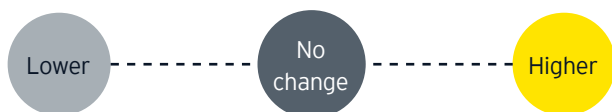
Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
15. Personal income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ The corporate income tax rate is set to remain at 22%, which applies to the fiscal year 2022 and beyond.

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

- ▶ No developments are currently expected.

### Taxes related to climate change or sustainability

- ▶ A carbon tax for companies in the coal steam power plant business, effective starting from 1 April 2022, was included in the Law on Harmonization of Tax Regulation. The carbon tax is set to be higher than or equal to the carbon price in the carbon market by minimum tariff of IDR 30 (around 0.21 cent USD) per kg carbon dioxide equivalent (CO<sub>2</sub>e) or other equivalent units that will be charged only if a plant emits CO<sub>2</sub> exceeding the cap set by the government.

### VAT/GST or sales taxes

- ▶ Basic necessities needed by many people, medical health services, education services, and social services, are currently exempted from VAT.
- ▶ A gradual increase is planned from the current 10%, with timing determined with consideration given to purchasing power and economic recovery:
  - ▶ 11% applies beginning 1 April 2022
  - ▶ 12% will apply at the latest by 1 January 2025

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ Changes to personal income tax rates and brackets are planned to better reflect fairness.

Layer of tariff	Income tax law		Draft law of harmonized tax regulation	
	Range of income – in IDR	Tariff	Range of income – in IDR	Tariff
I	0–Rp 50 million	5%	0–Rp 60 million	5%
II	>Rp 50 million–250 million	15%	>Rp 60 million–250 million	15%
III	>Rp 250 million–500 million	25%	>Rp 250 million–500 million	25%
IV	>Rp 500 million	30%	>Rp 500 million–5 billion	30%
V			>Rp 5 billion	35%

- ▶ Benefit in kind provided to employees can be treated as deductible expense by the employer and income to employees. Certain benefits in kind are not income for the recipient as follows:
  - ▶ Provision of food/drink for all employees
  - ▶ Benefit in kind in certain areas (such as remote area)
  - ▶ Benefit in kind due to work requirements; for example: work safety equipment or uniforms
  - ▶ Benefit in kind sourced from the national budget and expenditures
  - ▶ Benefit in kind with certain types and limitations

## Indonesia

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

- ▶ No developments currently expected

**Developments in the governance of cryptocurrency**

- ▶ No developments currently expected

### 2.5 Political landscape

- ▶ Currently, the Government is focused on overcoming the impact of the COVID-19 pandemic on the people at large and on the state budget.

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ The Director General of Tax (DGT) issues a Request Letter for Explanation on Data and/or Information (*SP2DK – Surat Permintaan Penjelasan atas Data dan/atau Keterangan*) on potential additional tax collection. This process could lead to a tax audit if the response from the taxpayer is considered unsatisfactory.
- ▶ Voluntary Disclosure Program (equivalent to a tax amnesty program)
  - ▶ The program aims to improve taxpayer compliance and is based on the principles of simplicity, legal certainty and expediency.
  - ▶ The program provides opportunities for individual taxpayers to report or disclose their tax obligations that have not been fulfilled voluntarily through:
    - ▶ Payment of income tax based on incomplete disclosure of assets reported by participants of the previous Tax Amnesty Program
    - ▶ Payment of income tax based on the disclosure of assets that have not been reported in the Annual Personal Income Tax for Fiscal Year 2020
- ▶ The program is in effect for six months (1 January 2022 to 30 June 2022)

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ The Law on Harmonization of Tax Regulations

### 2.7 Major pending tax proposals not otherwise covered

- ▶ Regulations implementing the Law on Harmonization of Tax Regulation

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Voluntary Disclosure Program
- ▶ Tax on digital economy
- ▶ Incremental increase of VAT

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Implementing regulations of the Law on Harmonization of Tax Regulations
- ▶ Digital service tax
- ▶ Government regulations, with approval from Parliament, to govern types of goods subjected to excise tax

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The Law on Harmonization of Tax Regulation will integrate the residential database with the tax administration system. The tax authority plans to integrate the Residential Identification Number (NIK) in replacing Individual Taxpayer Identification Number (NPWP).



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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Related-parties transactions	Having transactions with related parties, especially with affiliated parties domiciled in countries that have an effective tax rate that is lower than the effective tax rate in Indonesia
2	Intragroup transaction	Having an internal affiliate transaction (intragroup transaction) with a transaction value of more than 50% of the total transaction value
3	Affiliate transaction within groups that have loss compensation	Having domestic affiliate transactions with members of business groups that have losses from prior years that can be compensated to the current and subsequent fiscal years
4	Digital tax	The tax law and regulation on the digital economy has been issued and effective starting 1 July 2020.
5	SP2DK	Obtaining potential additional tax collection from taxpayers through counseling mechanism



Holy place, Iraq

# Iraq

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## EY key contacts

### Tax policy and controversy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 17 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	15% and 35% (only oil and gas)	15% and 35% (only oil and gas)	–
Personal income tax – top rate	3%-15%	3%-15%	–
VAT, GST or sales tax – standard rate	No VAT/GST sales tax – top rate 20% on certain activities	No VAT/GST sales tax – top rate 20% on certain activities	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ No major tax policy changes are envisaged in Iraq for fiscal year 2022.
- ▶ The current tax law is from 1982 and has only been marginally updated since that date.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Iraq

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ No significant developments are expected.

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

- ▶ No significant developments are expected.

### Taxes related to climate change or sustainability

- ▶ No significant developments are expected.

### VAT/GST or sales taxes

- ▶ No significant developments are expected.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ No significant developments are expected.

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

- ▶ No significant developments are expected.

### Developments in the governance of cryptocurrency

- ▶ No significant developments are expected.

## 2.5 Political landscape

- ▶ Organizationally, the tax authority falls under the Ministry of Finance.
- ▶ There is no permanent Finance Minister or Director-General of Tax Authority due to regular elections, affecting the political landscape.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ None.

## 2.7 Major pending tax proposals not otherwise covered

- ▶ None.

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

- ▶ Given the Iraq budget deficit, taxes are collected as much as possible.
- ▶ Actual financial results are often rejected, and a deemed profits/tax assessment method is followed to collect higher taxes.
- ▶ There is a focus on the oil and gas industry, with an argument that companies operating in this space generate the highest profits, and as such, tax enforcement/collection should also be high.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the five leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Mandatory tax assessments/audits every year for every tax filing
- ▶ Deemed profits/taxation method
- ▶ High scrutiny on subcontractors cost to enforce/collect more taxes, if withholding tax is not already applied

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ No significant developments are expected.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The Iraqi tax authority relies on a paper-based system for most activities.
- ▶ There are no expected developments to move to a more digitalized approach.

### 3.6 in terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures?

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Capital gains	Application of capital gains tax in general, and the appropriate rate of tax in particular, is inconsistent.
2	Disallowance of deductions	Application of accepting deductible expenses for CIT purposes is inconsistent.
3	Tax refunds	No tax refunds are currently being processed by the Iraqi tax authority.
4	Tax assessment method	Deemed profit margin/tax method is followed for CIT and PIT purposes, resulting in higher tax liabilities along with penalties and interest.
5	Withholding tax	Higher scrutiny on WHT application with respect to payments made to subcontractors/ service providers is expected.



Ha'penny Bridge in Dublin

# Ireland

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## EY key contacts

### Tax policy

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*This information is current as of 12 December 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	12.5% trading rate; top rate is 25% (certain excepted trades and passive income)	12.5% trading rate; top rate is 25% (certain excepted trades and passive income)	–
Personal income tax – top rate	55% (self-employed workers earning > EUR 100k) 52% (employees earning more than EUR 70,044)	55% (self-employed workers earning > EUR 100k) 52% (employees earning more than EUR 70,044)	–
VAT, GST or sales tax – standard rate	21% (until 28 February 2021) 23% (since March 2021)	23%	9.5%



## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Measures to support enterprise and SMEs
- ▶ Measures to support the development of housing
- ▶ Measures to reduce the impact of climate change and environmental degradation
- ▶ Anti-avoidance measures (including international measures)

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Ireland

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

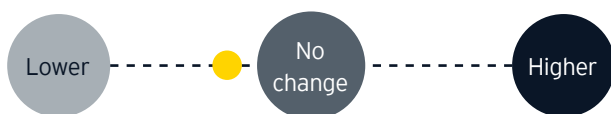
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ Introduction of interest limitation rules imposing a limit on interest deductions to 30% of EBITDA for certain Irish companies and groups
- ▶ Implementation of ATAD anti-hybrid reverse rules, which will see income taxed in Ireland that may previously have been untaxed

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

- ▶ Introduction of a tax credit for the digital gaming sector, with relief available at 32% on eligible expenditures up to a maximum limit of EUR 25m per project (measure is subject to EU State Aid approval)

### Taxes related to climate change or sustainability

- ▶ Disregard of EUR 200 for households who generate electricity and sell excess back to the grid
- ▶ Carbon tax increase to EUR 41 per ton of carbon dioxide

### VAT/GST or sales taxes

- ▶ Flat rate VAT refund for non-registered farmers is being reduced to 5.5%.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ An increase of EUR 1,500 in the income tax standard rate band for all earners, from EUR 35,300 to EUR 36,800 for single individuals and from EUR 44,300 to EUR 45,800 for married couples or civil partners with one earner
- ▶ An increase in the personal tax credit from EUR 1,650 to EUR 1,700

- ▶ An increase in the employee tax credit from EUR 1,650 to EUR 1,700
- ▶ An increase in the earned income credit from EUR 1,650 to EUR 1,700

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

- ▶ Nonresident Irish landlords will be subject to a corporation tax rate of 25%, rather than income tax rate of 20%.

### Developments in the governance of cryptocurrency

- ▶ Aligning with OECD initiatives with respect to the taxation of cryptocurrencies; standards to cryptocurrency explored by the OECD

## 2.5 Political landscape

- ▶ Irish government structure is a parliamentary democracy.
- ▶ Constitution of Ireland vests authority in a government that is headed by the Taoiseach (Leader) with the government being composed of ministers.
- ▶ Currently Fianna Fáil are in office in a coalition with Fine Gael and the Green Party.
- ▶ The Taoiseach of Ireland is currently the head of Fianna Fáil, Micheál Martin.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Corporation tax rate is changing to 15% for Irish companies in a group with a turnover in excess of EUR 750m expected in 2023.
- ▶ VAT standard rate returned to 23% from 21% on 1 March 2021.

## Ireland

### 2.7 Major pending tax proposals not otherwise covered

- ▶ DAC7 transposed into national law in 2021, regulations are expected in 2022.
- ▶ Consultation on possible move to a territorial system was expected before 31 December 2021.

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ The Irish Revenue Commissioners (Revenue) promotes voluntary compliance backed up by audit.
- ▶ Assessment raised if Revenue believe tax has been underreported.
- ▶ Significant interest charges and penalties can apply to underpayments.
- ▶ Criminal sanctions are pursued where tax fraud is believed to have occurred.
- ▶ Cooperative compliance framework is in place for large companies.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ COVID-19 pandemic support, e.g., employment wage subsidy scheme
- ▶ More on site audits
- ▶ More cases subject to assessment by Revenue leading to more appeals to Tax Appeals Commission

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Introduction of new interest limitation rule will be in line with Article 4 of the ATAD. This measure will place a limit on deductible interest expenses of 30% of EBITDA for companies within scope of the measure. Disallowed interest may be carried forward and may be deducted in future years if the company has sufficient interest capacity.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The Irish tax authority has a sophisticated approach to the digitalization of the tax administration.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Transfer pricing	Auditing the arm's-length return on intercompany transactions
2	Incentive (R&D)	Auditing of R&D tax credit claims
3	COVID-19-related programs	Audit of COVID-19 wage support schemes
4	Capital gains	Auditing of large transactions
5	Employment taxes	Auditing of operation of payroll obligations by companies



Jerusalem Old City at Night, Israel

# Israel

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## EY key contacts

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 23 December 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	23%	23%	–
Personal income tax – top rate	Up to 50% (+2% surplus tax)	Up to 50% (+2% surplus tax)	–
VAT, GST or sales tax – standard rate	17%	17%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ The current Israeli Government is anticipated to attempt to attract multinational corporations to centralize their R&D operation in Israel. In 2017, Israel enacted a preferred tax regime for technological enterprises, which centralize their IP and R&D in Israel. This tax regime is a BEPS-compatible tax regime.
- ▶ The Israeli Government is in the process of adapting OECD BEPS recommendations in the various fields. For example, Israel has signed the MLI.
- ▶ The Israeli Government is expected to address the “brain drain problem,” to attract former Israelis who left the jurisdiction to come back to Israel.
- ▶ The Israeli Government is aiming to circumvent the use of “black money,” including the prevention of money laundering and tax evasion.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <p>The scope and timeline of the suggested changes are yet to be clear at this stage. See section 2.4 below.</p> <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022

## Israel

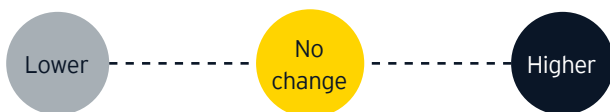
Tax types	Likelihood of changes in 2022	Direction of change
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <b>The scope and timeline of the suggested changes are yet to be clear at this stage. See section 2.4 below.</b> <input type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <b>The scope and timeline of the suggested changes are yet to be clear at this stage. See section 2.4 below.</b> <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <b>The scope and timeline of the suggested changes are yet to be clear at this stage. See section 2.4 below</b> <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022



Tax types	Likelihood of changes in 2022	Direction of change
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

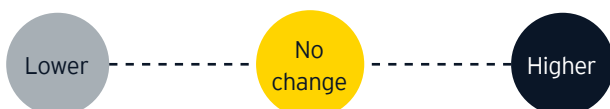
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## Israel

### 2.4 Tax policy outlook for 2022 – detail

#### Corporate income taxes

- ▶ The Israel Tax Authority (ITA) has recently finalized an international tax reform package. These proposals were not included as part of the 2021/2022 budget law, and there is no clarity on the timeline for the legislation of the proposals made within this package.

The main proposals refer to the following international tax aspects:

- ▶ Foreign tax credit rules
  - ▶ CFC rules
  - ▶ Anti-hybrid rules
  - ▶ “Exit” tax
  - ▶ Tax residency of individuals
  - ▶ MDR
  - ▶ Other reporting requirements
- ▶ In addition, the ITA is also willing to amend the existing transfer pricing regulations in a manner that substantial changes to the current TP reporting and documentation obligations of multinational enterprises in Israel will be introduced (such as CbC reporting and master file). There is still no clarity when exactly such an amendment will take place.
  - ▶ We are also aware of suggested legislation that seeks to increase the attractiveness of the Israeli tech industry. It was supposed to be part of the 2021/2022 budget law but eventually was not included in it. There is a possibility that such legislation will enter into force in the course of 2022, but at this stage, there is no clarity as to the scope and timeline of such proposal.

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

- ▶ We are aware of the fact that the ITA is willing to tax multinational corporations’ digital activities in Israel. In 2016, the ITA has published a tax circular addressing the Israeli taxation of nonresident companies selling goods or providing services through the Internet to Israeli customers. The circular covers the corporate income tax liability as well as the VAT liability of these digital companies. The circular represents the ITA’s interpretation of the law and has not a legal binding effect for the courts.

#### Taxes related to climate change or sustainability

- ▶ No significant developments are expected.

#### VAT/GST or sales taxes

- ▶ No significant developments are expected.

#### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ No significant developments are expected.

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

- ▶ No significant developments are expected.

#### Developments in the governance of cryptocurrency

- ▶ The ITA may notify cryptocurrency owners to disclose their holdings for taxation purposes.

### 2.5 Political landscape

- ▶ The new Israeli Government was elected in June 2021 and is led by Prime Minister Naftali Bennett . Although Bennett is a rightwing nationalist, he leads a coalition that also includes parties on the left of the Israeli political spectrum.

### 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ On 15 November 2021, Israel released its 2021-2022 Budget Law. The law introduced a new dividend distribution ordering rule to cause the distribution of earnings that were tax-exempt under the historical approved or beneficial enterprise regimes (trapped earnings), to be on a pro-rata basis from any dividend distribution, which is applicable to distributions starting from 15 August 2021 onward. Meaning that the CIT clawback will apply upon any dividend distribution, as long as the company has trapped earnings.

In parallel, the budget law also includes a temporary order to enhance the release of trapped earnings by reducing the clawback CIT rate that is applicable upon such a release or distribution by up to 60%, but not less than the 6% CIT rate, during a one-year period beginning from 15 November 2021.

- ▶ Amendment 75 to the Law for Encouragement of Capital Investments, 1959 offers tax breaks to encourage mass investment in long-term rental homes, if they qualify as “institutional rental buildings.”

### 2.7 Major pending tax proposals not otherwise covered

- ▶ In each tax year, the ITA publishes a list of additional reportable transactions, which every taxpayer is required to declare on. To date, the list for 2021 has yet to be published.

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ The tax assessors usually conduct professional discussions during the tax audit. However, in certain cases, they can use their authority to levy a deficit fine on taxpayers and, in some other extreme cases, even imply potential sanctions.
- ▶ In 2021, the first unified tax office was established in Ra'anana city; it allows their tax officers to conduct tax audits that combine between CIT and VAT aspects.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ In order to collect more taxes from the corporate taxpayers, it appears that the tax officers make effort to involve more representatives from the ITA professional departments during the tax audits (such as transfer pricing specialists, etc.).
- ▶ In light of the establishment of the Ra'anana tax office, we expect that in the upcoming year we will face more tax audits that combine between CIT and VAT aspects.
- ▶ There is an increase in the number of cases in which the ITA imposes a deficit fine on companies.

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ There have been an increasing number of tax audits that focus on the preferred technology tax status of companies.
- ▶ The ITA also focuses on "early repayment" of capital notes (i.e., non-interest-bearing loans) issued by Israeli companies to their foreign shareholders.
- ▶ If the planned international tax reform enters into force in the course of 2022, Israeli taxpayers that have international operations may be affected.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The ITA makes ongoing efforts in relation to the digitalization of the tax administration. For example, starting from the 2020 tax year, taxpayers can submit their annual tax returns online rather than manually.

## Israel

### 3.6 in terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures?

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Incentives – R&D	Tax officers usually focus on examining the preferred tax status of the corporate taxpayers, where relevant.
2	Transfer pricing – IP-related issues	The ITA usually challenges taxpayers with respect to their chosen transfer pricing methodology, and subsequently, Israeli companies performing important development functions under a cost-plus arrangement are at risk of being assessed a greater return based on the value of their contributions.
3	Intellectual property	Exposures from post-acquisition IP migrations – Almost any post-acquisition restructuring that involves a change to the existing IP or business model is reviewed by the ITA with specific focus on capital gains and IP valuation.
4	Transfer pricing – limited risk entity structures	For changes to the intercompany pricing resulted from to the COVID-19 pandemic, the ITA tries to challenge these pricing changes during recent tax audits. In general, the ITA has increased scrutiny of Israeli entities defined as limited risk, claiming in many cases that the Israeli entity is involved in strategic roles and should be entitled to a greater return. Unique and valuable contributions by Israel have been claimed by the ITA in several recent audits as a way of increasing the profitability due to the Israeli entity.
5	Employee equity compensation	Tax officers tend to challenge the applicability of tax benefits available under section 102 of the Israel Income Tax Ordinance.





Venice

# Italy

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## EY key contacts

### Tax policy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 3 January 2022.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	24% (except for banks and other financial entities subject to higher 3.5% tax rates)	24% (except for banks and other financial entities subject to higher 3.5% tax rates)	–
Personal income tax – top rate	43%, depending on the amount of income declared  At local level, a surcharge is levied; the rate ranges between 0.7%-4.23%, depending on (i) the municipality and region where the taxpayer is resident and (ii) the amount of income declared.	43%, depending on the amount of income declared  At local level, a surcharge is levied; the rate ranges between 0.7%-4.23%, depending on (i) the municipality and region where the taxpayer is resident and (ii) the amount of income declared.	Starting from FY 2022 The top rate is applicable on personal income over 50,000 EUR (over 75,000 EUR in 2021)
VAT, GST or sales tax – standard rate	22% (standard VAT rate)	22% (standard VAT rate)	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Introduction of stimulus measures aimed at increasing the jurisdiction's economic growth, as well as through the funds of the National Recovery and Resilience Plan (NRRP)
- ▶ Extension of tax measures aimed at supporting the requalification of country real estate assets owned by individuals through allowance of tax credits up to 110% of expenses incurred for the energy requalification works on immovable properties (so-called "Super Bonus")
- ▶ Extension of tax measures aimed at promoting and supporting the competitiveness of enterprises through tax credits for companies investing in R&D, digitalization, design and high-tech assets
- ▶ Reduction of tax pressure on personal income and simplification of tax system

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Italy

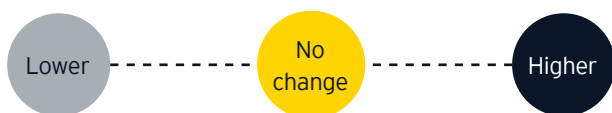
Tax types	Likelihood of changes in 2022	Direction of change
7. Thin capitalization rules Note: No specific thin capitalization rules, but incentives for equity injections.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input checked="" type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base Note: Deferral of Sugar Tax and Plastic Tax.	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate Note: Top marginal rate is applicable starting from a lower level of income.	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
15. Personal income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022



Tax types	Likelihood of changes in 2022	Direction of change
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

The most relevant corporate tax measures contained in the 2022 Budget Law relate to:

- ▶ Extension up to 31 December 2023 of a 110% tax credit on certain expenses incurred for the energy requalification works on immovable properties (“Super Bonus”)
- ▶ Extension up to fiscal year 2025 of the tax credit for the purchase of new high-tech assets, with decreasing rates
- ▶ Extension up to 2031 of tax credit for R&D expenses and Innovation and design activities, but with decreasing rates starting from fiscal year 2023
- ▶ Repealing, starting from fiscal year 2022, of existing profit-based patent box regime (50% exemption), and introduction of a new cost-based incentive consisting of a 190% deduction of certain R&D expenses

- ▶ Introduction of restrictions in tax deductibility of trademarks stepped up through the payments of a 3% substitute tax
- ▶ Introduction of EUR 500 million threshold for the possibility to convert DTAs deriving from tax losses and notional interest deduction into tax credits, in the context of business combination transactions, through the payment of a commission equal to 25% of DTA to be converted

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

The 2020 Budget Law had introduced a tax applicable to the provision of digital services (Italian digital services tax) effective as of 1 January 2020. No changes are proposed in the 2022 Budget Law.

The Italian DST is a 3% charge to be applied to the revenues resulting from the provision of the following services:

- ▶ Placement on a digital interface for advertising targeted at users of that interface

## Italy

- ▶ Making available to users of a multi-sided digital interface that allows the users to find other users and to interact with them, which may also facilitate the provision of underlying supplies of goods or services directly between users
- ▶ Transmission of data collected about users and generated from users' activities on digital interfaces
- ▶ Taxable persons and entities – either Italian or foreign, and either stand-alone or at group level – meet both of the following conditions:

The total amount of worldwide revenues for the relevant financial year is at least EUR 750m.

The total amount of taxable revenues (i.e., those derived from the above digital services) obtained within the Italian territory during the relevant financial year is at least EUR 5.5m.

A set of specific exclusions have been set forth.

### Taxes related to climate change or sustainability

- ▶ The 2020 Budget Law had introduced a plastic tax as a new “green” measure, originally applicable starting from 1 July 2020. The application of the new tax had been postponed to 1 July 2021 and then to 1 January 2022. The 2022 Budget Law postponed the entry in force of plastic tax to 1 January 2023. The tax is levied on products, fully or partially made in plastic, aimed to be utilized for a single-use packaging, without the possibility to be reutilized in their commercial life. The plastic tax amounts to EUR 0.45 per kilo of plastic and is due when the products are introduced in the Italian market.
- ▶ The 2020 Budget Law had introduced a “sugar tax” on the consumption of sweetened soft drinks prepared with the natural or synthetic addition of sweeteners exceeding specific quantities per liter depending on the type of product. The sugar tax was originally expected to enter in force starting from 1 October 2020, but with the 2021 Budget Law, the application is postponed to 1 January 2022. The 2022 Budget Law postponed the entry sugar tax enforcement to 1 January 2023.

### VAT/GST or sales taxes

- ▶ The sale of vaccines and other medical devices to be used against COVID-19 are exempted up to 31 December 2022. After that they will be subject to a 5% rate, which is already applicable to some COVID-19-related medical devices.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ The 2022 Budget Law introduced a tax reform of personal income tax to reduce the income tax brackets from five to four:
  - ▶ 23% up to EUR 15,000
  - ▶ 25% from EUR 15,001 up to EUR 28,000
  - ▶ 35% from EUR 28,001 up to EUR 50,000
  - ▶ 43% from EUR 50,001

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

- ▶ No change has been enacted.

### Developments in the governance of cryptocurrency

- ▶ No change has been enacted.

## 2.5 Political landscape

- ▶ In February 2021, the Italian government led by Mario Draghi and supported by a vast majority of Italian Parliament was elected. The current government is expected to remain in place up to 2023.
- ▶ One of the priorities of the current government is a comprehensive tax reform, whose first module concerning personal income tax has been enacted in the 2022 Budget Law.
- ▶ In February 2022, the election of the President of the Republic is expected.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

In 2021, the previous government led by Giuseppe Conte and supported by the Italian Labor Party (Partito Democratico) and the Five Star Party (Movimento 5 Stelle) was replaced by the government led by Mario Draghi and supported by a vast majority of Italian Parliament.

## 2.7 Major pending tax proposals not otherwise covered

A comprehensive tax reform aimed at simplifying the complexity of the tax system and reducing income taxes is currently under discussion at the Parliament. The first module of the tax reform – concerning the modification of personal income tax brackets – was approved in the 2022 Budget Law, while the module concerning corporate taxation is still under discussion. The tax reform is among the key elements of the NRRP.

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

The approach to tax enforcement may vary depending on the tax office in charge for each taxpayer relationship.

In order to help improve the relationship between corporations and tax authorities, the tax system is looking for a wider implementation of the cooperative compliance regime, which is currently available only for taxpayers with a turnover over EUR 1 billion or under specific circumstances.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Increase in the use of digital audits
- ▶ Increase of controls aimed at preventing fraud or tax evasion
- ▶ Increase in audits on the eligibility of tax relief (R&D, high-tech assets)

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ New fulfillments for preventing fraud in the tax credits on real estate requalification works (110% tax credit)
- ▶ Increase of tax audit activities, which have been limited over the past two years due to the COVID-19 pandemic environment
- ▶ Reinforcement of tax collection activities

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The availability of cross-information deriving from the mandatory e-invoicing system and the investment associated have increased the digitalization capacity of the Italian tax authorities. Tax administration is one of the public sectors where digitalization has a higher penetration.

## Italy

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Incentives – tax credit on real estate requalification	Italian tax authorities will focus on preventing fraud and tax evasion in tax credits on real estate requalification works.
2	Incentives – R&D and capital assets	Italian tax authorities will check the existence of the subjective and objective conditions for benefitting from the R&D tax credit and other allowances on capital assets.
3	Transfer pricing	Tax audits will focus on intercompany transactions, especially in the following areas: <ul style="list-style-type: none"> <li>▸ Headquarter and management services transactions</li> <li>▸ Intercompany financing transactions</li> <li>▸ Royalties and licensing fees</li> <li>▸ Limited-risk entity structures</li> </ul>
4	COVID-19-related impacts and outcomes	Italian tax authorities will check the existence of the conditions for benefitting by stimulus measures introduced during the COVID-19 pandemic.
5	Permanent establishment	The tax authorities will focus on determining the existence of a PE.





Osaka, Japan

# Japan

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## EY key contacts

### Tax policy and controversy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 2 January 2022.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	23.2%	23.2%	–
Personal income tax – top rate	45%	45%	–
VAT, GST or sales tax – standard rate	10%	10%	–
	Consumption tax and local consumption tax	Consumption tax and local consumption tax	

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Asking companies to raise the wage for employees
- ▶ Enhancing house mortgage credits for personal income tax
- ▶ Expanding an “open innovation” tax incentive with income credits for investment in a startup
- ▶ Adjusting the burden of a local fixed property tax on land (slowing an increase in tax base)

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

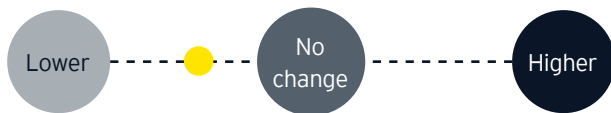
## Japan

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input checked="" type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	



## 2.3 Tax policy outlook for 2022 – summary

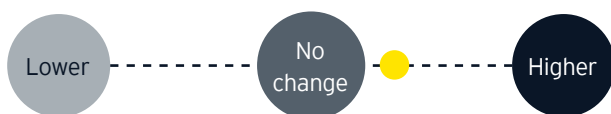
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ The Japanese government is encouraging companies to raise pay to employees. For large enterprises, if the total amount of salary and training expenses increase in comparison with the previous year, tax credits equivalent to up to 30% of the increased amount of salary will be granted.

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

- ▶ No significant developments are expected.

### Taxes related to climate change or sustainability

- ▶ With respect to housing mortgage tax credits for personal income tax, the maximum amount of mortgage will be increased for sustainability-oriented houses from a perspective of carbon neutrality.

### VAT/GST or sales taxes

- ▶ The tax rate of an aviation fuel tax is expected to be raised.
- ▶ Preferential liquor tax rates on liquors produced in Okinawa Prefecture will be gradually abolished.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ With respect to housing mortgage tax credits for personal income tax, the tax credit rate toward the amount of mortgage will be reduced from 1% to 0.7%.

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

- ▶ No significant developments are expected.

### Developments in the governance of cryptocurrency

- ▶ No significant developments are expected.

## 2.5 Political landscape

- ▶ The economic policy slogan of the Kishida Government, launched in October 2021, is a “virtuous cycle of growth and distribution.”
- ▶ In this regard, the 2022 tax reform agenda promotes a pay raise by companies.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ The expansion of a tax credit incentive for research and development activities
- ▶ Tax incentives (special depreciation or tax credits) for digital transformation investment approved by the Japanese government
- ▶ Tax incentives (special depreciation or tax credits) for carbon neutral investment approved by the Japanese government

## 2.7 Major pending tax proposals not otherwise covered

- ▶ Personal income taxation on pension income
- ▶ Financial income taxation, including those related to derivative transactions
- ▶ Taxation of small enterprises
- ▶ Policy mix for achieving carbon neutrality, including taxes related to cars

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

- ▶ Tax audit activities had been slowed down due to the COVID-19 pandemic; but in October 2021, after lifting an emergency declaration, the tax authorities geared up their tax audit activities.
- ▶ Transfer pricing is now reviewed as part of a ordinary corporate tax audit, instead of a transfer pricing specialized tax audit, which means a wide range of companies can be subject to transfer pricing scrutiny.
- ▶ Unique to Japan, donations to overseas associated companies are not deductible, which is vigorously applied by tax auditors.
- ▶ For consumption tax purposes, the tax authorities focus on overseas digital service providers that sell digital services to Japanese consumers.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Nondeductible donation to overseas associated enterprises
- ▶ International tax avoidance in general
- ▶ Digital service platforms

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ A new group profit and loss sharing regime replaces the current consolidated tax filing regime for business years starting April 2022
- ▶ Transfer pricing audit as part of an ordinary corporate tax audit
- ▶ Gathering information on the clients of digital service platforms

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ In 2017, the National Tax Agency published the *Future Vision of Tax Administration*, where digitization is a key driver of reforming tax administration procedures and operations.
- ▶ Every year, the National Tax Administration is updating this "future vision," and the National Tax Administration has made it clear that it is striving for the digital transformation of tax administration.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Limitation of deductibility of costs based on domestic rules, not on transfer pricing adjustments	Donations to overseas associated enterprises are not deductible in Japan
2	Disallowance of deductions	Including entertainment expenses, the deductibility of which is limited
3	Digital taxes	Consumption tax, re: overseas digital service providers providing services to Japan
4	Indirect taxes	Consumption tax
5		



Ancient Jerash ruins, Jordan

# Jordan

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## EY key contacts

### Tax policy and controversy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 1 December 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	35% on the banking sector  24% on financial, insurance and intermediary services sector; and 20% on all other sectors  Industrial sector: 17%  Additional national contribution tax is applicable (1%-7%).	35% on the banking sector  24% on financial, insurance and intermediary services sector; and 20% on all other sectors  Industrial sector: 18%  Additional national contribution tax is applicable (1%-7%).	No change, with the exception of the industrial sector (1% change)
Personal income tax – top rate	30% on amounts exceeding JOD 1 million	30% on amounts exceeding JOD 1 million	–
VAT, GST or sales tax – standard rate	16%	16%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Attracting foreign investments
- ▶ Government budget
- ▶ Tax evasion
- ▶ Modernizing local laws
- ▶ Influence by international regulations

### 2.2 Tax changes in 2022

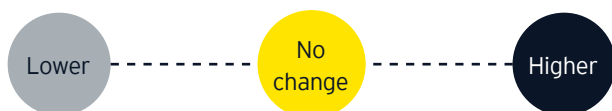
Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Jordan

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

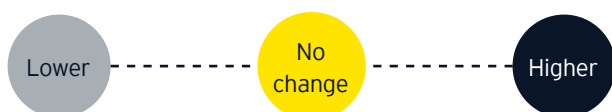
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ No significant developments are expected.

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

- ▶ No significant developments are expected.

### Taxes related to climate change or sustainability

- ▶ No significant developments are expected.

### VAT/GST or sales taxes

- ▶ Proposed law is currently being discussed and may be enforced in fiscal year 2022/2023.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ No significant developments are expected.

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

- ▶ No significant developments are expected.

### Developments in the governance of cryptocurrency

- ▶ No significant developments are expected.

## 2.5 Political landscape

- ▶ The 2021 Jordan budget accelerates IMF-backed reforms to restore fiscal prudence.
- ▶ Challenging economic conditions in Jordan have been exacerbated by the COVID-19 pandemic.
- ▶ Jordan's e-commerce sector continues to grow despite struggles in traditional sectors of the economy.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Introduction of transfer pricing rules

## 2.7 Major pending tax proposals not otherwise covered

- ▶ None.

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ Efficient implementation and application of digital technology to support taxpayers with annual corporate and income tax filings and other relevant requests
- ▶ Introduction of new benefits to companies to encourage voluntary early tax filing and settlement

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the five leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ More efficient implementation and application of digital technology to support taxpayers with annual corporate and income tax filings and other relevant requests

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Introduction of transfer pricing rules

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ Jordan's tax authorities recently transitioned to an electronic system to simplify tax procedures for taxpayers.



### 3.6 in terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures?

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Disallowance of deductions	The Jordanian tax authority almost always disregards a portion of expenses during the tax audit. This is regardless of how well these expenses are supported.
2	Treaty benefits	In practice, it is difficult to obtain tax treaty benefits as the Jordanian tax authority may interpret the language of the DTTs differently and may refer to the domestic tax law instead.
3	Tax refunds	Tax refunds can only be processed after going through a tax audit, which may delay the payment of the refund.
4	Carryforward of losses	Carryforward of losses are governed by certain limits and are a big area of debate for certain industries, such as renewable energy.



Ascension Cathedral, Almaty, Kazakhstan

# Kazakhstan

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 9 December 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	20%	20%	–
Personal income tax – top rate	(a) Top rate is 10% for residents and nonresidents on employment income taxed by local tax agent if employee's monthly income is more than 25 times the monthly calculation index (MCI) (approximately USD 170 for 2021).  If monthly employment income does not exceed 25 times the MCI then effectively PIT will be 1% of taxable income.  (b) Top rate is 20% for tax nonresidents (nonemployees) on Kazakh-source income.	(a) Top rate is 10% for residents and nonresidents on employment income taxed by local tax agent if employee's monthly income is more than 25 times the MCI (approximately USD 170 for 2021).  If monthly employment income does not exceed 25 times the MCI then effectively PIT will be 1% of taxable income.  (b) Top rate is 20% for tax nonresidents (nonemployees) on Kazakh-source income.	Effectively the PIT % will be changed only for employees with monthly employment income less than 25 times the MCI.
VAT, GST or sales tax – standard rate	12%	12%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

The government is seeking to:

- ▶ Increase revenues and attract foreign investments to Kazakhstan
- ▶ Improve current tax legislation

- ▶ Digitalize tax administration
- ▶ Stimulate the development of important sectors of the economy
- ▶ Improve export and import regulations

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Kazakhstan

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
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14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ The corporate income tax rate is unchanged; income recognition and deductions also remain the same.

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

- ▶ Introduction of payment for digital mining
- ▶ Introduction of VAT on digital business activity

### Taxes related to climate change or sustainability

- ▶ No significant developments are expected.

### VAT/GST or sales taxes

- ▶ The minimum turnover for VAT registration will be 20,000 times the MCI established by the law on the Republican Budget, effective on 1 January of the corresponding fiscal year.
- ▶ From 1 January 2022, Section 25 of the Tax Code of the Republic of Kazakhstan comes into force, concerning the procedure for calculating and paying VAT by foreign Internet companies providing services/selling goods in Kazakhstan via electronic resources (Google tax).

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ From 2022, the amount of tax deductions for individual income tax will be determined in the MCI.

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

- ▶ A new type of obligatory payment has been added for digital mining.

### Developments in the governance of cryptocurrency

- ▶ The fee for digital mining will be charged for the amount of electrical energy consumed during digital mining.
- ▶ The current amounts of the fee will be paid by the taxpayers quarterly.
- ▶ The fee rate is determined in the amount of 1 tenge per 1 kilowatt-hour of electric energy consumed during digital mining.

## 2.5 Political landscape

- ▶ The current political landscape is unchanged.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ No significant developments are expected.

## 2.7 Major pending tax proposals not otherwise covered

- ▶ N/A

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

Key components of tax enforcement include:

- ▶ Risk-based approach for selection of taxpayers for tax audits
- ▶ Simplified VAT refund procedures for certain categories of taxpayers
- ▶ Introduction of horizontal monitoring
- ▶ Expected introduction of e-audit in 2022
- ▶ Full documentary method on majority of tax audits, which can be lengthy, especially for large taxpayers
- ▶ Significant administrative fines on tax assessments resulting from tax audits
- ▶ Possible for significant late payments and interest to apply to additional tax assessments
- ▶ Possible for criminal liability to apply to the person responsible for tax filings (e.g., general director, chief accountant) for tax avoidance when certain criteria are met
- ▶ Significant cost for court appeals
- ▶ Freezing of bank account(s) as a forced tax collection measure

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ E-audit development
- ▶ Control process automation
- ▶ Reduce the strain on small businesses

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Introduction of payment for digital mining
- ▶ Introduction of VAT on digital business activity
- ▶ Application of withholding tax on dividends from Kazakhstan

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ A special tax regime for individual entrepreneurs will be introduced using a mobile application. The new special tax regime using a special mobile application will be applied only by individual entrepreneurs using a simplified declaration, since the fulfillment of tax obligations can be carried out via a smartphone. The introduction of the new regime will simplify the registration, termination of activities and fulfillment of tax obligations of the taxpayer.
- ▶ The Ministry of Finance was instructed to take measures to automate tax and customs administration as anti-corruption measures. These measures are aimed at minimizing the need for direct contact between the tax authorities and taxpayers to increase transparency in the relationship between government agencies and taxpayers. There is a special working group studying the world practices of progressive forms of tax administration.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	VAT refunds	Generally, VAT refund audits are conducted prior to a refund upon the taxpayer filing the application for a refund in the quarterly VAT return.
2	Transfer pricing	Kazakhstan transfer pricing legislation differs from the OECD guidelines, with heavy reliance on certain specified price sources and documentary support. Tax assessments as a result of TP adjustments have been observed.
3	Invalid transactions qualifications	Tax authorities have made tax assessments as a result of certain transactions being qualified as invalid.
4	Ambiguities in tax law	Generally, Kazakhstan tax legislation contains ambiguities, which can contribute to the tax audit assessments.
5	Disallowance of deductions	Deductions for the purchase of goods, works and services from suppliers absent at the place of registration can be challenged and recognized as false enterprises or bankrupt, and the registration recognized as invalid.



Desert Dune of Abu Dhabi, Saudi Arabia

# Kingdom of Saudi Arabia

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## EY key contacts

### Tax policy and controversy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 30 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	20%	No change expected	–
Personal income tax – top rate	N/A	N/A	–
VAT, GST or sales tax – standard rate	VAT 15% Real estate transaction tax (RETT) (with effect from 4 October 2020) – 5% on supply of real estate excise tax – applicable on excisable goods at varying rate from 50% to 200% depending on the specific type of excise goods	In short/medium term no change expected	–



## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Revenue sources are being diversified to maintain sustainable tax revenues as a means against any potential deficit financing arising from oil price volatility and to finance infrastructural and technology projects aimed at diversification of the Saudi economy.
- ▶ Foreign direct investment is one of the government's priorities to keep the economy moving positively. Therefore, an increase in tax rates on an overall basis is not expected.
- ▶ The Saudi tax administration is currently focusing on auditing all open years within the statute of limitation period and raising tax assessments with respect to all unassessed tax returns. The tax audits are still more tax collection driven and the quality of the audits is yet to be improved.
- ▶ Tax dispute resolution procedure has been enhanced by establishing a two-tier specialized court system independent from the tax administration.

### 2.2 Tax changes in 2022

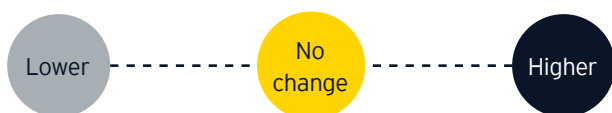
Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Kingdom of Saudi Arabia

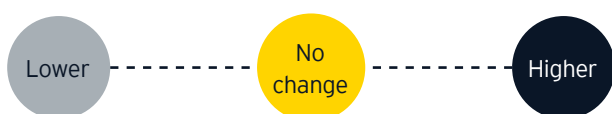
Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ Based on the current business climate, it is not likely that the current corporate tax rates will have any significant changes. Instead, the current focus is on conducting of tax audits of all unfinalized years within the statute of limitation period and raising tax assessments.
- ▶ There is a renewed focus on specific tax issues/concepts (e.g., force of attraction rule).

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

- ▶ The General Authority for Zakat, Tax, and Customs Authority (ZATCA) has been invoking PE or virtual PE, where possible, based on the duration of the contract and disregarding the place of performance/physical presence of the nonresident entity in Saudi Arabia.
- ▶ This interpretation by ZATCA is typically applied to arrangements involving technical and consulting services and is usually triggered in the context of claiming the DTT benefits.

### Taxes related to climate change or sustainability

- ▶ No significant developments are expected.

### VAT/GST or sales taxes

- ▶ E-invoicing will be implemented in two phases in the Kingdom of Saudi Arabia (KSA); Phase 1-4 December 2021 – Generation and Storage of e-invoices, and Phase 2 on 1 January 2023) – integration of enterprise resource planning with the tax authority's system.
- ▶ E-invoicing is a key steppingstone for the digital transformation of tax administrations in KSA.

### RETT

- ▶ After the introduction of RETT, VAT exemption on real estate supplies has been broadened.
- ▶ Input VAT recovery of real estate companies will be through a submission of “eligible person” status in KSA.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ No significant developments are expected.

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

- ▶ No significant developments are expected.

### Developments in the governance of cryptocurrency

- ▶ No significant developments are expected.

## 2.5 Political landscape

Monarchy is the system of rule in the Kingdom of Saudi Arabia. The authorities in the KSA consist of the judiciary, the executive and the regulatory authorities.

### Executive authority

The Council of Ministers has the power to set the internal, foreign, financial, economic, educational and defense policies as well as the general affairs of the state, and shall oversee their implementation. The council shall also review Shura Council resolutions. It shall have the executive authority and be the final authority in the financial and administrative affairs of all ministries and other government agencies. The King is the President of the Council of Ministers, and he is supported by the council's members. Deputies of Prime Minister and Members of the Council of Ministers shall be appointed by the King and relieved from office by royal order. The King is entitled to dissolve and reconstitute the Council of Ministers.

## Kingdom of Saudi Arabia

The Council, being the direct executive authority, shall have full power over all executive and administrative affairs. The following shall be included in its executive powers: monitoring the implementation of laws, regulations and resolutions; establishing and organizing public institutions; overseeing the implementation of the general development plan and forming committees to review the performance of ministries and other government agencies or in relation to any specific case.

### Judiciary authority

The Judiciary is an independent authority. The decisions of judges shall not be subject to any authority other than the authority of the Islamic Sharia. Supreme Judicial Council is constituted by a president appointed by a royal decree and 10 members. The Judiciary authority includes the Supreme Court, the Courts of Appeal, the First Instance Courts and the Enforcement Courts.

The Supreme Court is classified at the top of the judicial organization to receive a complaint against the court that issued the impugned decision. It reviews the decisions in terms of the correct application of the rules, Islamic rules and regulations and their interpretation, including court procedures.

The Courts of Appeal shall review the judgments issued by the courts of First instance, after hearing the litigants' statements, in accordance with the Shari'ah Procedure Law and Law of Criminal Procedure.

The First Instance Courts include General Courts, Criminal Courts, Personal Status Courts, Labor Courts and Commercial Courts.

### Regulatory authority

The Shura Council expresses its opinion on the general policies of the state that are referred to it by the Prime Minister. The Shura Council consists of a president and 60 members appointed by the King, including subject-matter experts.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Issuance of Tax Regulations regarding Integrated Logistics Bonded Zone (ILBZ)
- ▶ Recognition of the mutual agreement procedure process and issuance of the relevant guidance

## 2.7 Major pending tax proposals not otherwise covered

- ▶ N/A

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ The general approach to tax enforcement has not substantially changed.
- ▶ The tax administration is primarily focused on clarifying existing tax provisions by issuing guidance on various areas, such as deductibility of expenses, income tax withholding, capital tax implication on corporate restructuring events, etc.
- ▶ The general approach is to audit all the tax years within the statute of limitation period and raise assessments to be challenged by taxpayers at a dispute tax resolution and appellate courts.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Taxation of income sourced in Saudi Arabia
- ▶ Auditing of all financial years within the statute of limitation period
- ▶ Raising tax assessments with expectations that tax dispute will be resolved in the courts or through tax settlement negotiations with taxpayers
- ▶ Digital transformation of tax enforcement through implementation of e-invoicing in KSA
- ▶ Increase in ZATCA audits due to the end of transitional provisions for the increase in VAT rate (i.e., 5% to 15%)

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Implementing of e-invoicing in KSA (i.e., Phase 1-4 in December 2021 and Phase 2 on 1 January 2023), which includes upcoming penalty regime for e-invoicing.
- ▶ Various amendments in the KSA VAT legislation to provide clarity on issues such as government contract, administrative requirements for e-invoicing, etc.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

On the basis of the implementation of e-invoicing in KSA, the tax authority is aiming for the digital transformation of the tax administration in KSA.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

## Kingdom of Saudi Arabia

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Permanent establishment	<ul style="list-style-type: none"><li>▶ Assessment of virtual PE in cases where the contract's duration exceeds 183 days/ 6 months irrespective of the nonresident's physical presence in Saudi Arabia</li><li>▶ Renewed focus on the application of the force of attraction concept in auditing taxpayers</li></ul>
2	Treaty issues	<ul style="list-style-type: none"><li>▶ Incorrect interpretation of DTT provisions</li><li>▶ Denial of treaty benefits due to residency issues (e.g., under Kingdom of Saudi Arabia/United Arab Emirates tax treaty)</li></ul>
3	Transfer pricing	<ul style="list-style-type: none"><li>▶ Headquarter and management services transactions</li><li>▶ Limited-risk entity structures</li><li>▶ Royalties and licensing fees</li></ul>
4	Transitional provision	<ul style="list-style-type: none"><li>▶ Considering the end of the transitional provision (i.e., increase in the VAT rate from 5% to 15%), ZATCA's auditing of its application by taxpayers in the KSA</li></ul>
5	Input VAT recovery	<ul style="list-style-type: none"><li>▶ Challenges on the input tax recovery for employee-related expenses</li><li>▶ Challenges on input VAT recovery of real estate companies if not registered as "eligible persons" in KSA</li></ul>





Ascension Cathedral, Almaty, Kazakhstan

# Kuwait

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 15 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	<ul style="list-style-type: none"> <li>▶ Corporate income tax on foreign companies – 15%</li> <li>▶ Zakat – 1%</li> <li>▶ National Labor Support Tax – 2.5%</li> <li>▶ Kuwait Foundation for the Advancement of Science – 1%</li> </ul>	<ul style="list-style-type: none"> <li>▶ Corporate income tax on foreign companies – 15%</li> <li>▶ Zakat – 1%</li> <li>▶ National Labor Support Tax – 2.5%</li> <li>▶ Kuwait Foundation for the Advancement of Science – 1%</li> </ul>	–
Personal income tax – top rate	Not applicable (no personal income tax in Kuwait)	Not applicable (no personal income tax in Kuwait)	–
VAT, GST or sales tax – standard rate	Not applicable (no VAT, GST or sales tax currently applicable in Kuwait)	Not applicable (no VAT, GST or sales tax currently applicable in Kuwait)	–



## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

Tax revenue needs to be increased to fund increased government expenditures. In order to increase tax revenues, the government is considering the introduction of new taxes like the business profits tax, VAT and other indirect taxes in the long term.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Kuwait

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

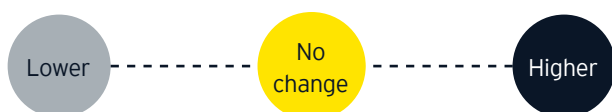
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ The outlook for tax policy is that no major change is expected in 2022. The Executive Rule No. 28 (ER 28) (subcontract cost) has resulted in some controversy in the recent past, and the Kuwait Tax Authority (KTA) has provided some clarification on the application of ER 28.
- ▶ **ER 28**
  - ▶ ER 28 restricts the deductibility of subcontract costs to the related revenue.
  - ▶ If the subcontract cost is more than the related revenue, the KTA seeks to disallow the excess cost.
  - ▶ There has been substantial controversy in the recent past regarding the application of this ER. Accordingly, the KTA has clarified some aspects of application of ER 28, e.g., exclusion of certain costs, computation of revenue relating to subcontract costs.

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

- ▶ **DST, VAT/GST**  
No significant developments are expected.
- ▶ **Virtual PE**  
KTA adopts the concept of virtual PE if the contract lasts for a period of six months.
- ▶ **Withholding**  
There is no withholding tax in Kuwait; however, all transactions are subject to 5% retention.

### Taxes related to climate change or sustainability

- ▶ No significant developments are expected.

### VAT/GST or sales taxes

- ▶ This is currently not applicable. However, VAT may be introduced in 2022.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ No significant developments are expected.

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

- ▶ No significant developments are expected.

### Developments in the governance of cryptocurrency

- ▶ No significant developments are expected.

## 2.5 Political landscape

- ▶ Kuwait is a constitutional monarchy (emirate) with a semi-democratic political system wherein the Council of Ministers are appointed by the Prime Minister and approved by the Emir of Kuwait.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ None.

## 2.7 Major pending tax proposals not otherwise covered

- ▶ None.

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ Tax inspection/scrutiny is at 100%.
- ▶ Tax inspection/scrutiny is documents-based.
- ▶ The KTA adjusts the revenue and expenses if it is not satisfied with the documents presented.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the five leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ The deductibility of expenses incurred by taxpayers
- ▶ Applicability of tax treaties
- ▶ Tax inspection
- ▶ Tax retention

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ No significant developments are expected.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The KTA is developing an integrated tax administration system to digitalize the processes and the application of tax through a web communication channel.
- ▶ A high degree of automation and minimum manual intervention is expected.
- ▶ Fraud detection tools are enabled to identify and flag suspect tax returns.

### 3.6 in terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures?

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Disallowance of subcontract costs in excess of related revenue	ER 28 restricts the deductibility of subcontract costs to the related revenue. If the subcontract cost is more than the related revenue, the KTA seeks to disallow the excess cost.
2	Treaty benefits	Denial of tax treaty exemption on offshore scope of work based on interpretation of tax treaty is not always aligned with internationally accepted tax principles, e.g., virtual PE concept, tax exemption of offshore portion out of the share of results of the joint venture.
3	Carry forward of taxable results	The KTA restricts the carryforward of taxable results in case of mismatch of revenue and costs only to the first year of operations in Kuwait.
4	Noncompliance with 5% retention requirements	In case of noncompliance with the 5% retention requirements, expenses are disallowed.
5	Subjective disallowance of costs	The KTA disallows the costs incurred outside Kuwait, as well as expenses paid through cash, on a subjective basis.



# Luxembourg

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*This information is current as of 16 December 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	24.94% <sup>1</sup>	24.94% <sup>1</sup>	–
Personal income tax – top rate	The maximum income tax rate is 44.94% or 45.78%, <sup>2</sup> including the contribution of 7% or 9% to the employment fund. <sup>3</sup>	The maximum income tax rate is 44.94% or 45.78%, including the contribution of 7% or 9% to the employment fund.	–
VAT, GST or sales tax – standard rate	17% <sup>4</sup>	17%	–

<sup>1</sup> Article 174 of the law of 4 December 1967 on income tax, as amended. The rate consists of 17% of CIT with additional 7% of employment fund surcharge and 6.75% of municipal business tax (MBT) for companies located in Luxembourg City. Furthermore, CIT is levied at a reduced rate for taxable profits up to €200,000. The MBT rates range between 6.75% and 10.5% depending on the municipality.

<sup>2</sup> Article 118 of the law of 4 December 1967 on income tax.

<sup>3</sup> Article 6 of the law of 30 June 1976 on creation of an employment fund, as amended.

<sup>4</sup> Article 39 of the law of 12 February 1979 on value tax added, as amended.

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

Following public statements made by the prime minister in the context of the speech on the State of the Nation and by the minister of finance in relation to the 2022 Draft Budget Law, key tax policy objectives for 2022 are:

- ▶ Promotion of a strong recovery and a rapid return to qualitative and job-creating growth, in line with the government's climate objectives

- ▶ No general tax increases
- ▶ General property tax reform to counter speculation in building land and habitations and, thus, to increase the supply of affordable housing

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

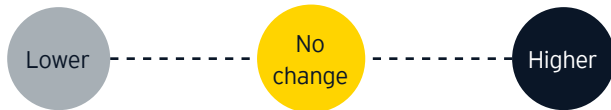
## Luxembourg

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	



## 2.3 Tax policy outlook for 2022 – summary

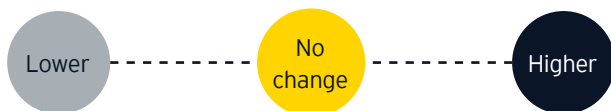
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ Entry into effect of the reverse hybrid entity rules as introduced by the law of 20 December 2019, which implemented Council Directive (EU) 2017/952 of 29 May 2017 and amended Directive (EU) 2016/1164 (ATAD) regarding hybrid mismatches with third countries (ATAD 2)

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

- ▶ No intention to take any unilateral domestic measures; Luxembourg fully supports OECD BEPS Pillars 1 and 2 to address the tax challenges arising from the digitalization of the economy

### Taxes related to climate change or sustainability

Compliance with Regulation (EU) 2018/1999 of 11 December 2018 on the Governance of the Energy Union and Climate Action and Directive (EU) 2018/2001 of 11 December 2018 on the promotion of the use of energy from renewable sources may indirectly increase the prices for energy products.

### VAT/GST or sales taxes

The VAT changes that are planned for July 2022 are at EU Proposal stage only (not yet voted) and consist of:

- ▶ A supply of goods with transport within the EU will be called an “intra-EU supply” (instead of the current artificial split between an intracommunity supply of goods and an intracommunity acquisition of goods) and will be taxed in the arrival member state. The supplier will have to charge VAT of the arrival member state, unless exceptions apply.

- ▶ The concept of a “certified taxable person” (CTP) will be introduced, an EU-wide recognition of a reliable taxable person. Being a CTP will bring significant advantages for companies involved in intra-EU supplies (notably application of the reverse charge mechanism to intra-EU supply when the acquirer is a CTP).

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ The expected global personal tax reform has been postponed.
- ▶ Smaller adaptations of the personal income tax law are foreseen in the 2022 Budget Law, such as:
  - ▶ Alignment of tax treatment for the new European individual retirement savings product (Pan-European Personal Pension Product or PEPP) to already existing third-pillar pension products
  - ▶ Flat-rate taxation of remuneration paid by temporary employment agencies to certain temporary employees

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

- ▶ A general property tax reform is expected to take place in 2022, leading to an increase of said tax.

### Developments in the governance of cryptocurrency

- ▶ The DAC7 directive introducing reporting obligations for platform economy operators is in the process of being transposed.

## Luxembourg

### 2.5 Political landscape

The Luxembourg Government is composed of three parties, being the DP (Liberal Democrats), LSAP (Labor Party) and Déi Gréng (Green Party). The next legislative elections are scheduled for October 2023.

- ▶ While the current government had planned a second major tax reform following the one in 2017 for the current legislative period, this plan has been stalled due to the COVID-19 pandemic. As stated by the prime minister in his speech on the State of the Nation in October 2021, the government remains firmly convinced that the debate about greater tax justice must continue and that a major tax reform is needed, even if it cannot be achieved immediately.
- ▶ The prime minister also stated that there will be no austerity policy and no tax increases with the current government.

### 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Introduction of a 20% real estate levy due by certain exhaustively listed investment vehicles receiving or realizing income from real estate located in Luxembourg
- ▶ Denial of deduction of interest and royalties owed by Luxembourg corporate taxpayers to associated enterprises that are corporations established in a country listed on the European Union list of noncooperative jurisdictions for tax purposes

### 2.7 Major pending tax proposals not otherwise covered

N/A

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ Increased tax enforcement measures and activities observed within the past couple of years
- ▶ Growing number of tax audits
- ▶ Use of information received from foreign tax jurisdictions
- ▶ Additional resources at the tax administration level to confirm tax enforcement

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Correct application of transfer pricing rules
- ▶ Reinforced controls on existence or not of foreign permanent establishments of resident taxpayers
- ▶ Application of anti-hybrid rules

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Entry into force of the reverse hybrid entity rules as of tax year 2022
- ▶ More frequent tax audits
- ▶ Developments at the international and European levels (taxation of digital economy, ATAD 3 addressing abusive use of shell companies, etc.)

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The direct tax administration is starting to catch up on the indirect tax administration, where many processes have already been digitalized within the past couple of years.
- ▶ Digitalization of all tax administrations is a main topic, and many efforts may evolve rapidly.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Transfer pricing	The focus of the tax authorities in 2022 will most likely continue to be on transfer pricing aspects.
2	VAT deduction methods	It is expected that tax authorities will pay more attention to the VAT deduction methods (direct allocation vs. prorate method).
3	Deduction of expenses	It is anticipated that the tax authorities will have a closer look at the provisions disallowing deduction of payments or expenses (under interest limitation rules, anti-hybrid mismatch rules and legislation on transactions with jurisdictions on the EU list of noncooperative jurisdictions).
4	Permanent establishments	As it was already the case in 2021, it is expected that tax authorities continue reinforcing controls on the existence or not of foreign permanent establishments of resident taxpayers.
5	Transparency/disclosure/MDR issues	It is expected that tax authorities will increasingly verify the compliance with general disclosure rules.



Petronas Towers

# Malaysia

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## EY key contacts

### Tax policy and controversy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 1 January 2022.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	24%	33%	37.5% (one-off increase for the year of assessment 2022 – see section 2.4 below)
Personal income tax – top rate	30%	30%	–
VAT, GST or sales tax – standard rate	Sales tax – 5%, 10% or a specific rate for petroleum products, unless otherwise exempted  Service tax – 6%, except for credit card services, which are subject to service tax of RM25 annually	Sales tax – 5%, 10% or a specific rate for petroleum products, unless otherwise exempted  Service tax – 6%, except for credit card services, which are subject to service tax of RM25 annually	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

Tax policy is driven by moderate economic growth and the expansionary fiscal policy in 2022 to strengthen recovery, build resilience and drive reforms. Various tax revenue-raising measures were proposed and legislated to achieve the Malaysian government's objectives, including:

- ▶ To restore business capabilities by providing access to financing, driving strategic investments in key sectors, and rehabilitating and catalyzing the reform of several targeted sectors, such as the tourism, creative, retail, agriculture and commodity industries
- ▶ To restore the lives and livelihoods of Malaysians by providing quality education for all and ease of access to public health care facilities, and the creation of job opportunities; including strengthening human capital and preparing the workforce to operate in the new norm by intensifying initiatives to equip the workforce with the relevant skill set to remain relevant post-pandemic
- ▶ To remain a prosperous and sustainable economy as well as to continue supporting the implementation of the Twelfth Malaysia plan, which prioritizes economic rejuvenation, prosperity and inclusivity and sustainability; meeting the Sustainable Development Goals) bridging economic gaps, fiscal consolidation, revenue sustainability, and supporting public service delivery

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022

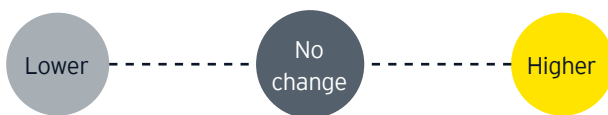
## Malaysia

Tax types	Likelihood of changes in 2022	Direction of change
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022

Tax types	Likelihood of changes in 2022	Direction of change
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

#### ▶ Exemption on foreign-sourced income (FSI)

- ▶ In Budget 2022, it was proposed that the long-standing income tax exemption on FSI received by any person (other than a resident company carrying on the business of banking, insurance, or sea or air transport) be removed for all Malaysian-resident taxpayers from 1 January 2022. This proposal was enacted via the Finance Act 2021.
- ▶ Following an extensive consultation process, on 30 December 2021 the Ministry of Finance announced that certain types of FSI of resident taxpayers will continue to be exempt from tax, subject to conditions. This exemption will apply to the foreign-sourced dividend income of companies and limited liability partnerships, and all FSI of individuals (except individuals carrying out business in Malaysia through a partnership). The tax exemption is effective for five years from 1 January 2022 to 31 December 2026 and will be subject to conditions that will be outlined in guidelines issued by the Inland Revenue Board.

#### ▶ Introduction of one-off tax increase

- ▶ A one-off higher income tax rate of 33% will be imposed on chargeable income above RM100 million, for non-micro, small and medium enterprise companies. Chargeable income of up to RM100 million will continue to be taxed at the prevailing corporate income tax rate of 24%.

#### ▶ Implementation of Tax Identification Number (TIN)

- ▶ TIN was implemented on 1 January 2022.
- ▶ The TIN will also be used for real property gains tax and stamp duty transaction purposes.

#### ▶ Introduction of Tax Compliance Certificate (TCC) as a pre-condition for the Malaysian Government procurements

- ▶ TCC is a prerequisite for taxpayer to tender for government projects.
- ▶ TCC will be implemented on 1 January 2023.

## Malaysia

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

- ▶ No significant developments are expected.

### Taxes related to climate change or sustainability

- ▶ No significant developments are expected.

### VAT/GST or sales taxes

#### ▶ Voluntary Disclosure and Amnesty Programme (VA Programme)

- ▶ The 0% VAT on mouth and nose protections, COVID-19 tests and vaccines continues until 31 December 2022.

Phase	Remission rate		Timeline
	Penalty	Duty/tax/levy	
1	Up to 100%	Up to 30%	1 January 2022 to 30 June 2022
2	Up to 50%	Up to 15%	1 July 2022 to 30 September 2022

- ▶ The VA Programme covers all duty/tax/levy under the purview of the Royal Malaysian Customs Department (RMCD) except anti-dumping duty, safeguard duty and windfall profit levy.
- ▶ A minimum compound will be imposed as follows, either:
  - ▶ RM1,000.00 for each voluntary disclosure amount from RM100,000.00 and above
  - ▶ RM500.00 for each voluntary disclosure amount from less than RM100,000.00

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ Extension of special tax rate of 15% for nonresidents holding key positions in companies relocating their operations to Malaysia
  - ▶ The applications for this incentive (subject to certain conditions) were initially opened until 31 December 2021. However, the application period has been extended to 31 December 2022.
- ▶ Implementation of TIN
  - ▶ TIN will also be automatically issued to any citizen individuals who are aged 18 years old and above.

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

- ▶ No significant developments are expected.

### Developments in the governance of cryptocurrency

- ▶ No significant developments are expected.

## 2.5 Political landscape

- ▶ In March 2020, the country's political landscape changed unexpectedly 22 months after the 14th General Election. A new government was formed and was led by Tan Sri Dato' Haji Muhyiddin bin Haji Mohd. Yassin as the Honorable Prime Minister.
- ▶ In August 2021, Tan Sri Dato' Haji Muhyiddin bin Haji Mohd. Yassin resigned and was succeeded by Dato' Sri Ismail Sabri bin Yaakob.
- ▶ The 15th Malaysian General Election is to take place on or before 16 September 2023. However, the Malaysian Government may call for the General Election before then.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

### ▶ Multilateral Instrument impact

The MLI came into force on 1 June 2021. However, the effective date of the relevant provisions under the MLI will depend on the dates the treaty partner countries deposit their instruments of ratification.

### ▶ Transfer pricing

- ▶ Introduction of penalty for failure to furnish contemporaneous transfer pricing documentation.
- ▶ A change to the Income Tax Act 1967 (ITA) reinforced the power of the Director General Inland Revenue (DGIR) to disregard a structure in a related-party transaction. DGIR is given the power to make adjustments to the structure of the transaction as they think fit to reflect the structure that would have been adopted by an independent person dealing at arm's length taking into consideration the economic and commercial reality.
- ▶ Introduction of the imposition and collection of surcharges of not more than 5% on total transfer pricing adjustments, irrespective of whether the transfer pricing adjustment results in any additional tax payable.
- ▶ Introduction of the definition of "plant" for capital allowance purposes from year of assessment 2021.
- ▶ From 1 January 2021, any proceedings against the government or the tax authorities by the taxpayers under any other written law shall not relieve any person from payment of any tax or any debt or other sum that he or she is or may be liable to pay.
- ▶ Reduction of individual tax rate (i.e., by 1%) for the chargeable income band increased from RM50,001 to RM70,000.



## 2.7 Major pending tax proposals not otherwise covered

- ▶ In a pre-Budget 2022 statement published on 31 August 2021, the Ministry of Finance indicated that a comprehensive review of Malaysia's tax incentive framework is underway. This is consistent with previous statements from the Ministry. The pre-Budget 2022 statement also reiterated that Malaysia is committed to supporting the OECD's BEPS 2.0 initiative,

which is designed to address cross-border tax leakages and aggressive tax planning. It is expected that further developments on this point will take place in 2022.

- ▶ In line with the 2021 Budget announcement, it was anticipated that tourism tax will be imposed on accommodation premises booked via digital platform providers (DPSPs). The imposition of tourism tax on DPSPs was anticipated to be effective on 1 January 2022. However, this has been deferred to 1 January 2023.

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ The Inland Revenue Board of Malaysia (IRB), which administers direct tax in Malaysia, continues to embark on various measures and task forces to enhance tax recovery and collections.
- ▶ Under the VA Programme, the RMCD has taken the approach to increase tax revenue by increasing tax compliance by:
  - ▶ Providing an opportunity for taxpayers to voluntarily disclose tax/duty/levies and to make the correct declarations going forward
  - ▶ Encouraging payment of tax/duty/levies/surcharge and penalty

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ **For direct tax** – reducing tax leakages (including by taxing the shadow economy), improving tax recovery and collections; broadening tax base; and at the same time, encouraging voluntary compliance with the local tax law
- ▶ **For indirect tax** – reducing tax leakages; and at the same time, encouraging the improvement of tax governance by allowing taxpayers to perform voluntary disclosures and obtaining tax amnesties under the VA Programme

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ The introduction of a one-off tax increase on chargeable income exceeding RM100 million and the removal of the FSI exemption, pursuant to Malaysia's Budget 2022 proposals
- ▶ Launching of the VA Programme
- ▶ The enforcement in the transfer pricing rules

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ **Current overall digital maturity** – This is still developing.
- ▶ **Recent changes/introductions** – The IRB has introduced an online platform to submit tax working sheets electronically, known as the Malaysian Income Tax Reporting System (MITRS), for taxpayers undergoing tax audit and investigation. MITRS is developed using the XBRL (extensible business reporting language) format.
- ▶ **Use of data analytics** – The IRB uses big data and advanced analytics tools to assist in understanding, profiling and predicting taxpayer behavior and monitoring tax filings, payments and refunds, as well as selecting cases for audit.
- ▶ **Ongoing digitalization work** – Digital filing for the quarterly digital services tax return, for indirect taxes, has been introduced (requirement start date: 1 January 2020).

## Malaysia

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	COVID-19-related impacts and outcomes	Review of applicability of the special tax concessions introduced by the tax authority to address international tax issues due to the COVID-19 pandemic travel restrictions for impacted taxpayers
2	Significant related-party transactions	Business taxpayers with significant related party transactions as well as irregular profitability trend likely to be selected for tax audit by the IRB
3	Incentives	Adherence to conditions stipulated for the taxpayer to be eligible for the tax incentives granted by the Malaysian Government; IRB also known to interpret the incentive conditions differently from taxpayers
4	Taxability of income and deductibility of expenses; withholding tax compliance	Review of transactions (receipt/expense) to assess the taxability of receipts (including the timing of taxability) and deductibility of expenses, including compliance with withholding tax provisions in Malaysia
5	Post-importation audit	Stringent conducting by the RMCD of post-importation audit, which involve the following areas of review: <ul style="list-style-type: none"> <li>▶ Underpayment of duty/tax for imported goods</li> <li>▶ Incorrect Tariff Code (HS Code) applied upon declaration</li> <li>▶ Noncompliance with the valuation method for imported goods</li> <li>▶ Incorrect or incomplete documentations when applying an exemption facility</li> <li>▶ Upward adjustment arising from a transfer pricing adjustment</li> </ul>





Guanajuato City – Aerial View at Twilight

# Mexico

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## EY key contacts

### Tax policy

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### Tax controversy

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 +52 555 283 1314

*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 16 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	30%	30%	–
Personal income tax – top rate	35%	35%	–
VAT, GST or sales tax – standard rate	16%	16%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ State public policy in tax matters led to modifications in the tax framework, eradicating benefits that lack reasonable justification and were contrary to the principle of progressive taxation.
- ▶ Congress passed the Economic Proposal for 2022 (Proposal), a tax reform that focuses on eliminating loopholes in the legislation where there are perceived abuses by taxpayers. The tax reform became effective 1 January 2022.
- ▶ President Obrador has reiterated his commitment to not create new taxes, as well as to fight head on corruption and impunity.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

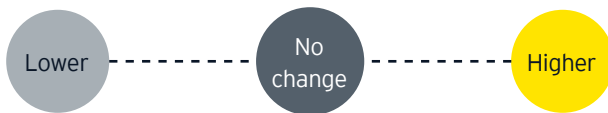
## Mexico

Tax types	Likelihood of changes in 2022	Direction of change
7. Thin capitalization rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input checked="" type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022

Tax types	Likelihood of changes in 2022	Direction of change
16. Do you expect changes to tax enforcement generally?	<input checked="" type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

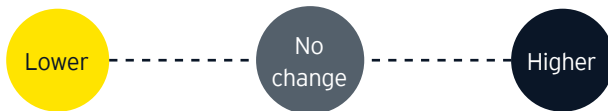
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

The Economic Proposal for 2022 modified several areas of corporate income tax, including:

- ▶ **Intercompany financing:** The Proposal expanded the definition of back-to-back loans to include any related-party debt that lacks business purpose. As such, interest payments on any related-party loan or transaction will be recharacterized as dividends, if the financing transaction is deemed to lack a business reason. Mexican legislation, however, does not define the term “business reason.”
- ▶ **Thin capitalization rules:** Mexico currently has a three-to-one debt-to-equity ratio limitation for determining deductible related-party interest paid to nonresidents. An option is available for taxpayers to use either book or tax equity to calculate the limitation on the deduction of interest. The Proposal modified the thin capitalization rules to make these two calculations more consistent.

- ▶ **Domestic restructurings, mergers and spin-offs** are treated as tax free to the extent certain formal requirements are met. The Proposal added a requirement that taxpayers have a valid business purpose for these transactions to be treated as tax free, in addition to the other requirements.
- ▶ **Mergers and spin-offs** will also be subject to additional reporting and scrutiny by the Mexican Tax Administration Service if a relevant transaction, as defined in the Proposal, occurs within five years, before or after, the reorganization.
- ▶ **Nonresident capital gains:** The Proposal modified certain provisions related to the authorization to defer income tax for capital gains in corporate reorganizations carried out by nonresidents.
- ▶ **Mexican controlled foreign corporation regime:** The Proposal clarified certain aspects of the computation for determining whether a CFC is subject to a preferential tax regime by excluding the annual inflationary adjustment and the foreign exchange fluctuation from the CFC taxable income determination.

## Mexico

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

- ▶ No significant changes are currently expected.

### **Taxes related to climate change or sustainability**

- ▶ No significant changes are currently expected.

### **VAT/GST or sales taxes**

- ▶ The Proposal disallowed credit for any VAT paid on the acquisition of goods, services, imports, etc., related to activities carried on outside of Mexico.
- ▶ The Proposal subjects the leasing of goods to Mexican VAT, regardless of the place where the goods are delivered (i.e., Mexico or abroad). Previously, leasing transactions were subject to VAT in Mexico only when the leased goods were delivered within the Mexican territory.

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

- ▶ No significant changes are currently expected.

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

- ▶ No significant changes are currently expected.

### **Developments in the governance of cryptocurrency**

- ▶ No significant changes are currently expected.

## 2.5 Political landscape

- ▶ The political environment is divided.
- ▶ The opposition is also divided.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Labor tax reform

## 2.7 Major pending tax proposals not otherwise covered

- ▶ The MLI is expected to be approved soon.

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ Mexico has robust tax enforcement.
- ▶ The tax authorities are implementing mechanisms to verify that the taxpayers are complying with their tax obligations.
- ▶ Mexican tax authorities actively utilize tax procedures such as rulings, authorizations, audits, and others.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Tax audits
- ▶ Invitation letters
- ▶ Informative returns and notices

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ MLI, if approved

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ Though Mexican tax authorities are digitally capable, there has been a slight return to traditional methods, such as an increased use of spread sheets and paper.



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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input checked="" type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	TP transactions	The use of methods such as fair market value, prorated expenses and others
2	Royalties/licensing fees	
3	Withholding taxes	
4	Disallowance of deductions	
5	Losses	



Cardboard cathedral in Christchurch, New Zealand

# New Zealand

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## EY key contacts

### Tax policy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 10 December 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	28%	28%	–
Personal income tax – top rate	39% on income over NZ\$ 180,000	39% on income over NZ\$ 180,000	–
VAT, GST or sales tax – standard rate	15% GST	15% GST	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ The New Zealand government has provided significant fiscal stimulus to support the economy during the COVID-19 pandemic. This additional spend is driving revenue pressures in the medium term, which may impact the government's revenue strategy in the coming years.
- ▶ The government is examining wealth accumulation and effective tax rates more broadly. A government research project focusing on the effective tax rates of high-net-worth individuals has recently been launched with findings expected to be published in 2023. Increased disclosure and reporting requirements have also been introduced for domestic trusts, to support the application of the increased top personal tax rate (increased in 2021). This additional information is expected to inform the direction of tax policy in coming years.
- ▶ A government working group considered the use of environmental taxes in 2019. The group recommended greater use of environmental taxes to help change behaviors and fund a transition to a more sustainable economy by pricing negative externalities. The government has largely adopted the recommendations of the working group, and work is underway by government officials to develop potential environmental taxes. We expect further consultation in 2022.
- ▶ The government continues to follow international leads on the OECD BEPS project on Digital Taxation. New Zealand has committed to implement the Pillar One and Two proposals, and we expect domestic changes to be developed and progressed during 2022.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## New Zealand

Tax types	Likelihood of changes in 2022	Direction of change
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022

Tax types	Likelihood of changes in 2022	Direction of change
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

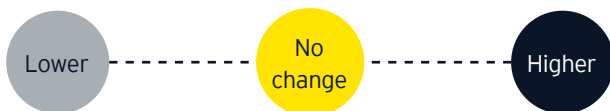
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ The 28% corporate tax rate is not proposed to change and has not been considered by the New Zealand government for review in 2021.
- ▶ Specific rules limiting the interest deductions for businesses with investments in residential properties are currently progressing.

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

- ▶ The New Zealand government continues to express support for the OECD multilateral solution to digital taxation. Progress is expected to be made on domestic legislation in line with the OECD project.

### Taxes related to climate change or sustainability

- ▶ New Zealand is committed to achieving carbon neutrality by 2050. Government officials are presently reviewing the role of taxation and incentives in supporting a shift to a more sustainable economy.

- ▶ Public consultation is expected to be held in 2022, which would provide further detail on any potential new taxes, related to environmental taxation.

### VAT/GST or sales taxes

- ▶ The New Zealand government is committed to a program of remedial amendments expected to impact specific sectors. Changes are in progress to modernize tax invoice and other supply information requirements.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ The New Zealand government is undertaking a research project with a focus on examining wealth accumulation and effective tax rates. Specifically, the research aims to better understand effective tax rates of New Zealand's high-wealth individuals. A public report explaining the findings of the research is expected to be published in 2023. There have been no accompanying proposals, nor indications by the government, that proposals will be made to introduce wealth or broaden capital gains taxes. However, speculation is widespread and public support for such taxes is growing.

## New Zealand

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

- ▶ No significant developments are expected.

### Developments in the governance of cryptocurrency

- ▶ A review of the governance of cryptocurrency is currently underway, with outcomes anticipated in 2022. Inland Revenue has also issued various guidance on the tax treatment of cryptocurrencies, and a legislative change is underway to confirm that crypto assets are not subject to GST.

## 2.5 Political landscape

- ▶ New Zealand's Labour Party secured sufficient support at the last election to govern alone.
- ▶ Tax reforms to limit interest deductions available to residential property investors aimed at easing pressure on the housing market have been implemented.
- ▶ The New Zealand government is expected to make further regulatory changes in the coming year, including changes to assist in the shift to a more sustainable economy and to ease regulatory costs and requirements for the construction sector.
- ▶ COVID-19 outbreaks and corresponding lockdowns continue to put pressure on the New Zealand government to act quickly to support the economy. The New Zealand government has provided significant fiscal support to industries, businesses and individuals impacted by the COVID-19 pandemic through wage subsidies, business support payments and tax reforms.
- ▶ Prime Minister Jacinda Ardern has ruled out introducing a capital gains tax during her term; however, there is increasing public appetite for a tax-based solution to growing wealth inequality and unaffordable housing.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Several amendments were progressed in the *Taxation (Annual Rates for 2020-21, Feasibility Expenditure, and Remedial Matters) Act*, enacted in March 2021. Changes include:
  - ▶ Broader deductibility for feasibility expenditure incurred in the development of an asset that is later abandoned
  - ▶ Requirements to align purchase price allocation across different assets between a vendor and a purchaser in the sale of a business, to confirm consistent tax treatments
  - ▶ Strengthening of the rules that apply to tax certain land sale profits for taxpayers who habitually buy and sell land
  - ▶ An ability for taxpayers to adopt more closely aligned tax and accounting treatment for certain leases subject to IFRS 16
  - ▶ An extension to the test that determines whether gains on certain land sales are subject to income tax, resulting in

gains from the sale of most residential property (excluding the main home being taxed if the property is disposed of within 10 years from the date of acquisition (previously the period was 5 years))

- ▶ Introduction of a "same or similar business" test to allow more losses to be carried forward, where previously, losses could only be carried forward if a 49% continuity of shareholders was maintained throughout the loss period and now losses can be retained post continuity breach, if the business is carried on in substantively the same way
- ▶ A new tax bill was introduced in September 2021, the *Taxation (Annual Rates for 2021-22, GST and Remedial Matters) Bill*, which proposed several amendments:
  - ▶ Limitations on the deductibility of interest for residential property investors, such that interest deductions are broadly denied from 1 October 2021 for residential investment property acquired on or after 27 March 2021. A phased denial applies for property purchased before this date. Companies with significant land holdings are also subject to the rules, as well as most closely held companies. Exemptions apply to new builds and property held by developers and builders. With the degree of investment in residential property in New Zealand, these changes have generated significant interest.
  - ▶ Various amendments are set to modernize GST administration, invoicing and record retention requirements, as well as a broad range of remedial changes to improve GST settings for specific sectors.
  - ▶ The way in which local authorities are taxed has changed (i.e., regional government agencies and associated companies).
  - ▶ Crypto assets are clarified to not be subject to GST or the financial arrangement (accrual) rules.
  - ▶ Several other remedial amendments are also included.

## 2.7 Major pending tax proposals not otherwise covered

- ▶ The New Zealand government is progressing changes to the tax treatment of cross-border workers (those in New Zealand on short-term assignments). A public consultation paper was released in October 2021, and changes are anticipated to be progressed later in 2022.
- ▶ Consultation is currently ongoing on the increased reporting requirements for New Zealand trusts (generally not applicable to foreign trusts). Changes introduced in 2021 require increased reporting of trust financial information and information relating to trustees and beneficiaries.
- ▶ New Zealand is committed to progress changes to the taxation of the digital economy in line with the OECD's BEPS 2.0 Pillars One and Two. Changes are anticipated to be introduced in 2022 to progress these reforms.

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ Inland Revenue looks to encourage constant dialogue and transparency.
- ▶ Technology is used to make compliance simpler for taxpayers and to process large volumes of data and obtain insights through analytics to better review audit and enforcement activity.
- ▶ Inland Revenue aims to stop noncompliance before it occurs with a “getting it right from the start” focus. It also uses close monitoring, advance pricing agreements and practical guidance to allow multinationals to better self-manage their financing and transfer pricing risks.
- ▶ Inland Revenue has launched a tax governance program and has released a questionnaire to understand how taxpayers are managing their tax risks via tax governance.
- ▶ Inland Revenue uses questionnaires to gather information about both large companies generally and specific industries.
- ▶ Improved use of technology, analytics, better collection and processing of information digitally all enable Inland Revenue to better match data across systems to identify discrepancies. This allows Inland Revenue to both discover errors in real time and enable assessments and refunds to be stopped where there is a high likelihood that they are wrong or fraudulent.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ It is expected that Inland Revenue will continue to issue questionnaires to taxpayers to understand more about certain industries and risk areas. The responses from these questionnaires will then feed into Inland Revenue’s review of audit focus areas.
- ▶ With the near completion of the Business Transformation Programme in 2022, it is expected that Inland Revenue will be able to better focus its resources on risk review and audits and use data analytics to identify potential tax audit focus areas.

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ It is expected that Inland Revenue will provide further guidance in relation to tax governance for large taxpayers and how this may impact on Inland Revenue’s audit approach.
- ▶ Concessions relating to the COVID-19 pandemic will begin to expire, and Inland Revenue will expect that taxpayers are now able to meet their tax obligations on time and in full.
- ▶ It is expected that Inland Revenue will continue its focus on BEPS and on international companies paying “their fair share of tax” through both examining multinationals to see if they are complying with the BEPS legislation and working with the OECD on Pillars One and Two.

### 3.5 How would you describe the tax authority’s approach to and overall status of the digitalization of the tax administration?

- ▶ Inland Revenue is in the final stage of its Business Transformation Programme, with this concluding by 30 June 2022. This has been ongoing for a number of years and has involved moving Inland Revenue’s systems to become more digital, allowing better ability for taxpayers to manage their tax obligations online and Inland Revenue to use the data that it collects to better audit taxpayers.
- ▶ Inland Revenue is investing in the use of technology and analytics to identify audit focus areas and assist with real-time identification of risks.
- ▶ The information that Inland Revenue is collecting as part of its questionnaires will also feed into this process.

## New Zealand

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Questionnaires	Inland Revenue issued questionnaires in 2020 and 2021 focused on royalties, financing, manufacturing and service entities, entities with losses, distributors and entities that received the wage subsidy. In 2022, it is expected that Inland Revenue will continue to review and audit taxpayers that were identified as being at risk as a result of their responses to these questionnaires.
2	Red flags for multinational entities	<p>Inland Revenue set out 10 factors in their 2019 Multinational Compliance Focus Document that it considers are risk indicators that may invite further inquiries. These factors are:</p> <ul style="list-style-type: none"> <li>▶ Two consecutive years of tax losses</li> <li>▶ Negative EBIT</li> <li>▶ &gt;5% cost plus margin on service charges</li> <li>▶ &lt;3% distributor EBITE</li> <li>▶ &lt;5% retailer EBITE</li> <li>▶ &lt;7% manufacturer EBITE</li> <li>▶ Royalties &gt;33% EBITE</li> <li>▶ Interest &gt;20% EBITDA</li> <li>▶ Debt &gt;40% (assets – non-debt liabilities)</li> <li>▶ Purchases and other operating expenses &gt;\$20m involving jurisdictions with company tax rate of less than 15%</li> </ul> <p>Inland Revenue will be updating its Multinational Compliance Focus in 2022.</p>



3	PE issues	Inland Revenue will continue to audit multinationals operating in New Zealand under certain structures to determine whether a PE issue arises specifically under the domestic PE avoidance rule.
4	Hybrid and branch mismatches	The 2018 BEPS reforms introduced hybrid and branch mismatch rules. To assist with enforcement of these rules, additional disclosure forms are required to be filed alongside company tax returns disclosing hybrid and branch mismatches. Under these rules, taxpayers will need to confirm they understand how payments made to or by them are treated by their related counterparty for tax purposes. Inland Revenue has recently released guidance on its expectations in this regard, and it is expected that Inland Revenue will audit compliance with the new regime.
5	Tax corporate governance	Inland Revenue recently launched a tax governance program, which started with a 10-point questionnaire to better understand the current tax governance framework that taxpayers in New Zealand have in place. This questionnaire provides some guidance as to what Inland Revenue expects New Zealand taxpayers to have.



# Nicaragua

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## EY key contacts

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 19 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	The higher of: <ul style="list-style-type: none"> <li>▶ Annual income tax: 30% of net taxable income</li> <li>▶ Advance income tax payment: 1%, 2% or 3% of gross taxable income</li> </ul> The 1%, 2% or 3% applies independent of the taxpayer classification regimen.	The higher of: <ul style="list-style-type: none"> <li>▶ Annual income tax: 30% of net taxable income</li> <li>▶ Advance income tax payment: 1%, 2% or 3% of gross taxable income</li> </ul> The 1%, 2% or 3% applies independent of the taxpayer classification regimen.	–

Personal income tax – top rate	30% A progressive rate applies to personal (work) income tax in accordance with the annual net income of the taxpayer. <sup>1</sup>	30% A progressive rate applies to personal (work) income tax in accordance with the annual net income of the taxpayer. The maximum personal tax is 30% in accordance with Article 23 of the NTL.	–
VAT, GST or sales tax – standard rate	General rate: 15% Special rate: 0% export of goods of national production and export of services	General rate: 15% Special rate: 0% export of goods of national production and export of services	–

<sup>1</sup> Law No. 822, Nicaragua Taxation Law (NTL)

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ A tax intelligence area is currently being created, which aims to detect tax risks between related companies and prevent tax evasion.
- ▶ There is momentum to modernize and improve tax administration and simplify the payment of taxes by improving the virtual tax platform to carry out procedures and payments of tax.
- ▶ Controls need to be established in the tax administration system to reduce tax evasion and expand the tax base.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022

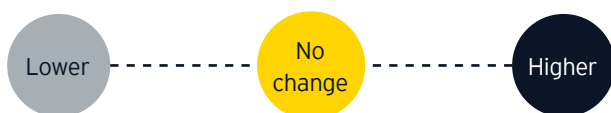
## Nicaragua

Tax types	Likelihood of changes in 2022	Direction of change
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022

Tax types	Likelihood of changes in 2022	Direction of change
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

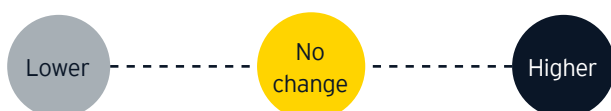
**Overall corporate income tax responsibility  
(the combined effect of base/rate)**



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



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



● Denotes level of change

## Nicaragua

### 2.4 Tax policy outlook for 2022 – detail

#### Corporate income taxes

- ▶ In accordance with section 6.IV of Law No. 987, the tax administration has the authority to review the implementation of tax reforms and apply modifications and adjustments as necessary.
- ▶ It is expected that the tax administration will review tax reforms approved with Law No. 987 and modify its content with the objective of increasing tax collection.

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

- ▶ The tax administration review of tax reforms may have some impact in this area.

#### Taxes related to climate change or sustainability

- ▶ No changes are currently expected.

#### VAT/GST or sales taxes

- ▶ No changes are currently expected.

#### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ No changes are currently expected.

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

- ▶ The tax administration review of tax reforms may have some impact in this area.

#### Developments in the governance of cryptocurrency

- ▶ No regulation is currently planned for cryptocurrencies.

### 2.5 Political landscape

- ▶ The current president won reelection in 2021.

### 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Law No. 1035, the “Law on the Reform of Law No. 698, the General Law on Public Registries to the Commercial Code of the Republic Of Nicaragua” was published 20 August 2020; however, the registration period for the final beneficiary began in April 2021.

### 2.7 Major pending tax proposals not otherwise covered

- ▶ The review and possible reform of the NTL

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

- ▶ Tax enforcement policy is based on tax audits and inspections.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ There may be no change, as the 2019 reform related to the tax collection is being implemented.
- ▶ There could be modifications to the selective excise tax.
- ▶ Other products could be taxed with VAT.

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ The Reinforcing Nicaragua’s Adherence to Conditions for Electoral Reform (RENACER) Act passed by the US could directly affect companies, compelling them to look for other markets for imports.
- ▶ Future modification of tax legislation is possible, with higher taxes than the current ones.

### 3.5 How would you describe the tax authority’s approach to and overall status of the digitalization of the tax administration?

- ▶ The tax administration made important changes toward digitalization; however, it faces many challenges. We are still waiting for the execution of the electronic signature (Law No. 729).
- ▶ There is no transfer pricing regulation.
- ▶ There are no regulations for new business models.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Consecutive losses	The declaration of consecutive losses
2	Tax refund process	The process to apply for a tax refund with a balance in favor of the taxpayer The tax administration's ability to reserve the right to review or verify any balance in favor of the taxpayer
3	Taxpayer information update	Updates to information about the taxpayer in the Tax Administration System; for example, updated shareholder names or modification of the legal or commercial name of the company
4	Information filed in other public institutions	Information about the taxpayer crossing between public institutions
5	Information filed in the Electronic Tax System	Greater validations in taxpayers' returns within the tax information system



View of historical buildings in Bryggen, Hanseatic wharf in Bergen, Norway

# Norway

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## EY key contacts

### Tax policy and controversy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 17 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	22%	22%	–
Personal income tax – top rate	46.4%	(Not decided)	(Not decided)
VAT, GST or sales tax – standard rate	25%	25%	–



## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ The government changed in October 2021 from a conservative coalition to a Labour-lead minority coalition. The draft state budget for 2022 is currently under negotiation.
- ▶ An expected trend is higher tax rates for high income levels and high private wealth, as well as increased indirect taxation aiming to support a green shift. Only minor amendments are expected for 2022, but the new government is expected to propose more significant amendments for 2023.
- ▶ Norway is expected to adopt the CbC reporting approved for the EU.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

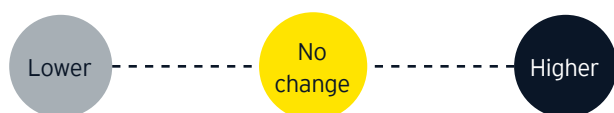
## Norway

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	

Tax types	Likelihood of changes in 2022	Direction of change
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

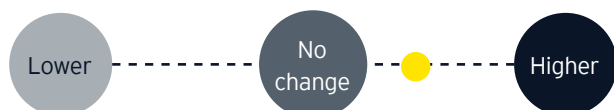
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ Corporate income tax is expected to remain at 22%, with minor or sector-specific adjustments to the tax base.
- ▶ The base taxation for hydropower plants is amended to a cash flow basis from 2021.

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

- ▶ A withholding tax on interest, royalties and certain leases were introduced in 2020 and is likely to be upheld.
- ▶ The implemented interest deduction limitation rules have been refined and clarified.
- ▶ Reporting obligations are under close review from the tax authorities' side, intending for platform providers to give such information as is useful for control purposes.

### Taxes related to climate change or sustainability

- ▶ The new government is generally positive to taxing activities that contribute to climate change and plan to gradually increase CO2 taxes.
- ▶ An indirect tax of 0.01 NOK per produced kWh has been proposed for land-based wind power plants, and certain transitional rules are expected to cease.

- ▶ However, one of their first initiatives was to reduce the electricity tax, since electricity prices have soared to historically high levels in late 2021.
- ▶ The road tax on petrol and diesel as well as traffic insurance taxes have been lowered to reduce the tax liability related to cars.

### VAT/GST or sales taxes

- ▶ Certain increases in indirect taxes relating to liquefied petroleum gas, electricity and CO2 have been proposed.
- ▶ Starting in 2022, an indirect tax on waste incineration has been proposed, with an exception for combustion with carbon capture and storage.
- ▶ An airline passenger fee of NOK 80/214 per passenger is proposed to be reintroduced.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ The new government has proposed lowering taxes for personal income below NOK 600,000 and increasing the tax on higher income levels.
- ▶ Wealth tax rates are proposed to be increased, and so is the wealth tax base. The tax base for shares and real estate are expected to be increased.
- ▶ A revised tax regime for employee share programs is proposed.

## Norway

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

- ▶ The government has announced that they will review possibly replacing the current finance tax (additional 3% tax on corporate income and additional social security tax of 5%) with VAT on certain financial transactions, such as non-life insurance.

### **Developments in the governance of cryptocurrency**

- ▶ The tax authorities have set up a specialist group to identify and confirm tax compliance for cryptocurrencies.
- ▶ Their focus seems to be guidance and compliance, rather than introducing specific cryptocurrency rules.

## 2.5 Political landscape

- ▶ The conservative coalition that governed from 2013 was replaced by a “red/green” minority government in October 2021. While this minority coalition depends on the socialist left party to have a majority, they are likely to find support for more moderate decisions in the conservative camp.

## Section 3: Tax enforcement in 2022

---

### **3.1 Current general approach to tax enforcement**

- ▶ The tax authorities have a general approach for facilitating compliance and preparing for SAF-T reporting.
- ▶ There is a clear focus on transfer pricing and cross-border transactions in general. One priority in 2021 and onward is to confirm that multinationals with their headquarters in Norway allocate a correct share of profits to Norway.
- ▶ Tax appeals are currently delayed due to staffing issues, and any reassessed tax is required to be paid irrespective of the likelihood of a successful appeal.

### **3.2 What is the tax audit outlook for 2022?**

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### **2.6 What major tax policy changes occurred in your jurisdiction in 2021?**

- ▶ Introduction of WHT on interest, royalties and certain leases

### **2.7 Major pending tax proposals not otherwise covered**

- ▶ The government has requested a review of the rules regarding voluntary amendments, i.e., correct reporting of formerly unreported income or wealth. The draft is likely to come in May or June 2022.

### **3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?**

- ▶ Facilitating compliance by making rules and filing requirements easily available and centralized for digital reporting (Altinn)
- ▶ Providing guidance and having an ongoing dialogue with major taxpayers
- ▶ Cross-discipline cooperation between tax authorities, social security offices and economic crime units within the police for coordinated audits and follow-ups

### **3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?**

- ▶ With COVID-19 tax payment deferrals coming to an end, collection is expected to increase.
- ▶ Implementation of SAF-T filing requirements from 2020 are likely to be followed up by the tax authorities in the near future. From 1 January 2022, new tax filings based on SAF-T codes are implemented and are expected to increase control efficiency.
- ▶ Increased scrutiny of cross-border transactions and transfer pricing is expected.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The Norwegian tax authorities have been proactive in digitalizing tax filings, and all tax filings can be made through a joint portal (Altinn).
- ▶ SAF-T filing was required from 2020, but with certain postponements. This will allow the tax authorities to review tax filings in more detail than before.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Transfer pricing	Allocation of profits to headquarter functions
2	Transfer pricing	Cross-border IP transactions
3	Tax residency	Reviewing residency of companies controlled from Norway
4	Transfer pricing	Thin capitalization/thick capitalization abroad
5	Indirect taxes	Deductibility of input VAT



Riyam Park Monument, Muscat, Oman

# Oman

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 20 January 2022.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	15%	15%	–
Personal income tax – top rate	N/A	N/A	–
VAT, GST or sales tax – standard rate	5%	5%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ In Oman's fiscal budget for fiscal year 2022, budgeted tax revenue was significantly increased to OMR1b and accounts for approximately 10% of the total revenue. This comprises corporate income tax revenue budgeted at OMR0.47, and excise and VAT revenue at OMR0.54b. This highlights the increasing significance of tax revenue in the state budget.
- ▶ The government appears to be actively trying to revitalize and revamp the jurisdiction's tax regime to promote optimum collection of tax revenue. The VAT law was issued in 2020. The 5% indirect tax on applicable goods and services has been implemented with effect from 16 April 2021.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

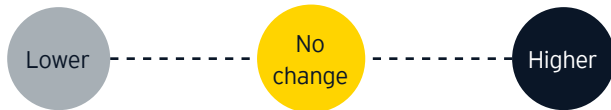
## Oman

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	



## 2.3 Tax policy outlook for 2022 – summary

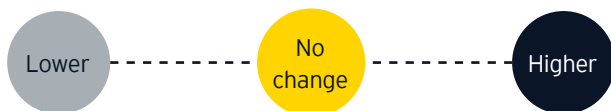
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ While there is a greater degree of scrutiny at the time of tax audits of taxpayers in recent periods, there is no change or update specifically with respect to corporate income taxes in Oman.

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

- ▶ There is no separate digital business activity tax in Oman. However, a withholding tax is applied on the following nature of payments when paid by an Omani taxpayer to a foreign company not having a permanent establishment in Oman:
  - ▶ Royalties
  - ▶ Consideration for research and development
  - ▶ Consideration for the use of or right to use computer software
  - ▶ Fees for management or performance of services
  - ▶ Interest (applicability of WHT suspended until 2025)
  - ▶ Dividends (applicability of WHT suspended until 2025)

### Taxes related to climate change or sustainability

- ▶ No taxes of such nature are applied in Oman

### VAT/GST or sales taxes

- ▶ The VAT has been introduced with effect from 16 April 2021. Oman has adopted a quarterly tax return, and so far, taxpayers have filed two VAT returns for the second and third quarters.
- ▶ No significant tax audit or notices issued by the tax authority have been seen, but it is likely that these would start.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ Personal income tax is currently not applicable in Oman.

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

- ▶ No taxes of such nature are applied in Oman.

### Developments in the governance of cryptocurrency

- ▶ N/A

## 2.5 Political landscape

- ▶ Oman is a sovereign hereditary constitutional monarchy ruled by the Al Said royal family (Article 1 of the Basic Statute of the State). Oman is a unitary state and has a single national law. The Basic Statute of the State provides for Sharia law to be the main source of legislation (Article 2 of the Basic Statute of the State), with Arabic as the official language.
- ▶ Oman's legislature is composed of two chambers: the elected Chamber of Deputies and the appointed Shura Council. Oman's government, as represented by the Council of Ministers, is appointed by the Sultan of Oman. The legislature or the government can propose draft laws. It must be approved by the government, the legislature, signed by the Sultan and published in the Official Gazette.
- ▶ Ministers, as empowered by laws or Royal Decrees (RDs), may issue secondary legislation in the form of ministerial decisions, which must be published in the Official Gazette. Ministers may issue internal bylaws (executive regulations), governing the conduct and practices of their individual ministries, which are not published in the Official Gazette.

## Oman

- ▶ Oman's commercial laws are influenced by civil law.
- ▶ The above and other such developments signify a dynamic and progressive environment within the political landscape of Oman.

### 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Introduction of VAT took effect on 16 April 2021.
- ▶ The Ministry of Finance in Oman announced on 9 March 2021 an Economic Stimulus Plan (ESP), approved by the Council of Ministers, which endeavors to mitigate the adverse impact of the COVID-19 pandemic on its citizens, businesses and the national economy at large. Some of the major tax incentives introduced are set out below:
  - ▶ Companies registering their main activity in economic diversification sectors during the period from 1 January 2021 to 31 December 2022 shall be exempted from income tax for five years, in accordance with the rules and regulations to be announced by the Omani tax authority, starting from the date of registering such activity in the commercial registration.
  - ▶ Hotels shall be exempt from income tax due for tax years 2020 and 2021.
  - ▶ Income tax may be paid in installments – additional tax arising from paying tax in installments shall be waived.

- ▶ 1% of payable tax can be waived, with a maximum amount of RO 10,000, of tax dues declared in a tax return for the following year for those who submit their tax return and make tax payment on time.
- ▶ Suspending tax on dividends and interest for five years starting from 2020 can continue.
- ▶ Companies and enterprises can carry forward loss for 2020 to the following year and deduct the same from the taxable income of 2021 and subsequent years until the loss is settled, without being restricted to the period of five years stipulated under Article 71 of the Income Tax Law.

### 2.7 Major pending tax proposals not otherwise covered

- ▶ Proposals/consultations: The media has reported that a personal income tax regime is being currently considered for implementation by the Omani tax authority. However, no further details or official announcements have been released by the tax authority in this respect that can be relied upon.

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ It is expected there will be a significant increase in the extent and depth of investigation of tax returns. Also, as a part of their investigations, the Omani tax authority is increasingly requesting extensive documentation from taxpayers than at any time in the past.
- ▶ Disallowances of costs are proposed by the Omani tax authority, and the onus is on the taxpayer to prove why such costs should be allowed. This approach is applied to related-party costs and third-party costs alike.
- ▶ Related-party costs are especially subject to in-depth scrutiny by the Omani tax authority for considerations of reasonableness and arm's length.
- ▶ Considering VAT is recently introduced, it may take some time before authorities start enforcement drives.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Arbitrariness in assessing related-party transactions has occurred in the absence of specific transfer pricing guidelines and methodologies prescribed under the Income Tax Law.

The Omani tax authority is increasingly demonstrating their intent to apply penalty provisions in cases of noncompliance with the tax compliance requirements. Historically, certain penalties, while prescribed under the law, were not imposed in practice.

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Tax authorities continue to issue sector-specific guidelines for VAT purposes. Any such guides released will have an impact on taxable persons.
- ▶ Possible introduction of personal income tax, which may impact the payroll costs of the company.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The VAT returns are currently submitted online, and the Omani tax authority continues to provide more options to VAT-registered person to apply for refunds, make payments and request for any changes to application electronically.

- ▶ RD 9/2017 introduced electronic filing (e-filing) of tax returns. Each taxpayer shall obtain a username and a password to access the Omani tax authority portal and submit tax returns electronically. The Omani tax authority has now introduced electronic payment facility for taxpayers to pay any taxes due through the claims/payments section in the tax authority portal. The electronic payment facility provides an option for taxpayers to pay any outstanding taxes due via bank transfer or online payment using a debit/credit card.
- ▶ There have been instances where the Omani tax authority has refused to accept submissions in physical form and has requested for submission of the same via email/online portal.
- ▶ In view of the above, it is understood that the Omani tax authority is in the process of completing the digitalization of tax administration matters.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

## Oman

### 3.7 Top tax audit issues in 2022

	<b>Issue name</b>	<b>Description</b>
1	Transfer pricing	Related-party transactions are scrutinized in detail by the Omani tax authority during assessment proceedings. In many cases, the Omani tax authority is requesting for transfer pricing reports for related-party transactions, although there are no defined transfer pricing guidelines or requirements set out in the Income Tax Law.
2	Documentation	The Omani tax authority is increasingly requesting supporting documentation for the majority of expenses incurred by the taxpayer.
3	Tax losses	Challenges are increasing from the Omani tax authority on companies incurring continuous losses over a period of years, where the Omani tax authority considers disallowing expenses to the extent of the tax losses in the absence of appropriate justification being presented for the nature and reasons for incurring losses.





Downtown Panama City Skyscrapers, Panama

# Panama

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*This information is current as of 19 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	25%	25%	–
Personal income tax – top rate	25%	25%	–
VAT, GST or sales tax – standard rate	7%	7%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Panama has introduced amendments to several laws on international tax transparency, including provisions regarding the prevention of money laundering and the exchange of information, among others.
- ▶ The government will continue to comply with international standards regarding transparency and the exchange of information.
- ▶ The government will continue to implement and monitor the minimum standards of the OECD BEPS Action Plan.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Panama

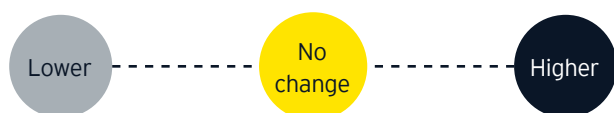
Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	



Tax types	Likelihood of changes in 2022	Direction of change
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

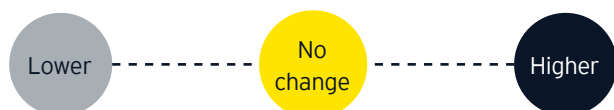
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ There are no changes currently expected.

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

- ▶ A draft bill was submitted before the Panamanian National Assembly in order to regulate digital platforms taxation. However, the draft bill has not been approved and published in the Official Gazette as a law.

### Taxes related to climate change or sustainability

- ▶ There are no changes currently expected.

### VAT/GST or sales taxes

- ▶ There are no changes currently expected.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ There are no changes currently expected.

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

- ▶ There are no changes currently expected.

### Developments in the governance of cryptocurrency

- ▶ A draft bill was submitted before the Panamanian National Assembly to regulate the taxation of digital platforms. However, the draft bill has not been approved and published in the Official Gazette as a law.

## 2.5 Political landscape

- ▶ Tax components of previously passed economic stimulus measures are being implemented (i.e., extension of tax amnesty).

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Amendments were introduced to several laws regarding international tax transparency.
- ▶ Panama exchanged information automatically with the US in compliance with FATCA.
- ▶ Panama exchanged information automatically with 66 jurisdictions in accordance with the CRS MCAA.

## 2.7 Major pending tax proposals not otherwise covered

- ▶ N/A

## Section 3: Tax enforcement in 2022

### 3.1 Current general approach to tax enforcement

- ▶ Tax audits are likely to increase on taxpayers in 2022.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ None

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Currently, there are no known ongoing developments in relation to tax legislation or tax enforcement.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The tax authority is moving forward and taking action on the digitalization of tax administration processes. For example, a resolution was issued by the tax authorities to approve the electronically filing, approval and issuing of Tax Residency Certificates.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	<b>Issue name</b>	<b>Description</b>
1	Sales tax (VAT, movable goods and services transfer tax (ITBMS))	The tax authorities are expected to continue to monitor the correct remittance of ITBMS (VAT) by taxpayers and withholding agents.
2	Compliance with obligations related to the exchange of information	The tax authorities are expected to continue focusing on compliance with CRS and FATCA obligations by reporting financial institutions.
3	Tax refunds	After the onset of the COVID-19 pandemic, the tax authorities indicated that they would focus on resolving tax refund applications to provide taxpayers, if applicable, with cash flow.



Ascension Cathedral, Almaty, Kazakhstan

# Philippines

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## EY key contacts

### Tax policy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 11 December 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	25%	25%	–
Personal income tax – top rate	35%	35%	–
VAT, GST or sales tax – standard rate	12%	12%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Streamlining of tax incentives
- ▶ Widening of the tax base
- ▶ Increased reliance on indirect taxation (consumption tax)
- ▶ Reforms in tax administration (ease of paying taxes), shift to digital tax administration

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules N/A for Philippines	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Philippines

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input checked="" type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ The CIT will remain at 25%, but there is a possibility the government will take a second look at the further reduction of the CIT rate at the end of 2022 or 2023.

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

- ▶ The Philippine Government will pursue 12% VAT on digital services of nonresident foreign corporations.

### Taxes related to climate change or sustainability

- ▶ The Philippine Government has started looking at carbon credits. There are already existing incentives for generation of renewable energy.

### VAT/GST or sales taxes

- ▶ No significant developments are expected.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ No significant developments are expected. There is a bill to introduce a wealth tax, but the Department of Finance is not supportive.

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

- ▶ There will be significant changes in the taxation of financial instruments.

### Developments in the governance of cryptocurrency

- ▶ There is no proposal yet.

## 2.5 Political landscape

- ▶ There will be a national election (president down to congressmen) in May 2022.
- ▶ Tax reforms will be continued particularly on taxation of financial products and updating of real property values for tax purposes.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Rationalization of fiscal and tax incentives, generally, putting a sunset provision on all tax incentives and making them performance-based and transparent

## 2.7 Major pending tax proposals not otherwise covered

N/A

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

- ▶ Stronger tax enforcement
- ▶ Resort to threat of business closure to allegedly noncompliant taxpayers
- ▶ Intensified tax audits focused on VAT only
- ▶ Tax audits to now include a focus on transfer pricing

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Continued use of third-party information
- ▶ Emphasis on VAT audit
- ▶ Focus on final withholding tax on payments to nonresident foreign corporations and transfer pricing audit

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Taxation of digital services of nonresident foreign service providers, which is currently a bill
- ▶ Computer-assisted audits tools (CAATS)
- ▶ Electronic invoicing

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ There is a conscious drive to digitalize tax administration; however, putting in place the appropriate infrastructure and funding for the projects is challenging. There is considerable delay in implementing the law-mandated electronic invoicing system.



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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Final withholding tax	All income payments to nonresident foreign corporations and individuals are presumed by tax authorities to be subject to final withholding tax.
2	Comparison of figures in the audited financial statements (AFS) vs. tax returns	Tax authorities typically look at revenue per AFS vs. income tax returns and VAT returns and assess the difference as undeclared income.
3	Comparison of expenses per AFS vs. expanded withholding tax returns	Tax authorities typically review the expenses per account grouping in the AFS and assumes that they are all subject to expanded withholding tax. They compare the expense account groupings with the expanded withholding tax returns and assess the difference, as expenses are not subject to expanded withholding tax, and consequently, they disallow said expenses that are allegedly not subject to expanded withholding tax.
4	Undeclared sales subject to income tax and VAT	Internal Revenue examiners cross-reference the sales declared by the taxpayer under tax audit against the purchases declared by their customers and assess the difference as undeclared sales.
5	VAT audit	Disallowance of input taxes occurs for failure to comply with strict invoicing requirements.



Krakow, Poland from Wawel Castle

# Poland

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 19 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	19%	19%	–
Personal income tax – top rate	32%	32%	–
VAT, GST or sales tax – standard rate	23% (No local VAT rates)	23% (No local VAT rates)	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Making sure of additional budget revenues due to excessive spending as a result of the COVID-19 pandemic
- ▶ Closure of loopholes in fiscal system
- ▶ Implementation of “just fiscal system”

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Poland

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ Minimal income tax (10%) for taxpayers who report losses from the source of income other than capital gains or who report a low share of profitability at the operational level
- ▶ Introduction of the “hidden dividend” that excludes the following costs from tax deductibles:
  - ▶ Costs that depend on the profitability of the taxpayer
  - ▶ Costs that would not be incurred by a taxpayer acting rationally
  - ▶ Costs related to the use of assets that belonged to a shareholder before the taxpayer has been established
- ▶ Modification of restructuring rules
- ▶ More liberal rules for establishment of Tax Capital Group
- ▶ Higher benefits under R&D incentives rules
- ▶ New CIT reliefs (for prototype, IPO, consolidation, robotization, expansion and sponsoring/corporate social responsibility)
- ▶ More stringent requirements with respect to mandatory noncash payments
- ▶ Amendments in the definition of controlled foreign company (CFC) that aims to qualify more entities as CFCs
- ▶ Limitation of tax depreciation in real estate companies
- ▶ Changes in WHT collection rules: “pay and refund” mechanism for passive receivables, such as interests, dividends and royalties paid to related entities
- ▶ New sanctions for employers who employ illegally
- ▶ Tax abolition that aims to encourage disclosure of income that has not been subject to taxation; CIT (and PIT) taxpayers, who – between October 2022 and March 2023 – are to disclose their income and amount of tax that should have been paid, to

be entitled to apply 8% tax rate for this income

- ▶ Withdrawal of rules limiting deductibility of expenses incurred for certain intangible services up to 5% of EBITDA
- ▶ Introduction of the “Polish holding company,” which enables exemption from taxation of capital gains from the sale of shares in subsidiaries and exemption from taxation for 95% of dividends

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

- ▶ No significant developments are expected.

### Taxes related to climate change or sustainability

- ▶ No significant developments are expected.

### VAT/GST or sales taxes

- ▶ Introduction of VAT group – entities with financial, economic and organizational relationships to be entitled to make joint VAT settlements
- ▶ Introduction of option for taxation of financial services (that are currently exempt from VAT)
- ▶ Structured VAT invoices issued through the IT system managed by the National Revenue Administration – voluntary in 2022; from announcements, structured VAT invoices expected to be mandatory from 2023

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ Effective tax rate for employees increased as a result of health insurance tax deductions being canceled
- ▶ Personal service contracts to be treated as employment contracts for the purposes of social security charges
- ▶ Health insurance contributions for those self-employed to no longer deductible from tax

## Poland

- ▶ Lower flat tax rate for self-employed IT and ITC specialists (12% instead of 25%)
- ▶ Increase of tax-free amount to PLN 30,000
- ▶ Rising threshold for top 32% PIT rate from PLN 85,528 to PLN 120,000
- ▶ Relief for employees earning between PLN 5,701 and PLN 11,141 per month (additional deduction from income: amount of deduction depends on level of annual revenues)
- ▶ Increased taxable lump sum for use of company car for private purposes
- ▶ PIT exemption for families bringing up at least four children (up to PLN 85,528 of the annual income)
- ▶ PIT exemption for seniors, i.e., individuals who despite reaching retirement age decide to continue work
- ▶ Exclusion of depreciation write-offs on residential buildings and premises from tax deductible costs

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

- ▶ No significant developments are expected.

### **Developments in the governance of cryptocurrency**

- ▶ No significant developments are expected.

## 2.5 Political landscape

- ▶ No elections are upcoming.

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ Transfer pricing and selected tax planning (interest deductibility, step-up in value of assets, certain exemptions) remain a key area of tax audits.
- ▶ Strong reaction to Danish Court of Justice of the European Union (CJEU) cases on WHT have been observed, and there have been a significant number of audits, which challenge exemption/reduced rates even in the periods prior to introducing beneficial owner concept and obligation to verify. This is very likely to result in exchange of information
- ▶ Specialization of tax authorities has been observed (by subject matter).

### 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Effective double CIT or PIT for partners of limited partnerships
- ▶ Implementation of ATAD 2
- ▶ More stringent tax depreciation rules
- ▶ Required publication of tax policies by selected CIT taxpayers
- ▶ Restricted deductibility of tax losses under certain circumstances
- ▶ Revised rules for calculating the threshold of interest and debt financing costs to be recognized as tax deductible costs
- ▶ Extended list of transactions subject to verification for compliance with the arm's-length principle
- ▶ Increase in the threshold for a "small taxpayer" benefiting from the lower 9% CIT rate from EUR 1.2m to EUR 2m
- ▶ Cancellation of PIT abolition relief for individuals who are partners of foreign partnerships
- ▶ New charges on sweetened beverages
- ▶ VAT compliance simplifications under the "Slim VAT" package

### 2.7 Major pending tax proposals not otherwise covered

- ▶ N/A

- ▶ There has been a significant increase in number of cases where the General Anti-Abusive Rule (GAAR) is applied (first court rulings issued).
- ▶ VAT compliance and identification of fraud still remain in the sights of tax audits.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the five leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Transfer pricing
- ▶ WHT
- ▶ GAAR and specific anti-abuse regulations

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Response to tax reform (Polish Deal), including new anti-abuse measures and potential changes in the employment model
- ▶ Increased risk of applying personal sanctions given that the correction of tax return will no longer automatically remove the risk
- ▶ New collection mechanisms, which will increase significance of timely payment of tax

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ Most audits run with the use of digital tools. SAF-T files are used regularly by the authorities, including full accounts being analyzed by the tools.
- ▶ Regular (monthly) filed VAT SAF-T, digital CIT returns and financial statements are used frequently to identify entities to be audited.
- ▶ Expected further enhancement of SAF-T use, from 2023 automatic exchange of tax accounts and also for CIT, is to be introduced.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Multilateral (such as ICAP)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

## 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Transfer pricing	A variety of topics reviewed and challenged, including: <ul style="list-style-type: none"> <li>▶ Headquarter and management services transactions</li> <li>▶ Intercompany financing transactions</li> <li>▶ Procurement structures</li> <li>▶ Royalties and licensing fees</li> <li>▶ Limited-risk entity structures</li> <li>▶ Limitation of deductibility of costs based on domestic rules, not on transfer pricing adjustments</li> </ul>
2	Interest deductions and limitations	Various types of acquisition loans (including debt push down) or excessive group financing tend to be challenged.
3	WHT	New WHT regime will become effective, generating significantly higher pressure on verification of beneficial owner and abuse reviews. Increasing number of WHT challenges on royalties, interest and dividend payments exempt or subject to reduced rates under DTT is expected.
4	Losses	For taxpayers reporting loss under scrutiny, the minimum tax may serve as remedy.
5	Incentives (R&D)	It has already been observed that the authorities have started to review applicability of R&D tax incentives. It is expected that more focus may be given to this area.







Porto, Portugal

# Portugal

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## EY key contacts

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 29 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	<b>Resident entities and permanent establishments in Portugal of nonresident entities/resident entities that do not carry out, primarily, commercial, industrial or agricultural activity</b>  <b>Mainland Portugal</b> 21%  <i>State surcharge</i> 3%/5%/9%  <i>Municipal surcharge</i> Up to 1.5%  <b>Madeira/Azores</b> 14.7%  <i>State surcharge</i> Reduced rates apply in Azores and Madeira.  <i>Municipal surcharge</i> Up to 1.5%	Not available at this time	–
	<b>Small and medium enterprises</b>  <b>Mainland Portugal</b> 17% up to 21%  <b>Madeira/Azores</b> 11.9% up to 14.7%		

	Resident companies that meet certain conditions can benefit from a simplified regime of taxation.  Autonomous taxation is also foreseen to taxpayers liable to CIT.																		
Personal income tax – top rate	<p><b>Personal income tax for work</b></p> <p><b>Resident taxpayers</b></p> <p><b>Mainland Portugal</b> From 14.5% up to 48%</p> <p><b>Madeira</b> From 10.15% up to 48%</p> <p><b>Azores</b> From 10.15% up to 38%</p> <p>** There is an additional solidarity tax rate for high income.  2.5% up to 5%</p> <p>**</p> <p><b>Withholding taxes</b></p> <p>Tax rates depend on the type of income.</p>	Not available at this time																	
VAT, GST or sales tax – standard rate	<table border="1"> <thead> <tr> <th>Rate</th> <th>Portugal</th> <th>Madeira</th> <th>Azores</th> </tr> </thead> <tbody> <tr> <td>Normal</td> <td>23%</td> <td>22%</td> <td>16%</td> </tr> <tr> <td>Intermediate</td> <td>13%</td> <td>12%</td> <td>9%</td> </tr> <tr> <td>Reduced</td> <td>6%</td> <td>5%</td> <td>4%</td> </tr> </tbody> </table>	Rate	Portugal	Madeira	Azores	Normal	23%	22%	16%	Intermediate	13%	12%	9%	Reduced	6%	5%	4%	Not available at this time	
Rate	Portugal	Madeira	Azores																
Normal	23%	22%	16%																
Intermediate	13%	12%	9%																
Reduced	6%	5%	4%																

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ The 2022 State Budget was not approved.
- ▶ The Portuguese government had early elections in January 2022 and a new State Budget is set to be presented by the new government.
- ▶ No comprehensive or extensive changes to the tax law are expected.

## Portugal

### 2.2 Tax changes in 2022

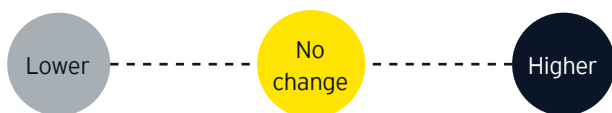
Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations) Capital gains are included in taxable income.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

Tax types	Likelihood of changes in 2022	Direction of change
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

# Portugal

## 2.3 Tax policy outlook for 2022 – summary

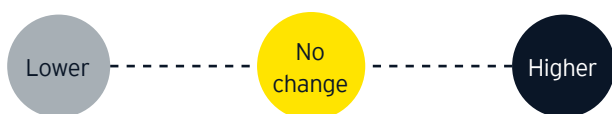
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ Not known at this time, as the 2022 State Budget was not approved.

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

- ▶ Not known at this time, as the 2022 State Budget was not approved.

### Taxes related to climate change or sustainability

- ▶ Not known at this time, as the 2022 State Budget was not approved.

### VAT/GST or sales taxes

- ▶ Not known at this time, as the 2022 State Budget was not approved.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ Not known at this time, as the 2022 State Budget was not approved.

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

- ▶ Not known at this time, as the 2022 State Budget was not approved.

### Developments in the governance of cryptocurrency

- ▶ Not known at this time, as the 2022 State Budget was not approved.

## 2.5 Political landscape

- ▶ Early elections were held on 30 January 2022 as the 2022 State Budget Law was not approved, and the parliament was dissolved. The new government will present a new State Budget after the election.
- ▶ Tax reform is not expected to be a priority in 2022.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ A new transfer pricing framework with a controlled transactions threshold, changes in the controlled transactions definition and changes in documentation, including intangibles and business restructuring, among others. These align with the new OECD guidelines and BEPS actions.
- ▶ There are new regulations for APAs.
- ▶ Carbon taxes regulations were published in February 2021 (carbon tax on air and sea travels).
- ▶ DAC6 measures are in force.

## 2.7 Major pending tax proposals not otherwise covered

- ▶ Not known at this time, as the 2022 State Budget was not approved.

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ The Portuguese tax authorities aim to prevent tax evasion and promote voluntary compliance from taxpayers.
- ▶ As per the last available Activity Plan Report, fiscal year 2020 main programs include: administrative simplification measures – “Simplex+” – and enforcement of services to taxpayers due to the COVID-19 pandemic, extension of communications via website, new stamp duty return, functional enhancement within the international information exchange, application of the European Union Customs Code and modernization of EU Customs.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the five leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Transfer pricing subsidies
- ▶ Personal income tax – capital gains/real estate gains
- ▶ Corporate income tax – deductibility of costs
- ▶ Transactions with the UK
- ▶ DAC6 clarifications

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Transfer pricing, in regards to new regulations on controlled transactions support; recent legislation issued in 26 November 2021 regarding changes on local transfer pricing guidelines and APA framework
- ▶ DAC6 clarifications: the Portuguese tax authorities to gather more information from taxpayers
- ▶ Permanent establishments inquiries

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ Interactions between taxpayers and the Portuguese tax authorities have become increasingly digital/electronic. Tax returns, as well as other relevant documentation for tax purposes, are submitted online. A sophisticated invoicing system has been in place that allows the tax authorities to collect extensive information on taxpayers. Electronic notifications (through email or the tax authorities' website) have become the rule for the vast majority of taxpayers.
- ▶ There is expected to be an increase of cross-reference tax returns with accounting returns.

## Portugal

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Disallowance of deductions	Credit impairment CIT deductibility: In fiscal year 2019 a new CIT regime applicable to credit impairment entered into force. Due to the complexities involved and with fiscal year 2019 starting to be audited by the Portuguese tax authorities, inspectors' different interpretations, namely of the transitory regime, may arise.
2	Indirect taxes – VAT, GST, sales and use, service taxes	Local VAT reverse charge rules, supply of staff, bad debts VAT recovery VAT refunds upon importations of goods by nonresident entities, loyalty schemes and warranty extensions
3	Interest deductions/limitations	ATAD 2 – potential denial of interest expenses, and other deductions, due to the existence of hybrid instruments or entities
4	Transparency/disclosure/ MDR issues	Increase of inquiries on hallmarks and MDR issues
5	Transfer pricing – intercompany financing transactions  Free capital	Potential transfer pricing adjustments due to new legislation on transfer pricing, covering business restructurings, intangibles and interquartile range adjustments  Potential increase of inquiries regarding free capital on permanent establishments







West Bay on the Corniche in Doha Qatar

# Qatar

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## EY key contacts

### Tax policy and controversy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 31 January 2022.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	10%	10%	–
Personal income tax – top rate	N/A	N/A	–
VAT, GST or sales tax – standard rate	N/A	5% standard VAT rate may be introduced	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ OECD BEPS Pillar 2
- ▶ Bringing forth tax incentives to drive economic activities and entrepreneurship (such as opening of the Qatar Free Zone Authority with tax holidays of 20 years)
- ▶ Protecting Qatari businesses (established and present) from international competition
- ▶ Broadening the tax base to support the shift of dependence from oil and gas industry-driven revenue

### 2.2 Tax changes in 2022

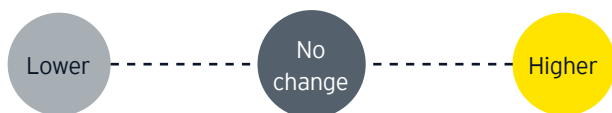
Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Qatar

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

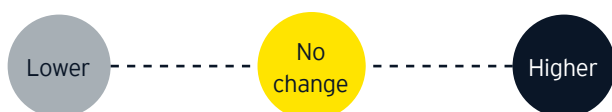
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ Qatar is not expected to have any change in rate or scope of the corporate income tax.
- ▶ More focus is expected on tax revenue collection under the new General Tax Authority (GTA) as part of the State 2030 vision.

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

- ▶ Qatar has not introduced specific taxes on digital business activities. It is yet to be seen whether the GTA will apply withholding tax on payments made to nonresidents on digital income.
- ▶ There may be some changes on OECD BEPS 2.0 Pillar 2 from fiscal year 2023 onward; exact impact to be confirmed.

### Taxes related to climate change or sustainability

- ▶ Qatar is not expected to introduce taxes related to climate change or sustainability.

### VAT/GST or sales taxes

- ▶ Qatar is a signature to the Gulf Cooperation Council (GCC) VAT Framework, which was agreed in 2016 and signed by the GCC States in 2017. However, Qatar remains to be one of the two remaining GCC States that has not implemented VAT. There are discussions, however not official, that Qatar may introduce VAT in late 2022.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ Qatar is not expected to introduce taxes on wages and employment.

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

- ▶ Qatar is not expected to introduce other taxes, such as financial transaction taxes, solidarity surcharges, etc.

### Developments in the governance of cryptocurrency

- ▶ Qatar is not expected to have any developments on the governance of cryptocurrency.

## 2.5 Political landscape

- ▶ No significant developments

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ No major tax policy changes occurred in Qatar in 2021.

## 2.7 Major pending tax proposals not otherwise covered

- ▶ None

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ The Qatar Financial Centre (QFC) Tax Department (which is independent of the GTA) has always been transparent and very cooperative in their approach to tax enforcement
- ▶ There is less certainty and transparency in the approach to tax enforcement with the GTA.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the five leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ VAT implementation
- ▶ To expand the scope of the excisable goods
- ▶ Increased focus on transfer pricing requirements

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Full automation of the tax administration process with the General Tax Authority

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ Full automation of the tax administration process with the GTA
- ▶ Implementation of e-Invoicing also under discussion in Qatar
- ▶ Use of data analytics; expectation for greater focus in this area within a couple of years as the new online portal was implemented recently

### 3.6 in terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures?

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Transfer pricing	<ul style="list-style-type: none"> <li>▸ High-value services transactions</li> <li>▸ Headquarter and management services transactions</li> <li>▸ Intercompany financing transactions</li> <li>▸ Limited-risk entity structures</li> </ul>
2	Disallowance of deductions	<ul style="list-style-type: none"> <li>▸ Interest deduction</li> <li>▸ Management fees/sponsorship fees</li> </ul>
3	WHT assessments	<ul style="list-style-type: none"> <li>▸ Service definition</li> <li>▸ Onshore and offshore services</li> </ul>
4	WHT refunds	<ul style="list-style-type: none"> <li>▸ Treaty benefits</li> <li>▸ PE existence</li> <li>▸ Proof of WHT suffered</li> </ul>
5	Tax exemptions	<ul style="list-style-type: none"> <li>▸ Review of basis and decrees issued by Council of Ministers for approvals obtained for tax exemptions</li> </ul>



Transfăgăraș highway, Romania

# Romania

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## EY key contacts

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 19 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	16%/3% (for microenterprises with no employees)/1% (for microenterprises with one or more employees)	16%/3% (for microenterprises with no employees)/1% (for microenterprises with one or more employees)	–
Personal income tax – top rate	10%	10%	–
VAT, GST or sales tax – standard rate	19%	19%	–



## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Continue to improve legislation by transposing measures adopted at the European level into national law, initiatives proposed by the European Commission under the “Action Plan for fair and simple taxation supporting the recovery” aimed at reducing administrative burdens on states and taxpayers and simplify legislation and obligations
- ▶ Improve and simplify tax legislation as a result of the dialogue with the business community
- ▶ Improve legislation to counteract tax evasion
- ▶ Prepare fiscal reforms that will contribute to sustainable economic growth in the medium and long terms

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022 <sup>4</sup>
4. Anti-hybrid rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

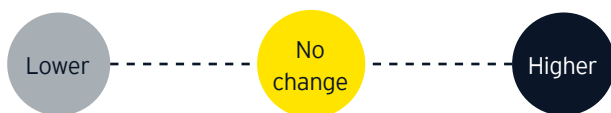
## Romania

Tax types	Likelihood of changes in 2022	Direction of change
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022

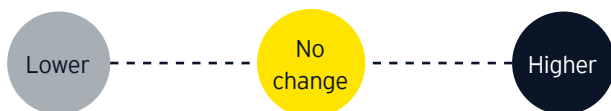
Tax types	Likelihood of changes in 2022	Direction of change
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ Consolidation for CIT purposes (under certain conditions) was introduced into tax legislation with applicability starting with fiscal year 2022
- ▶ CIT reduction for capitalized entities (for maintenance or increase of equity), applicability starting 2022 for the period 2021-2025
- ▶ Increased deduction of adjustments for uncollected receivables (from 30% to 50%), applicability as of 1 January 2022
- ▶ CIT reduction for early education expenses suspended from 1 April 2021 until 31 December 2021 inclusive, which allows for a reduction of the CIT due of the expenses with early education units in the amount of 1,500 lei a month for each child

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

- ▶ No such tax is currently expected.

### Taxes related to climate change or sustainability

- ▶ No changes are currently expected.

### VAT/GST or sales taxes

- ▶ No changes are currently expected.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ Suspension of the tax-free treatment for early education costs is a benefit borne by the employer for its employees' children.
- ▶ There are some initial discussions about introducing a progressive personal income tax. Currently, there are no draft proposals for changing the law or any information on what is being considered.

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

- ▶ No changes are currently expected.

## Romania

### Developments in the governance of cryptocurrency

- ▶ From a CIT and VAT perspective, cryptocurrencies are not regulated. From a PIT perspective, transactions with virtual currencies performed by individuals, natural persons, are taxed at 10%.

### 2.5 Political landscape

- ▶ The presidential election took place in 2019, the next one will take place in 2024. The president is elected by popular vote for a maximum of two five-year terms.
- ▶ The parliament election took place in 2020, the next election will take place in 2024. The national legislature is a bicameral parliament, the Chamber of Deputies and the Senate. Members are elected for four-year terms.
- ▶ The Government continues its policy of improving revenue collection by implementing a simpler and more transparent tax system. A focus point for the medium-long term is the digitalization of the tax authority.
- ▶ A new political alliance is debating the idea of introducing progressive tax rates for wages.

### 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ As of 1 January 2021, expenses related to transactions made with a person, which at the date of booking the expense, is located in a State that is included in Annex I of the EU's list of non-cooperative jurisdictions for tax purposes, published in the Official Journal, are non-deductible from a CIT perspective, if the transactions do not have an economic purpose.
- ▶ For alignment with the provisions of EU Directive 2011/96, there are clarifications with respect to "another tax that replaces the profit tax," as a condition that must be fulfilled in order to confirm the non-taxation of dividends.

### 2.7 Major pending tax proposals not otherwise covered

- ▶ N/A

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

- ▶ The strategic objectives of the Romania Tax Authority (RTA) are focusing on (i) improving the services offered, (ii) digital transformation, (iii) preventing and fighting tax evasions, and (iv) efficiency and transparency.
- ▶ The RTA took a series of measures with respect to implementing the above-mentioned objectives and will continue to do so in the future years. For example, the RTA is currently working on finalizing its PIT compliance strategy and will implement a series of pilot projects (which will run until mid-2022) aimed at improving voluntary PIT compliance in certain areas. Moreover, the RTA introduced the standard audit file for tax (SAF-T) reporting requirement as of 1 January 2022, for certain legal entities. Thus, starting 2022, SAF-T file will be used by the RTA as evidence during tax inspections to determine tax compliance.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Transfer pricing aspects
- ▶ Permanent and fixed establishment assessments
- ▶ Justification for Intercompany charges

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Responsibility to resolve tax appeals will be transferred from the RTA to the Ministry of Finance
- ▶ SAF-T reporting
- ▶ Digitalization (any request from taxpayers will only be processed and registered if it is sent by means of the Virtual Private Space (SPV) portal managed by the RTA)

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The extensive process of modernizing the RTA began in 2020, when the COVID-19 pandemic and its restrictions encouraged forced "remote" collaboration between the RTA and taxpayers.
- ▶ The digitization projects of the National Agency for Fiscal Administration (ANAF) include the following:
  - ▶ Implementation of the SAFT-T, as of 1 January 2022
  - ▶ Implementation of the electronic invoice system (e-invoice)
  - ▶ Extension of the AEOL\_EN system (automatic exchange of information)
  - ▶ Computer system for monitoring intra-community transactions in goods (SIMTIC)
  - ▶ Development of electronic and telephone services offered to taxpayers via the call center

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

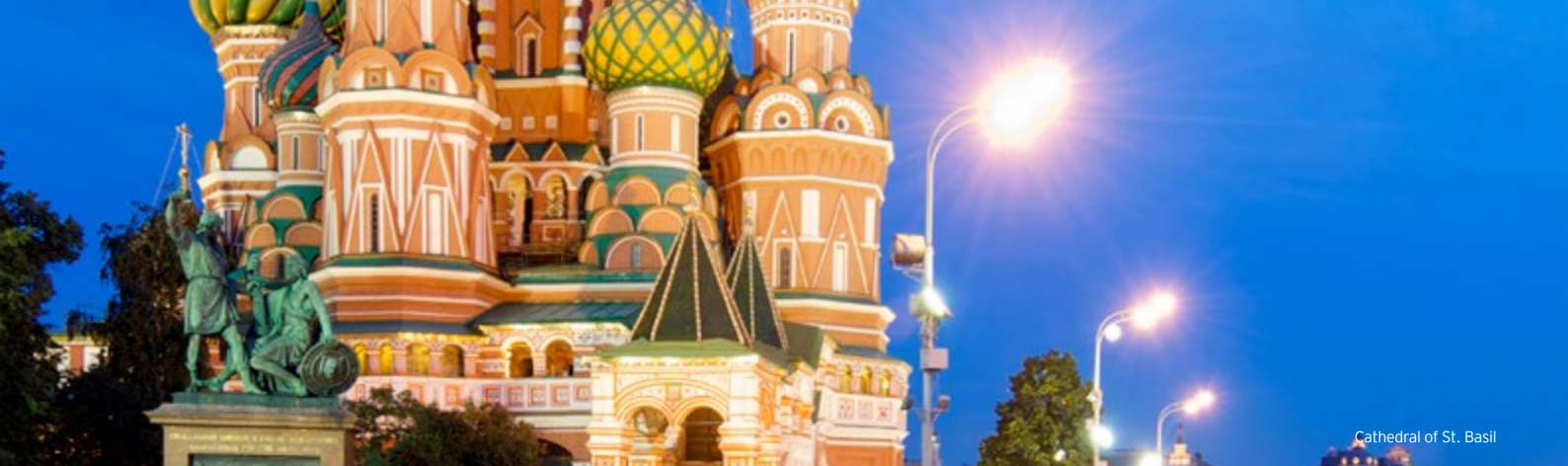
Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

## Romania

### 3.7 Top tax audit issues in 2022

	<b>Issue name</b>	<b>Description</b>
1	Transfer pricing	TP is a common hot topic in the past five years. The tax authorities may audit the analyses made by the taxpayer, irrespective of chosen method and selected comparables.
2	Permanent or fixed establishments	Recent trends appear to indicate that a greater level of scrutiny in tax audits is applied to the assessment of the existence of permanent establishment or a fixed place of business which can give rise to additional CIT and VAT (if applicable).
3	VAT	VAT enquiries include a wide range of topics, including challenges related to sufficient documentation.
4	Losses	The ability to use tax losses is a common area of enquiry during a tax audit.
5	Withholding taxes	WHT is a new topic mainly targeting repayment of loans granted by an affiliate, but also other types of payment. WHT may be assessed if the nonresident recipient does not have a tax residency certificate.





Cathedral of St. Basil

# Russia

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## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	<b>Standard rate:</b> 20% (3% federal budget and 17% local budget for 2017-2024)  <b>Low rates:</b> 0%, 3%, 5%, 10%, 13%, 15%	<b>Standard rate:</b> 20% (3% federal budget and 17% local budget for 2017-2024) <sup>1</sup>  <b>Low rates:</b> 0%, 3%, 5%, 10%, 13%, 15%	–
Personal income tax – top rate	<b>Standard rates:</b> 13% and 15% <sup>2</sup>  <b>Low rate:</b> 9%  <b>Increased rates:</b> 35%, 30%, 15%	<b>Standard rates:</b> 13% and 15%  <b>Low rate:</b> 9%  <b>Increased rates:</b> 35%, 30%, 15%	–
VAT, GST or sales tax – standard rate	<b>Standard rate:</b> 20%  <b>Low rates:</b> 0%, 10% <sup>3</sup>	<b>Standard rate:</b> 20%  <b>Low rates:</b> 0%, 10% <sup>4</sup>	–

*This information is current as of 19 November 2021.*

<sup>1</sup> Article 284 of the Tax Code of the Russian Federation

<sup>2</sup> With respect to taxable income in excess of RUB 5 million for a tax period; Art. 224 of the Tax Code of the Russian Federation

<sup>3</sup> Article 164 of the Tax Code of the Russian Federation

<sup>4</sup> Article 164 of the Tax Code of the Russian Federation



## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Further digitalization of tax administration, including launching the new tax regime (Simplified Taxation System) for microenterprises
- ▶ Development of a national system of traceability of goods, providing control over the turnover of goods at all stages
- ▶ Formation of the legal basis for the implementation of customs monitoring
- ▶ Systemic changes in the taxation of resource rents in industries of the mining and metallurgical complex
- ▶ Improvement of the taxation system for hydrocarbon production
- ▶ Introduction of a single tax payment for businesses
- ▶ Improving the quality of administration of excise taxes on tobacco

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022 <sup>4</sup>
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

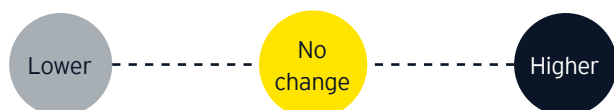
## Russia

Tax types	Likelihood of changes in 2022	Direction of change
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022

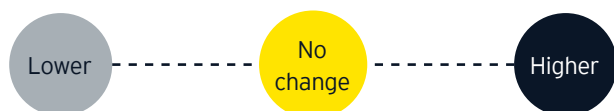
Tax types	Likelihood of changes in 2022	Direction of change
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

#### Significant changes include:

- ▶ Profit earned in 2022-2024 cannot be decreased by more than 50% on losses from previous years.
- ▶ The initial value of fixed assets changes regardless of the amount of the residual value of fixed assets in cases of completion, re-equipment, reconstruction, modernization, technical re-equipment, or partial liquidation of the objects.
- ▶ Interest on loans to support COVID-19 pandemic-affected businesses in 2020-2021 is included in expenses as it is paid.
- ▶ The double tax treaty with the Netherlands was terminated 1 January 2022.

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

- ▶ It is possible that a ban on the accounting of advertising expenses made on foreign internet sites for profit taxation purposes will be established. More detailed proposals for this measure are scheduled to be submitted by February 2022.
- ▶ According to Law No. 236-FZ (dated 1 July 2021), a foreign entity operating on the Internet in the territory of the Russian Federation must, from 1 January 2022, establish a branch, open a representative office or establish a Russian legal entity and confirm its operation in the territory of the Russian Federation. There are mechanisms to limit the activities of IT companies in the Russian Federation in cases of noncompliance with these requirements.
- ▶ Law No. 236-FZ also requires registration on the official website of the federal executive body of a personal account responsible for control and supervision of mass media, mass communications, information technology, and communications on the internet used to interact with federal bodies of the Russian Federation.

## Russia

### Taxes related to climate change or sustainability

- ▶ No changes are expected.

### VAT/GST or sales taxes

- ▶ No changes are expected.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ No changes are expected.

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

- ▶ No changes are expected.

### Developments in the governance of cryptocurrency

- ▶ No changes are expected.

## 2.5 Political landscape

- ▶ In 2021, an election in State Duma took place, but there were no essential changes.
- ▶ Current tax administration leaders:
  - ▶ Anton Siluanov – Head of the Ministry of Finance
  - ▶ Daniil Egorov – Commissioner of the Federal Taxation Service

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Further development of a tax regime for IT companies
- ▶ Revision or denunciation of several double tax treaties
- ▶ Change in approach to the application of GAAR (Article 54.1 of the Tax Code) with the publication of the Letter ББ-4-7/3060@ dated 10 March 2021
- ▶ Review of forms to report transactions involving traceable goods

## 2.7 Major pending tax proposals not otherwise covered

- ▶ The Ministry of Finance of Russia prepared the main directions of the budget, tax and customs tariff policy for 2022-2024, which, among other issues, puts forward the idea of a new type of individual investment accounts to attract long-term investments.
- ▶ In September, draft Law No. 1258307-7 was submitted, introducing increased taxation on metallurgists, miners and fertilizer producers, an excise tax on liquid steel and changes to the order of taxation of mined ores, coking coal and potassium salts.
- ▶ In October, draft Law No. 542-8 was submitted, introducing an exemption to imported technological equipment and electronic products from VAT.
- ▶ All amendments by government bodies (ministries, agencies and alike) to tax legislation are routinely submitted for public consultations and discussion (through [www.regulation.gov.ru](http://www.regulation.gov.ru)).

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

- ▶ The general approach to tax enforcement is characterized by the following:
  - ▶ Further digitalization and improving services for taxpayers
  - ▶ Reduction of tax audits while simultaneously raising tax collection effectiveness
  - ▶ Encourage taxpayers to use voluntary tax liability adjustments

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Companies are actively encouraged to join the tax monitoring regime.
- ▶ Clarification Letter ББ-4-7/3060@ dated 10 March 2021 clarifies approaches to the application of tax reconstruction when passing the criteria established in the letter.
- ▶ Cross-border transactions are expected to be more actively audited by the tax authorities.
- ▶ A risk-based approach is expected to be more actively applied within the preaudit stage.

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Requirement for a foreign entity operating on the Internet in the territory of the Russian Federation to establish a branch, open a representative office or establish a Russian legal entity and confirm its operation on the territory of the Russian Federation
- ▶ Change in approach to the application of GAAR
- ▶ Further development of the application of the MLI and review of double tax treaties

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ Digitalization of the tax administration is laid out in the main directions of budget, tax and customs tariff policy for 2022-2024; in particular, one of the main aims is introduction of a new tax regime for microenterprises.
- ▶ Further development is expected of automated algorithms for calculating tax liabilities and notifying the taxpayer of them on a preliminary basis.
- ▶ Data management standards are improving to make available the information needed for administration.
- ▶ Further development of the "Single Tax Payment" technology, which allows for advance payment of tax, including for third parties, through an interactive service; the list of tax categories available for usage of "Single Tax Payment" is being expanded.

## Russia

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Application of benefits prescribed under double taxation treaties	Development of a law enforcement practice devoted to taxpayer application of benefits prescribed under double taxation treaties is expected. Given that MLI in Russia came into effect on 1 January 2021, tax authorities will further apply principal purpose test and limitation-on-benefits tests while auditing taxpayer's transactions.
2	Intragroup MNC transactions	Development of a law enforcement practice devoted to intragroup services is expected. Tax authorities will scrutinize the business purposes of transactions and the necessary documents with respect to operations.
3	Unjustified tax benefit	Tax authorities will scrutinize the good faith of taxpayer's actions and prove the absence of the reality of the transactions or committing intentional actions aimed at tax evasion.
4	The classification of an object as movable or immovable property for corporate property tax purposes	The issue of classifying an object as movable or immovable property for corporate property tax purposes remains under close attention of the tax authority.
5	Interaction with "mala fides" counterparties	Tax authorities will scrutinize businesses with respect to transactions performed by the taxpayers with "mala fides" counterparties, as stipulated by clarifications published on 10 March 2021 by the Federal Taxation Service regarding application of Art. 54.1 of the Tax Code.





# Singapore

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## EY key contacts

### Tax policy and controversy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 30 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022 <sup>1</sup>	% change
Corporate income tax – top rate	17%	17%	–
Personal income tax – top rate	22%	22%	–
VAT, GST or sales tax – standard rate	7%	7% <sup>2</sup>	–

<sup>1</sup> Any changes in the CIT, PIT and GST rates for 2022 will be known when the Singapore Budget 2022 is delivered, which is expected to be in early 2022.

<sup>2</sup> GST rate increase to 9% is slated to occur between 2022 and 2025.



## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ To grow a vibrant business community with a strong spirit of innovation and enterprise that is deeply connected with Asia and the rest of the world by restoring physical connectivity, expanding digital connectivity, and deepening capacity to collaborate and innovate with partners around the world
- ▶ To catalyze capital to enable businesses to innovate, transform and scale by investing in new and emerging technologies that will sharpen competitiveness, leveraging technology for job redesign and transforming value chains
- ▶ To equip workers with deep and future-ready capabilities, groom leaders in innovation and enterprise, and enhance the complementarity of local and foreign manpower
- ▶ To build a strong social compact and community spirit by strengthening social safety nets, addressing challenges faced by vulnerable members of society and encouraging philanthropy and volunteerism.
- ▶ To build a green and sustainable home through long-term planning, sustainable development and harnessing technology to tackle climate change.
- ▶ To strike a careful balance in fiscal approach between addressing immediate needs and meeting longer-term structure needs in a responsible manner, as well as make sure that the overall taxes and transfers system remains fair and progressive while maintaining a resilient tax system amid international tax developments

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Singapore

Tax types	Likelihood of changes in 2022	Direction of change
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022

Tax types	Likelihood of changes in 2022	Direction of change
16. Do you expect changes to tax enforcement generally?	<input checked="" type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ There is no indication of any change in the corporate tax rate of 17%.
- ▶ The Singapore Government is mindful of international tax developments and will consider if adjustments to Singapore's corporate tax systems are required.

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

- ▶ Direct tax
  - ▶ Generally, Singapore adopts the "operations test" to determine whether income is generated in Singapore and will, therefore, be liable to tax in Singapore.
  - ▶ Singapore has thus far not applied any interim measures nor made any response in its income tax legislation pending the OECD's conclusion on the BEPS 2.0 project.

### ▶ Indirect tax

- ▶ GST on imported digital services consumed in Singapore was implemented on 1 January 2020. With effect from 1 January 2023, the scope will be expanded to include all business-to-consumer imported services, whether digital or non-digital, that are supplied and received remotely.
- ▶ From 1 January 2022, the supply of online advertising that is accessible by internet users globally (i.e., place of circulation of advertisement is substantially outside Singapore) to customers belonging in Singapore will no longer be zero-rated.

### Taxes related to climate change or sustainability

- ▶ The Singapore Government implemented a carbon tax on the emission of greenhouse gases in 2019.
- ▶ The current carbon tax level will be maintained until 2023, and the revised carbon tax rate for 2024 onward, with an indication on what to expect up to 2030, will be announced in the Singapore Budget 2022, which is expected to be delivered in early 2022.

## Singapore

### VAT/GST or sales taxes

- ▶ Proposed increase in GST rate
  - ▶ To support the expected increase in health care, security and other social spending, the GST rate will be raised from 7% to 9% sometime in the period between 2022 and 2025.
  - ▶ The exact timing will depend on the state of the economy, how much the expenditures grow and how buoyant the existing taxes are. It was announced in Singapore Budget 2021 that the increase may occur “sooner rather than later, subject to the economic outlook.”
- ▶ Increase in GST base from 1 January 2022
  - ▶ 2022 – exclusion of certain supply of online advertising from zero-rating (see taxes on digital business activity above)
  - ▶ 2023 – extension of GST coverage to:
    - (i) Imported non-digital services (currently only applicable to imported digital services) in respect of business-to-consumer transactions (see taxes on digital business activity above)
    - (ii) Imported low-value goods (currently with a GST import relief threshold of S\$400)

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ There is no indication of any change in the top marginal rate of 22%.
- ▶ At the 35th Singapore Economic Roundtable on 15 October 2021, the Minister for Finance noted that an area that Singapore is exploring to increase its tax base is wealth taxes, and the Singapore Government is studying possible options for expanding wealth taxes that are effective and not easily avoidable.

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

- ▶ No significant developments are expected.

## 2.5 Political landscape

- ▶ As the People’s Action Party remains the single dominant party in Parliament, tax policy as of now is likely to remain stable and consistent.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Release of the sixth edition of the Transfer Pricing Guidelines with various new clarifications by the Inland Revenue Authority of Singapore (IRAS) included the following:
  - ▶ Replacement of the reference to “TP consultation” with “TP audit”
  - ▶ Stating the circumstances under which the IRAS may consider a full or partial remission of a TP surcharge
  - ▶ Further transfer pricing guidance on various matters, such as the application of the Berry ratio and value-added cost markup, arbitration and the circumstances under which the IRAS will not accept a MAP or APA application, related-party services pertaining to the shareholder activities, duplicative service and the OECD’s simplified approach for low value-adding intragroup services, cost contribution arrangements, etc.
- ▶ Increased enforcement against missing trader fraud (MTF) through legislating the need of businesses along the supply chain to take reasonable steps to ascertain and conclude that the goods or services are not part of an MTF arrangement or face hefty consequences

## 2.7 Major pending tax proposals not otherwise covered

- ▶ A tax corporate governance framework to guide large companies in establishing good tax governance and effective internal control frameworks for corporate income tax is expected to be rolled out in 2022.

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

- ▶ IRAS generally adopts a risk-based approach to identify compliance risk, prioritizing and tailoring specific compliance programs.
- ▶ IRAS will take enforcement actions against noncompliant businesses and will not hesitate to penalize taxpayers for noncompliance or for incorrect tax filings.
- ▶ Advanced tax ruling and voluntary disclosure program for taxpayers is available.
- ▶ IRAS has put in place the Assisted Compliance Assurance Programme (ACAP), which is an initiative that provides a holistic framework for GST-registered businesses to proactively manage their GST risks and incorporate tax risk management into part of their corporate governance.
  - ▶ Participation is voluntary and those with adequate and effective GST controls will be awarded ACAP status, the benefits of which include step-down of IRAS-GST compliance activities and expeditious GST refunds, subject to conditions.
- ▶ A tax corporate governance framework to guide large companies in establishing good tax governance and effective internal control frameworks for corporate income tax is expected to be rolled out in 2022.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the five leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Shifts in IRAS' compliance review procedures, such as:
  - ▶ New tax compliance audit engagement pilot – asking for engagement sessions with taxpayers to determine the scope of tax audit
  - ▶ Heightened withholding tax compliance audit
  - ▶ Increased focus on self-review and controls
- ▶ Heightened controversy on related-party transactions, mandatory contemporaneous transfer pricing documentations and noncompliance with the arm's-length principle
- ▶ Continued focus by IRAS in the GST audit and investigation efforts on the MTF also known as carousel fraud, observable from the increased taxes and penalty collection for GST audits in 2020 and 2021

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Transfer pricing is seeing controversy, especially with the imposition of a 5% surcharge on transfer pricing adjustments that applies regardless of whether there is tax payable on the transfer pricing adjustments made. The surcharge may, however, be remitted wholly or in part subject to conditions, which include the maintenance of contemporaneous transfer pricing documentation.
- ▶ Tax audits on tax returns with penalties of 100%-200% of tax undercharged from errors and mistakes made in the tax returns are expected.
- ▶ Tax audits are also expected on tax avoidance arrangements with imposition of 50% surcharge if the taxpayer is unable to prove to the satisfaction of the Comptroller of Income Tax that the arrangement is carried out for bona fide commercial reasons and had not, as one of its main purposes, the avoidance or reduction of tax.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

The IRAS continues to improve their digitalization and data analytics efforts, including:

- ▶ E-filing is now mandatory for most tax returns and related applications.
- ▶ Taxpayers are encouraged to correspond digitally with the IRAS, and most of IRAS' notices have been digitized.
- ▶ IRAS has partnered with other government agencies to sync taxpayers' details, allowing seamless digital filing for SMEs.

## Singapore

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input checked="" type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Related-party transactions	To make sure that the transactions are conducted at arm's length and are substantiated with contemporaneous and adequate transfer pricing documentation  Common interest areas: companies in persistent losses, holding companies with costs not charged out, etc.
2	Incentivized taxpayers	To make sure that controls and measures are put in place to identify and allocate income and expenses between concessionary tax rates and normal tax rate correctly
3	Withholding tax compliance	To make sure that withholding tax obligations have been duly complied with; IRAS cross-checking of the corporate income tax filing with withholding tax return and questioning on the discrepancies
4	Foreign exchange difference	To make sure that the identification of capital and revenue exchange difference is complete and accurate; IRAS frequently asking for the nature of the underlying transactions to verify the identification as well as imposing penalties for incorrect identification on a number of instances
5	Tax residency	To make sure that the Singapore tax residency claim is well-substantiated when claims for foreign tax credits and foreign-sourced income exemptions are made; IRAS starting to ask detailed questions surrounding the composition of boards of directors, minutes of board meetings, etc.





Košice, Slovakia

# Slovakia

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## EY key contacts

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*This information is current as of 19 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	15%*/21% *[as of 1 January 2021, preferential tax rate should apply to legal entities referred to as “micro taxpayers” reporting income (revenues) not exceeding €49,790 in the relevant tax period]	15%*/21% *[as of 1 January 2021, preferential tax rate should apply to legal entities referred to as “micro taxpayers” reporting income (revenues) not exceeding €49,790 in the relevant tax period]	–
Personal income tax – top rate	15%*/19%/25% on portion of gross income exceeding €3,165.16 per month *[as of 1 January 2021, preferential tax rate should apply to self-employed persons reporting income (revenues) not exceeding €49,790 in the relevant tax period]	15%*/19%/25% on portion of gross income exceeding €3,212.75 per month *[as of 1 January 2021, preferential tax rate should apply to self-employed persons reporting income (revenues) not exceeding €49,790 in the relevant tax period]	–



VAT, GST or sales tax – standard rate	20%/10%*/0%** *[applicable for selected products (e.g., some foodstuffs, pharmaceutical products, medical equipment for disabled persons, etc.) **[until 30 June 2021 applicable for face masks in protection classes FFP2 and FFP3]	20%/10%* *[applicable for selected products (e.g., some foodstuffs, pharmaceutical products, medical equipment for disabled persons, etc.)]	– VAT rate applicable for face masks repealed July 2021
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## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Fiscal consolidation – main driver
- ▶ Increase state income
- ▶ Fight against tax fraud and tax evasion
- ▶ Tax system consolidation
- ▶ Dealing with the consequences of the COVID-19 pandemic

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022

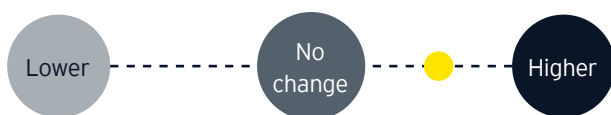
## Slovakia

Tax types	Likelihood of changes in 2022	Direction of change
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input checked="" type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022

Tax types	Likelihood of changes in 2022	Direction of change
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

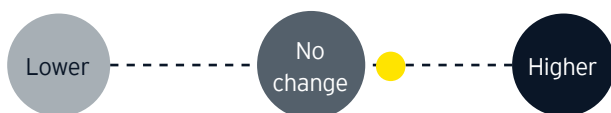
**Overall corporate income tax responsibility  
(the combined effect of base/rate)**



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ An amendment to the Slovak Income Tax Act (ITA) and tax code, effective for the tax period beginning on 1 January 2022, introduced, inter alia, the following changes:

#### Deduction of expenses (costs) for investments

- ▶ Taxpayers acquire the right to an additional deduction (15% to 55%) of investment expenses from the tax depreciation of the assets concerned. The amount of the deduction depends on the average amount of reinvestment in percentage terms and euros, compared to the average of the previous three tax periods. The minimum investment amount is €1 million, and the minimum reinvested average value is 700%.
- ▶ This is a temporary instrument aimed at supporting investments with higher added value, i.e., productive investments with links to Industry 4.0.
- ▶ For the purposes of this deduction, an investment plan must be drawn up that declares when investments will be made.
- ▶ The deduction can be applied during the depreciation period of the asset, but for a maximum of 10 immediately consecutive tax periods.

#### Reduction of the deduction for R&D

- ▶ The super-deduction of R&D costs is reduced to 100% from the original 200%.

#### Reduced administrative burden

- ▶ “Cards” certifying the CIT registration of tax subjects are cancelled (the tax administrator will only issue a decision on registration).
- ▶ In addition, there are several changes that were approved in prior tax periods, but their effectiveness was postponed to 1 January 2022:

#### Reverse hybrid entities

- ▶ The ITA will regulate reverse hybrid entities in keeping with transposition of the rules of the EU ATAD 2 Directive.
- ▶ Pursuant to the new rules for hybrid mismatches, income (revenues) attributable to foreign (nonresident) shareholders fulfilling the criteria of 50% or more participation in relation to transparent entities should be taxed at the level of a transparent entity at a rate of 21% (according to Slovak legislation this is a partnership, limited partnership or another subject with or without legal personality taxed at the level of shareholders). This applies if the income (revenues) of a nonresident entity cannot be taxed through a permanent establishment

situated in the Slovak Republic according to §16 (3) or §16 of the ITA and will not be taxed, either in the state of residence of the nonresident entity or abroad. Foreign shareholders of transparent entities will have also additional reporting obligations.

- ▶ The rules do not apply to collective investment subjects.

#### CFC rules for individuals

- ▶ Application of the rules for CFCs is extended to include individuals who are tax residents of the Slovak Republic.
- ▶ An individual's income derived from CFCs should be included in a special tax base for a period that corresponds to the end of the CFC's tax period, i.e., when the potential claim of the taxpayer arises, not at the time of actual income payment. The income concerned should be subject to a tax rate of 25% or 35%.
- ▶ In case of CFC rules for individuals, legal entities or subjects with head offices in foreign jurisdictions should be considered CFCs if:
  - ▶ It is taxed at an effective rate below 10% or it pays taxes in a non-cooperating state
  - ▶ An individual, who is a tax resident of the Slovak Republic, alone or with other related parties, that has effective control or at least 10% participation in it
- ▶ The rules do not apply if:
  - ▶ The individual's total income derived from CFCs does not exceed €100,000
  - ▶ CFC rules for legal entities have already been applied pursuant to §17h
  - ▶ The CFC is a taxpayer in a cooperating state, and the individual, who is a tax resident of the Slovak Republic, is able to prove that the income derived from a CFC was achieved through economic activity, which was provably conducted, for which it has personnel, material equipment, tangible assets, and intangible assets in the state concerned
- ▶ Noncompliance with these new rules should be penalized in the amount of the tax difference levied on the taxpayer.

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

- ▶ Effective 1 January 2018, Slovakia adopted a unilateral measure allowing taxation of digital services concerning intermediation of accommodation and transfer services irrespective of the existence of physical presence of a service provider in Slovakia – the so-called concept of a digital permanent establishment.

- ▶ Nevertheless, The Ministry of Finance has opened a consultation on a proposal to introduce a DST on the revenue of nonresidents from the provision of services. There were no further steps taken in this respect so far, i.e., no specific bill has been drafted yet.

#### **Taxes related to climate change or sustainability**

- ▶ No changes are currently expected.

#### **VAT/GST or sales taxes**

##### **▶ Disclosure of bank accounts and extension of the customer's liability for unpaid VAT**

- ▶ Tax subjects are now obligated to notify the Financial Directorate of the Slovak Republic of each of their own bank accounts that they will use for business that is subject to VAT. The Financial Directorate will publish a list of all such notified bank accounts on its website.
- ▶ Taxpayers who are VAT payers as of 15 November 2021 were required to notify bank accounts by 30 November 2021.
- ▶ The notification obligation arises immediately from the day when the tax subject became a VAT payer or from the day when they opened such a bank account.
- ▶ If a customer settles an invoice to a supplier's account, which is not listed on the Financial Directorate's website, they will be liable for the VAT stated on the invoice.
- ▶ The provision related to disclosure of bank accounts for VAT purposes took effect from 15 November 2021.

##### **▶ Real-time invoicing**

- ▶ The Ministry of Finance is preparing legislation to implement a new mandatory system of reporting real-time data from both issued and received invoices to the Slovak Financial Administration (SFA). This aims to combat tax fraud and decrease the Slovak VAT gap, as well as gap in corporate and personal income tax.
- ▶ Reporting of particular invoice data should take place either via the taxpayer's accounting software, which will be connected to the SFA information system (large- medium-sized companies) or via a state application developed by the SFA (targeted mainly at smaller companies).
- ▶ Current control mechanisms (in particular, the VAT ledger) have significant time lag between completion of a transaction and its reporting to the relevant tax authority.
- ▶ The associated obligations are expected to take effect from 1 January 2023.

##### **▶ Reduced administrative burden**

- ▶ "Cards" certifying the VAT registration of tax subjects are cancelled (the tax administrator will only issue a decision on registration).

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

##### **▶ Financial contribution for employee meal allowance**

- ▶ Effective 1 March 2021, an amendment introduced a choice of meal vouchers or a financial contribution to meals for employees whose employers do not provide meals in either their own or contracted catering facilities.

##### **▶ Tax changes in provision of employee meal allowance**

- ▶ A second amendment, effective 1 January 2022, aims to equalize (in the tax area) meal vouchers and financial contributions.

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

- ▶ No changes are currently expected.

#### **Developments in the governance of cryptocurrency**

- ▶ Virtual currencies have been subject to taxation since 1 October 2018.
- ▶ We are not aware of any proposed changes on the taxation of cryptocurrency.

## **2.5 Political landscape**

- ▶ The last parliament elections were held in 2020 where the OĽaNO (Ordinary People and Independent Personalities) won and formed a government.
- ▶ The next parliament elections will be held in 2024.
- ▶ Tax policy leaders:
  - ▶ Igor Matovič (Minister of Finance)
  - ▶ Marcel Klimek, Ľuboš Jančík (State Secretaries, Ministry of Finance)
- ▶ Tax administration leaders:
  - ▶ Jiří Žežulka (President of Financial Directorate)
  - ▶ Michal Šoltes (Vice President of Financial Directorate)

## **2.6 What major tax policy changes occurred in your jurisdiction in 2021?**

- ▶ The measures described in section 2.4 were proposed and/or legislated for in 2021.

## Slovakia

### 2.7 Major pending tax proposals not otherwise covered

- ▶ The Minister of Finance is expected to introduce a new tax reform divided into three main areas: (i) family support, (ii) changes in labor taxation and (iii) changes in corporate taxation.

- ▶ Newly introduced tax measures include, inter alia, increasing the child allowance, increasing the contribution for children's clubs, and tutoring and simplification of the rules for labor taxation.
- ▶ As no formal legislative process has yet begun in this regard, the presented changes will likely be subject to change. Thus, developments in this area should be carefully monitored.

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ Effective from 1 January 2021 in Slovakia, MDR requires taxpayers or their intermediaries to disclose information on reportable cross-border arrangements to the relevant tax authorities. Reporting is required within 30 days of certain trigger events.
- ▶ Where there is no EU intermediary or any EU intermediary(ies) are exempt from disclosing due to legal professional privilege, the obligation to disclose falls on the relevant taxpayers. The arrangements reported will in most cases be shared automatically among the EU member states' tax authorities.
- ▶ The Slovak transposition in principle mirrors the EU DAC 6 Directive when it comes to hallmarks and other aspects of the reporting.
- ▶ The information of reportable arrangements must be submitted electronically on DAC 6 Notification form (XML file), which is available on the Slovak Financial Administration portal.
- ▶ Failure to comply with these legal requirements will be sanctioned by a penalty of up to €30,000, which can be imposed repeatedly.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ **New form of public Tax Reliability Index**
  - ▶ The amendment to the tax code will bring changes to the Tax Reliability Index, which should emphasize its more motivational character.
  - ▶ A rating will be assigned to all tax entities registered for income tax, and the evaluation period for determining the index will be one calendar year.
  - ▶ The benefits for taxpayers who achieve a "highly reliable" rating will be:
    - ▶ A partial protocol drawn up within the scope of tax control
    - ▶ Extended deadlines for meeting obligations to the tax administrator connected with tax audits or local surveys (at least 15 days, compared to an 8-day deadline for entities rated "unreliable")
    - ▶ Fees reduced by 50% for a binding opinion of the tax administrator
  - ▶ The exact criteria for evaluating the index should be regulated in a decree of the Ministry of Finance, but the factors affecting the resulting ratings should represent: (i) overall fulfilment of taxpayer obligations arising from tax and accounting regulations, (ii) economic diversification of taxpayers, (iii) the number of employees of the entity and (iv) the amount of turnover, profit or loss.
- ▶ The index should not be used to assess tax entities' general stability and will not consider matters of public procurement.

▶ **Reduced fee for a binding opinion**

- ▶ The fee for the binding opinion of the tax administrator is reduced to €1,000. As indicated above, tax subjects rated as “highly reliable” will only pay €500 for a binding opinion.
- ▶ Using the institution of a binding opinion, the taxpayer will have a formal confirmation that he is complying with the tax law.

▶ **DAC 7**

- ▶ In 2021, the EU introduced new rules for digital platforms (DAC 7) aimed at increasing legal certainty and providing more clarity to the digital platform operators, who currently may face different reporting obligations in individual countries.
- ▶ EU member states will have until 31 December 2022 to transpose the amendments into national law. The new provisions will apply as of 1 January 2023, and the first reporting of data will be required by 31 January 2024.
- ▶ DAC 7 should cover EU-based sellers using a digital platform or non-EU sellers whose activities involve the rental of immovable property located in the EU. However, the reporting obligation itself lies on the platform operator.
- ▶ Under DAC 7, reporting platform operators will have to report to the tax authority various information about the sellers who use their platforms, such as seller’s revenues, financial account of the seller, commissions, seller verification information, etc.
- ▶ The tax authority receiving reportable information will process this information and will exchange it with the tax authorities of the other EU member states on an annual basis.
- ▶ Platform operators are also expected to verify data received from vendors and, in case of any information deficiencies, will be obliged to block the vendor on the platform.

**3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?**

- ▶ See 3.3.

**3.5 How would you describe the tax authority’s approach to and overall status of the digitalization of the tax administration?**

- ▶ Automatic registration of taxpayers by the tax administrator was introduced in 2019. Under new rules, registration for income tax should be automatically carried out based on registration of a natural or legal person in the register of legal persons, entrepreneurs and public authorities. Taxpayers not registered in the register in question should be registered by the tax administrator on the basis of their first filed tax return. Only those who will not be able to be registered in any of the above ways will be obliged to ask the tax administrator for registration.
- ▶ Taxpayers are no longer required to report data changes to the tax administrator (e.g., change of registered office, change of surname) if they fulfil this obligation toward another institution that notifies such changes to the tax administrator.
- ▶ To achieve proper technical functionality, the automatic registration of taxpayers was postponed to 1 January 2023 onward.

## Slovakia

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Multilateral (such as ICAP)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Transfer pricing	Tax authorities are expected to continue focusing on transfer pricing arrangements as well as the tax deductibility of management fees charged by foreign entities from preferential tax regime jurisdictions.
2	Multilateral instrument (MLI)	In 2018, the Slovak Republic ratified the OECD MLI, driving changes to double tax treaties. The OECD matching database can be monitored to review changes in the respective DTTs.
3	MDR	See above (point 3.1)
4	CFC issues	See above (point 2.4)
5	Real-time invoicing	See above (point 2.4)







Bled lake, Slovenia

# Slovenia

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## EY key contacts

### Tax policy and controversy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 16 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	19%	19%	–
Personal income tax – top rate	For net annual tax base (in EUR) of more than 72,000.00, the personal income tax amounts to 22,480.00 + 50% for income over 72,000.00.	For net annual tax base (in EUR) of more than 72,000.00, the personal income tax amounts to 22,480.00 + 50% for income over 72,000.00.	A 5% reduction to the top PIT rate has been proposed.
VAT, GST or sales tax – standard rate	VAT standard rate of 22% and VAT reduced rates of 9.5% and 5%	VAT standard rate of 22% and VAT reduced rates of 9.5% and 5%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ There have been several proposals on changes to PIT taxation for year 2022, including but not limited to a decreased top marginal personal income tax rate from 50% to 45%, increase of general tax relief, a decreased rental income tax rate from 27.5% to 15% and a decreased capital income tax rate from 27% to 25%.
- ▶ The Slovenian Parliament confirmed proposed changes to the CIT Act, including but not limited to an increased tax relief for donations from 0.3% to 1%, a new tax relief for investments in green and digital transitions, introduction of the EU list of blacklisted countries and new employment tax reliefs. Those changes apply for tax years beginning on or after 1 January 2022.
- ▶ Several VAT changes have been proposed, including certain administrative changes aiming to simplify taxation.

### 2.2 Tax changes in 2022

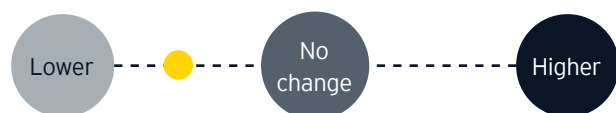
Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Slovenia

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

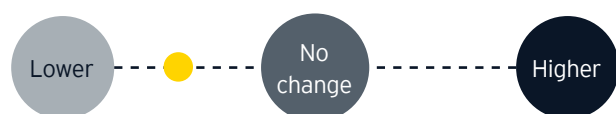
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ Tax relief for donations to increase from 0.3% to 1%
- ▶ New tax relief for investments in green and digital transitions
- ▶ Changes to employment tax relief
- ▶ Introduction of EU list of blacklisted countries
- ▶ Increased tax relief for hospitality costs

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

- ▶ No significant changes are currently expected.

### Taxes related to climate change or sustainability

- ▶ Changes to the CIT adopted new tax relief for investments in green and digital transitions, such as cloud computing, artificial intelligence, cheaper and healthier public and private transportation, decarbonization of the energy sector and others. Such tax relief amounts to 40% of the amount invested.
- ▶ A new VAT deduction is proposed for personal motor vehicles without carbon dioxide emissions, e.g., electric vehicles. In the case of such a vehicle, input VAT could be deducted if the total value of the vehicle (including VAT and other charges) did not exceed EUR 80,000.

### VAT/GST or sales taxes

- ▶ Aforementioned new deduction of VAT for personal motor vehicles without carbon dioxide emissions has been proposed.
- ▶ The threshold for compulsory entry into the VAT system for farmers has been proposed to be abolished, while the possibility of a voluntary entry to the system is proposed to be maintained.
- ▶ It is proposed that the issuance of a printed invoice will no longer be mandatory for domestic deliveries of goods or in business to consumer operations and will be issued only at the explicit request of the buyer.

### Personal taxes (such as on wages, employment, inheritance and wealth)

Several changes were proposed to the PIT Act, including a:

- ▶ Higher general tax relief from EUR 3,500 to EUR 4,500, with gradual increase to EUR 7,500 by 2025
- ▶ Lower tax rate on capital income from 27.5% to 25%
- ▶ New so-called senior tax relief implementing a reduction of the annual tax base in amount of EUR 1,500 per year for tax residents over 70 years old
- ▶ Decreased top marginal personal income tax rate from 50% to 45%
- ▶ Decreased rental tax rate from 27.5% to 15%
- ▶ Lower rate of standard costs recognized in determining the tax base of rental income from 15% to 10%

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

- ▶ N/A

### Developments in the governance of cryptocurrency

- ▶ A new Virtual Currency Tax Act is proposed to introduce an obligation to pay tax on the value of redeemed virtual currencies.
- ▶ This Act is based on the principle of general tax liability of individuals, which is realized through taxation of the value of redeemed virtual currencies regardless of whether it is redeemed in Slovenia or not. Only individuals who are considered tax residents of Slovenia are considered taxable persons.
- ▶ The proposed tax rate is 10%, with a general tax relief of EUR 15,000. The proposed tax base is the sum of the value of each redemption of the virtual currency (reduced by the aforementioned general tax relief).

## Slovenia

- ▶ This Act provides for an alternative option to pay tax on the generated profit (the individual can choose the taxation), which would be the difference between the value of the virtual currency upon sale and on acquisition. In this case, the tax rate would be 25%, but the tax relief of EUR 15,000 per year would not apply.

### 2.5 Political landscape

- ▶ Presidential elections are upcoming.
- ▶ Governmental elections are upcoming.

### 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ EU Council Directives 2017/2455 and 2019/1995 introduced changes to VAT legislation regarding online distance sales of goods and services to final consumers within the EU. It was implemented into Slovenian legislation on 1 July 2021.
- ▶ As of 1 January 2021, certain changes were introduced to the taxation of motor vehicles. The amendment to the Motor Vehicle Tax Act eliminated the additional motor vehicle tax, a so-called luxury tax, which had so far been taxed on passenger cars with an engine capacity of more than 2,500 cubic capacity (cc) and on motorcycles, tricycles and quadricycles with more than 1,000 cc engine capacity.

### 2.7 Major pending tax proposals not otherwise covered

- ▶ N/A

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

- ▶ Tax audits in 2021 continued to focus on the detection and reduction of tax and customs evasion and to improve the voluntary fulfillment of tax obligations.
- ▶ Tax audits were significantly affected by the need to carry out controls related to the enforcement of aid received and exemptions received by entities in the framework of measures to contain or eliminate the consequences of the COVID-19 pandemic.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

Tax audits will likely continue in similar areas as in 2021:

- ▶ Control activities aimed at detecting and reducing tax and customs evasion

- ▶ Improving voluntary compliance with tax obligations
- ▶ Combatting the grey economy

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Possible simplifications and new approaches (in favor of taxpayers) in tax procedures due to new general director of the Financial Administration
- ▶ Lower tax rates in general, due to COVID-19 pandemic
- ▶ New tax reliefs

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ As mentioned above, new general director of the Financial Administration is very keen on digitalization and simplification of tax procedures. Therefore, relevant changes are expected in 2022.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	COVID-19-related impacts and outcomes	Controls related to the enforcement of aid received and exemptions received by entities in the framework of measures to contain or eliminate the consequences of the COVID-19 pandemic
2	Tax losses	Scrutiny of tax losses for companies involved in intercompany transactions
3	TP – limited-risk entity structures	Increased TP audits, especially for limited risk entities
4	MDR issues	Based on the data exchanged and certain risk detection parameters identified
5	Business restructuring	Confirming proper remuneration for transfer of functions or assets abroad



Safari in Serengeti of Tanzania

# South Africa

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## EY key contacts

### Tax policy and controversy

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*This information is current as of 1 December 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	28%	28%	–
Personal income tax – top rate	45%	45%	–
VAT, GST or sales tax – standard rate	15%	15%	–



## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Current tax policy must be seen in the context of broader fiscal policy aimed at reducing the budget deficit and stabilizing public debt – through boosting economic growth, increasing revenue collection and reducing expenditures.
- ▶ In the short-to-medium term, increased revenue collection will come primarily from improved tax collection (i.e., stronger enforcement and enhanced compliance), rather than significant structural changes.
- ▶ Cross-border activities (i.e., inbound and outbound multinationals) and high-net-worth individuals top the list of enforcement focus areas.
- ▶ Further significant revisions to the tax system – structurally and broadening the tax base – are a clear aspect of current tax policy but have been pushed into the medium-to-long term in light of the COVID-19 pandemic.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## South Africa

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A	<input type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input checked="" type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

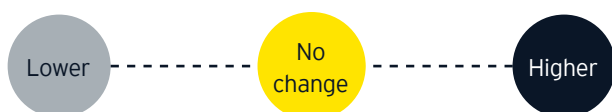
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ South Africa (SA) has announced that the CIT will be reduced over time, with the first reduction being 1%, from the current 28% down to 27%. The effective date for this reduction has been pushed out to FY2023 or FY2024. SA's National Treasury has acknowledged some competitive pressure to reduce the CIT rate.
- ▶ Fiscal policy concerns, notably the short-term recovery of revenue collections, mean that a downward adjustment to the CIT rate is unlikely in the short term. Equally, an increase in the CIT rate is also unlikely, as there is concern that it may have an inverse impact on the fiscal objective of boosting economic growth.
- ▶ The primary reliance on improved tax collection and administration is identified as the key short-term revenue initiative, with international taxes – with BEPS, in general, and transfer pricing, specifically – being expressly mentioned in the Finance Ministry's Budget Review.

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

- ▶ There are no specific new proposals or indications in this respect. SA is expected to generally follow the OECD's BEPS recommendations, with respect to Pillars 1 and 2. National Treasury indicated that SA will look more closely at the possibility of DSTs if the two-pillar solution fails.

### Taxes related to climate change or sustainability

- ▶ A carbon tax came into effect in 2019, and no new initiatives are on the horizon for now.

### VAT/GST or sales taxes

- ▶ SA's VAT rate of 15% is viewed by National Treasury as the most likely source of additional revenue. It is indicative under current economic conditions, coupled with political controversy over the regressive nature of VAT and the fact that 2018 previously saw a 1% rate increase, any rate adjustments are unlikely in the short-to-medium term.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ Structural and rate increases are unlikely in light of economic and employment concerns combined with the fact that there have been notable increases (up to the current 45%) over the last few years.
- ▶ Additional tax may be raised by limiting the annual relief for bracket creep/fiscal drag. Increased enforcement is also expected to be a source of additional revenue.

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

- ▶ No significant developments are expected.

### Developments in the governance of cryptocurrency

- ▶ No significant developments are expected.

## 2.5 Political landscape

- ▶ SA is a functioning parliamentary democracy. There is clear separation between legislative and executive authority, as well as an independent judiciary.
- ▶ The traditional overwhelming dominance of the ruling party appears to be waning. There were very significant shifts in the recent local government elections held in November 2021.

## South Africa

### 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ None (apart from temporary COVID-19-related relief measures)

### 2.7 Major pending tax proposals not otherwise covered

- ▶ **Extended rules on interest-limitation:** This could potentially highlight aggregate interest expense in general, as opposed to the current rules that target only cross-border interest between connected persons.

- ▶ **Limitation of assessed losses:** This would limit the current-year utilization of assessed loss balance to only 80% of current-year taxable income.

(Both proposals were raised in 2020, for implementation in 2021/22, then deferred to 2022/23 (due to COVID-19), and now deferred again with no specified effective date (but probably to 2023/24).)

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ SA's tax administration rules are relatively prescriptive on processes such as information-gathering, audits, disputes, (etc.), and the South African Revenue Service (SARS) largely follows these rules. However, there are occasional instances of overly broad interpretations (e.g., "what is relevant information?") and allegations of SARS breaching procedure. There has been a significant uptick in disputes relating to administration, procedure and SARS powers, but the rule of law (as regards the tax administration regime) remains robust and intact.
- ▶ The SARS continues to rely heavily on the pay-now-argue-later rules (i.e., reluctantly entertain suspension-of-payment applications).
- ▶ There is an increasing (perceived) preference toward alternative dispute resolution and settlement processes, meaning that matters are settled with reference to a mutually palatable settlement amount, as opposed to technical merits. This has also resulted in a decline in the number of disputes reaching the court system.
- ▶ The most recent development has been the "Enhanced Relationship" initiatives, where SARS relationship managers are reaching out to large corporates with a view toward understanding businesses and industries, enhancing relationships and encouraging compliance.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the five leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Increased employment of qualified professionals
- ▶ Increased investment in technology and automation
- ▶ Enhanced taxpayer engagement

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ The recent focus on transfer pricing and cross-border activity (permanent establishments, CFCs, etc.) will not abate.
- ▶ There is a heightened focus on "timing" differences, e.g., deferred income, accelerated depreciation allowances, allowances for future expenditure, inventory valuation.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ Digitalization is a clear stated priority for the SARS.
- ▶ More recently, the SARS has started getting more specific in budget allocations toward automation and digitalization in general.
- ▶ Apart from ongoing improvements to taxpayer platforms (e-filing), there is also an ever-increasing reliance on third-party data (e.g., from financial institutions), as well as increased employment of data and analytics in risk assessments.

### 3.6 in terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures?

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Transfer pricing	Transfer pricing audits, across all issues, especially inbound distributors, are expected.
2	Allowances for future expenditure	When income is received in advance, there are current-year allowances for expected future expenditures (e.g., construction contracts), which are increasingly being audited.
3	Employee incentive schemes	The deductibility of employer contributions to certain types of schemes is being audited and challenged.
4	Year-end inventory valuation	Annual write-down of inventory values is challenged.
5	Controlled foreign companies	Challenging the exemption for “foreign business establishments” (i.e., substantial physical presence) is expected.



Naksansa Temple, Gangwon province, South Korea

# South Korea

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## EY key contacts

### Tax policy and controversy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 16 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	<b>Tax base of corporate income</b>	<b>Tax rate</b>	–
	200 million won or less	10% of tax base	
	200 million-20 billion won	20 million won + 20% of the excess over 200 million won	
	20 billion-300 billion won	3.98 billion won + 22% of the excess over 20 billion won	
	Over 300 billion won	65.58 billion won + 25% of the excess over 300 billion won	

Personal income tax – top rate	Tax base of global income	Tax rate	–
	12 million won or less	6% of tax base	
	12 million–46 million won	0.72 million won + 15% of the excess over 12 million won	
	46 million–88 million won	5.82 million won + 24% of excess over 46 million won	
	88 million–150 million won	15.90 million won + 35% of the excess over 88 million won	
	150 million–300 million won	37.6 million won + 38% of the excess over 150 million won	
	300 million–500 million won	94.6 million won + 40% of the excess over 150 million won	
	Over 500 million won	174.6 million won + 42% of the excess over 500 million won	
VAT, GST or sales tax – standard rate	The rate of value-added tax is 10%		–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

A tax revision proposal announced and confirmed on 26 July 2021 aims to achieve the followings goals:

- ▶ Expanding tax benefits for local businesses to revitalize the economy after COVID-19 by:
  - ▶ Expanding support for the growing business market to build an economy for next generation, including:
    - ▶ Increasing support for R&D and investments in facilities in the fields of semiconductors, batteries, vaccine-related technology
    - ▶ Expanding the range of “new-growth technologies and source proprietary technology” supported by the government
    - ▶ Providing tax benefits to activate the IP market
  - ▶ Providing job opportunities and support for people
- ▶ Increasing the inclusiveness and fairness of economic society by expanding:
  - ▶ Tax benefits to small- to medium-sized companies
  - ▶ The government subsidy by lowering the income threshold
- ▶ Increasing government tax income stability and building a reasonable tax system by:
  - ▶ Preventing tax evasion through international transactions
  - ▶ Reasonably rebuilding taxation on financial income with the introduction of a financial investments income tax

## South Korea

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022 <sup>4</sup>
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

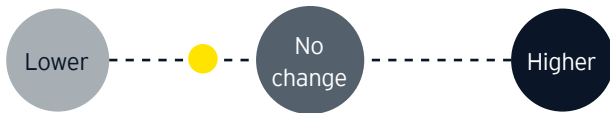


Tax types	Likelihood of changes in 2022	Direction of change
10. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## South Korea

### 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

### 2.4 Tax policy outlook for 2022 – detail

#### Corporate income taxes

- ▶ Expanding support for the growing business market to build an economy for the next generation by providing tax benefits for firms who invest in R&D facilities and R&D expenditures in the fields of semiconductors, batteries and vaccine-related technologies
- ▶ Expanding the range of “new-growth technologies and source proprietary technology” supported by the government
- ▶ Expanding tax credits to new hiring

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

- ▶ The South Korean government has agreed to the implementation of the new global digital tax agreement.
- ▶ A 15% minimum tax will be levied on digital business activity as of 2023.

#### Taxes related to climate change or sustainability

- ▶ Taxes related to climate change or sustainability are not likely to be implemented in 2022.
- ▶ South Korea aims to achieve carbon neutrality by 2050 by realigning the carbon emission tax scheme and nurturing ecofriendly automobile industries. Immediate actions, such as introduction of new carbon tax rules, would still be premature.

#### VAT/GST or sales taxes

- ▶ No changes are currently expected.

#### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ No changes are currently expected.

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

- ▶ Under a proposed government plan, investors will have to pay a 20% to 25% tax on capital gains above 50 million won from financial investments as of 2023.

#### Developments in the governance of cryptocurrency

- ▶ A 20% tax on cryptocurrency gains will take effect in 2022. South Korea will tax personal crypto income at 20% if the total income is more than 2.5 million won or US\$2,100.
- ▶ South Korea’s lawmakers have proposed deferring the controversial tax on the gain on transfers of cryptocurrency.

### 2.5 Political landscape

- ▶ The 2022 South Korean presidential election is scheduled to be held on 9 March 2022.

### 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ The securities transaction tax is reduced to 0.1% or 0.25% (0.23% from 1 January 2021 through 31 December 2022), depending on the stock market where listed shares are transferred.
- ▶ The securities transaction tax is imposed on the transferor of shares at 0.45% (0.43% from 1 January 2021 through 31 December 2022) of the share transfer price.

### 2.7 Major pending tax proposals not otherwise covered

- ▶ Candidates and possible contenders in South Korea’s 2022 presidential election have called for delaying a plan to tax virtual assets.

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

- ▶ The current approach to tax enforcement is viewed as very strong toward high-income and high-net-worth individual taxpayers, including further digitalization and improving services for taxpayers

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ The National Tax Service (NTS) will investigate offshore tax evaders who enjoyed social benefits from the country without paying sufficient taxes in Korea.
- ▶ The NTS will keep monitoring irregular asset transactions among local residents and Korean citizens living abroad and take strict measures.
- ▶ The NTS will strengthen taxation on high-income influencers and content creators of social networking services, including YouTubers, to prevent tax evasion.

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Measures to root out tax evasion by high-net-worth individuals and businesses are expected. To that end, an NTS division that investigates evidence of tax evasion by rich taxpayers will be reinforced. The tax authority will also actively make use of its financial and digital infrastructure to collect taxes from delinquent taxpayers.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ South Korea is beginning digitalization of the tax administration.
- ▶ The Ministry of Economy and Finance has announced this year the importance of digitalizing all areas of national tax administration for the convenience of taxpayers. The Minister explained that it is not simply changing existing services digitally, but redesigning business processes and service methods based on digital technology.
- ▶ The Minister announced that he would promote the development of year-end tax settlement, which is completed only with the consent of workers to provide simplified data, and the application of advanced IT technologies, such as artificial intelligence, big data and cloud computing to each area of tax administration.

## South Korea

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Tax evasion scheme	Taxpayers with suspected involvement in tax evasion schemes
2	Gift and inheritance tax avoidance	High-net-worth individuals who intentionally avoid paying gift or inheritance tax through multinational transactions or expedient transactions
3	High-income individuals	Individuals who avoid paying taxes on income (especially, platform-based personal broadcasting, marketing or sales income)





Lighthouse of Cap de Formentor Mallorca Spain around Sunset

# Spain

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## EY key contacts

### Tax policy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 18 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	25% 30% (for financial and oil and gas companies) 15% (newly created companies)	25% (a minimum 15% rate) 30% (18% minimum tax rate for financial and oil and gas companies) 15% (10% minimum tax rate for newly created companies)	General minimum corporate income tax of 15%
Personal income tax – top rate	General base: 47% Saving base: 26%	General base: 47% Saving base: 26%	Some autonomous communities have announced the reduction of the tax rates.
VAT, GST or sales tax – standard rate	21% general VAT rate 10% reduced VAT rate 4% super-reduced VAT rate	21% general VAT rate 10% reduced VAT rate 4% super-reduced VAT rate	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ The introduction of a minimum corporate income tax of 15% of the taxable base for companies subject to the general tax rate of 25% will apply to all consolidated groups and to stand-alone companies with an annual net turnover of at least EUR 20 million.
- ▶ A reduction from 85% to 40% of the tax credit will be applicable to corporate income tax from the rental of dwellings by taxpayers who apply the special regime of dwellings.
- ▶ A reduction of the personal income tax deduction for annual contributions made to welfare systems to EUR 1,500 is expected. The contributions that the company can make would be increased to EUR 8,500 if the contributions derive from a decision made by the employee. The individual and company limit amount would be EUR 10,000.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
2. Capital gains tax (Imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Spain

Tax types	Likelihood of changes in 2022	Direction of change
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input checked="" type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <sup>1</sup> <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022

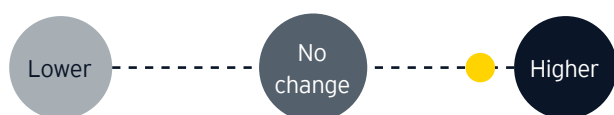
<sup>1</sup> Depends to a large extent on the territory, for example, the tax rate in the Community of Madrid is going to drop considerably.



Tax types	Likelihood of changes in 2022	Direction of change
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

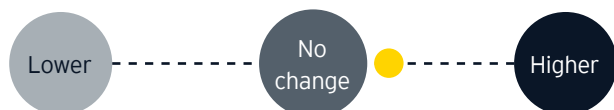
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

The introduction of a minimum corporate income tax of 15% of the taxable base for companies subject to the general tax rate of 25% will apply to all consolidated groups and to stand-alone companies with an annual net turnover of at least EUR 20 million. Would be:

- ▶ 18% for companies, subject to the increased 30% general tax rate
- ▶ 10% for newly created companies taxed at a reduced corporate income rate of 15%

A reduction from 85% to 40% of the tax credit will be applicable to corporate income tax from the rental of dwellings by taxpayers who apply the special regime of dwellings.

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

- ▶ Spain has joined an agreement concerning the implementation of a transitional system that will allow the gradual termination of existing unilateral DST measures.

### Taxes related to climate change or sustainability

Spain plans to implement new legislation about waste and contaminated land in order to prohibit single-use plastics.<sup>2</sup>

### VAT/GST or sales taxes

The limits for applying the simplified system and the special system for agriculture, livestock and fisheries in VAT are extended for fiscal year 2022.<sup>3</sup>

<sup>2</sup> La Moncloa. 18/05/2021. Proyecto de Ley de Residuos y Suelos Contaminados [Consejo de Ministros], <https://www.lamoncloa.gob.es/consejodeministros/Paginas/enlaces/180521-enlace-residuos.aspx>

<sup>3</sup> Proyecto de Ley de PGE para 2022: Medidas fiscales (fiscal-impuestos.com), <https://www.fiscal-impuestos.com/medidas-fiscales-novedades-tributarias-proyecto-ley-presupuestos-generales-estado-2022.html>

## Spain

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

- ▶ The new rule to prevent tax evasion brings consequences for the wealth tax. A reference value has been introduced to be used as the taxable base that will be determined by the Cadastral Office annually.<sup>4</sup>
- ▶ Self-employed workers will have new Social Security contributions, as well as new minimum and maximum contribution bases, the amounts on which these contributions will apply.

Specifically, the Spanish Government contemplates in the General State Budget the increase from 30.3% to 30.6% of the contributions of the self-employed, thanks to the increase in the items for professional contingencies (from 1.1% to 1.3%) and for professional training (from 0.8% to 0.9%).

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

- ▶ Established a legal interest rate at 3% and a late payment interest rate at 3.75%<sup>5</sup>

### **Developments in the governance of cryptocurrency**

- ▶ During 2021, new reporting obligations have been established in relation to the ownership of cryptocurrencies. These assets will have to be included in the 720 model. A new regulation is expected.

## Section 3: Tax enforcement in 2022

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### **3.1 Current general approach to tax enforcement**

Annually, the Spanish Tax Agency (AEAT; initialism from Spanish) publishes a resolution determining the broad guidelines for the Tax and Customs Control Plan. The resolution for the year 2020 established the guidelines based on the following pillars:

- ▶ Information and assistance
- ▶ Prevention of tax fraud and promoting voluntary compliance with tax obligations
- ▶ Investigations and actions to verify tax and customs fraud
- ▶ Fraud control in the collection stage<sup>6</sup>
- ▶ Collaboration between the AEAT and the tax administrations of the autonomous regions

### **2.5 Political landscape**

- ▶ 2021 was still impacted by the COVID-19 pandemic. The changes from the pandemic are mainly affecting the automotive and transport, manufacturing, and consumer sectors.
- ▶ The last six months has been marked by a rise in fuel, commodities, electricity and food prices due to shortages.
- ▶ The Spanish Government in coalition though 2023 has increased social spending in the 2022 budget bill with assistance from European funding, specifically EUR 26,634 million.

### **2.6 What major tax policy changes occurred in your jurisdiction in 2021?**

- ▶ Spain approved an anti-tax fraud law.
- ▶ Spain enacted VAT rate reductions to mitigate the impact of the COVID-19 pandemic.
- ▶ Spanish Council of Ministers approved implementation of ATAD 2.
- ▶ Spain delayed first reporting of the DST and the financial transaction tax.

### **2.7 Major pending tax proposals not otherwise covered**

- ▶ N/A

### **3.2 What is the tax audit outlook for 2022?**

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

<sup>4</sup> New Spanish Property Law (January 2022) | Bcn Advisors (bcn-advisors.com), <https://www.bcn-advisors.com/en/new-spanish-property-law-from-january-2022>

<sup>5</sup> Document – Spain – Budget Bill 2022: Government Proposes Minimum Corporate Income Tax of 15% – Tax Research Platform – IBFD, <https://www.bcn-advisors.com/en/new-spanish-property-law-from-january-2022>

<sup>6</sup> Document – Spain – Government Approves Guidelines on Annual Plan for Tax and Customs Control 2021 – Tax Research Platform – IBFD, [https://research.ibfd.org/#/doc?url=/data/tns/docs/html/tns\\_2021-10-25\\_es\\_1.html](https://research.ibfd.org/#/doc?url=/data/tns/docs/html/tns_2021-10-25_es_1.html)

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Work performed abroad will be able to apply the exemption of Article 7.p of the Personal Income Tax Law.
- ▶ Verification of transactions subject to VAT through the Immediate Information System (SEE; initialism from Spanish) and the keeping of accounting books are expected.
- ▶ In large multinational groups, multilateral controls will be increased to examine the correctness of intragroup payments for the transfer of intangible assets and interest, and dividend payments received within multinational groups will be extensively verified.

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ The application of the minimum corporate income tax rate
- ▶ Reduction of the tax credit for entities engaged in housing leasing
- ▶ The taxation of 5% of dividends received, as continued from fiscal year 2021

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The AEAT plans to form digital administrations in response to taxpayers' increasing online presence.
- ▶ The creation of telematic forms and the telephone help line make it easier for taxpayers who do not need to proceed with complete formalities.
- ▶ Following the implementation of Virtual Assistance, the new online VAT assistance provides complementary tools as the locator for supplies of goods and services or the assistance in the preparation of Form 303.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s):		<input checked="" type="checkbox"/>
Jurisdiction-specific	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

## Spain

### 3.7 Top tax audit issues in 2022

	<b>Issue name</b>	<b>Description</b>
1	Transfer pricing	There will be a campaign to verify proper compliance with the reporting obligations on related-party transactions that must be declared on a specific form (Form 232).
2	Tax losses	The AEAT will continue to check taxpayers who have repeatedly included tax losses pending application in their corporate income tax returns.
3	Tax fraud	The direct fight against fraud will be by direct verification actions.
4	Exit taxes	Following the entry into force of the new agreement with Gibraltar, the AEAT will focus a special verification about the taxpayer's special rules of exit.
5	Digital taxes	The digitalized business models will still continue to audit the taxation in Spain because of the entry into force of the tax on certain DSTs in 2021.





Zermatt village with view of Matterhorn

# Switzerland

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 25 October 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	Overall tax rate on profit before tax taking into account federal, cantonal and communal taxes varies between 12% and 22% (thereof approximately 7.8% federal tax).	Overall tax rate on profit before tax taking into account federal, cantonal and communal taxes varies between 12% and 21% (thereof approximately 7.8% federal tax).	Varies
Personal income tax – top rate	Federal: 11.5% Overall tax rate taking into account federal, cantonal and communal tax varies between 22.5% and 41.5%.	Federal: 11.5% Overall tax rate taking into account federal, cantonal and communal tax varies between 22.5% and 41.5%.	–
VAT, GST or sales tax – standard rate	7.7%	7.7%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Switzerland as a whole and also the Swiss cantons are striving to remain competitive from a tax point of view, while at the same time adhering to supranational tax harmonization initiatives (e.g., BEPS 2.0).
- ▶ There is also “tax competition” among the Swiss cantons themselves.
- ▶ In 2020, Switzerland adopted a major corporate tax reform, which in many cantons included a reduction of the CIT rate. In some cantons, the tax rate reduction is effectuated in several steps and continues over the next years.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Switzerland

Tax types	Likelihood of changes in 2022	Direction of change
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022



Tax types	Likelihood of changes in 2022	Direction of change
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ In 2020, Switzerland enacted a material tax reform (Tax Reform and AHV Financing or TRAF). No significant changes are anticipated in 2022.
- ▶ It is expected that tax administrations and taxpayers will set practices and precedents regarding the implementation of certain elements of the tax reform (e.g., notional interest deduction, patent box, R&D deductions).

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

- ▶ No significant developments are expected.

### Taxes related to climate change or sustainability

- ▶ No significant developments are expected.

### VAT/GST or sales taxes

- ▶ No significant developments are expected.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ No significant developments are expected.

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

- ▶ No significant developments are expected.

### Developments in the governance of cryptocurrency

- ▶ No significant developments are expected.

## Switzerland

### 2.5 Political landscape

- ▶ The Federal Department of Finance is headed by Ueli Maurer, Federal Councillor.
- ▶ No major shifts in the political landscape are expected.

### 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ No material changes occurred. Most changes implemented originate from the 2020 tax reform.

### 2.7 Major pending tax proposals not otherwise covered

- ▶ Stamp duties: Both chambers of the national assembly agreed to abolish the issuance tax in 2021. Before entering into force, the amendment is subject to a popular referendum vote, which will most likely be held in February 2022.

- ▶ Treaty clearance: The conditions under which the notification procedure can be applied for withholding tax purposes is expected to be lowered. A participation quota of 10% (currently 20%) should be sufficient to qualify for treaty clearance. Furthermore, the approval should be valid for five years (currently three years).
- ▶ Digitalization: There is a tax law amendment to enable electronic filing of tax returns for cantonal and communal taxes and to introduce the possibility for the federal council to mandate a digital taxation process for federal taxes.
- ▶ International tax policy: In light of the OECD/G20 work on global corporate taxation (BEPS 2.0), the Federal Council is expected to present coordinated reform plans to maintain the attractiveness of Switzerland as a place of business in 2022.
- ▶ VAT: An extension of VAT duty to digital platforms that facilitate the conclusion of sales contracts is proposed.

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ No general approach for all tax authorities may be identified, as in Switzerland direct taxes are assessed by the 26 cantonal tax authorities based on their cantonal law (which is only partially harmonized).

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ No general trends are identifiable. While some cantons and some divisions of the Federal Tax Administration seem to scrutinize tax filings, others still are dealing with taxpayers as clients and proactively building trust-based relationships.

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ N/A

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ Several digital tax processes have been deployed; however, there are differences to the advancement of digitalization on federal and cantonal levels.
- ▶ A new federal law will introduce minimum standards, allowing the cantonal tax authorities time to adapt.
- ▶ Digitized processes usually include administrative processes (e.g., address changes, obtaining deadline extensions), the e-filing of tax returns and documents, and e-invoicing. Objections can also be raised electronically in some cantons.

### 3.6 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2022?

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	TP	Review of IC transfer prices, in particular on financial transactions
2	TRAF measures	With new rules implemented for tax period 2020, it is expected that tax authorities will focus on their application in the first years.



Skyline of Taipei City

# Taiwan

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*This information is current as of 25 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	20%	20%	–
Personal income tax – top rate	40%	40%	–
VAT, GST or sales tax – standard rate	5%	5%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Responding to the developments of BEPS 2.0 Pillar One and Pillar Two
- ▶ The implementation of the CFC regime
- ▶ Extended R&D incentive in relation to smart machines, 5th generation (5G) mobile networks and data security investments

### 2.2 Tax changes in 2022

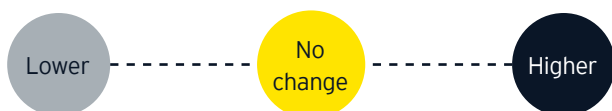
Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## Taiwan

Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

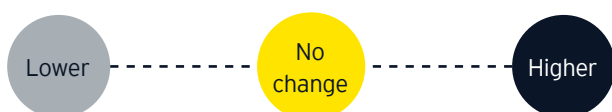
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ Since the Ministry of Finance (MOF) is required to request that the Executive Yuan decide the effective date of Article 43-3 of the Income Tax Act (CFC ruling) within one year of the expiration of the Repatriated Offshore Funds Act, it is possible that the CFC regime may be effective starting from 2022.
- ▶ The R&D incentive for smart machines, 5G mobile networks and data security investments may be extended to 2024, and the scope of the qualified expenditure may be expanded.
- ▶ Modification of Taiwan CIT is in response to BEPS 2.0 Pillar Two to make sure Taiwanese or foreign investors could conform to the thresholds of the global minimum taxation regime and avoid loss of tax revenue. Related amendments may occur in 2022.

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

- ▶ VAT/GST: There are no changes expected to the foreign e-commerce operator regime in Taiwan that came into effect 1 May 2017.

### Taxes related to climate change or sustainability

- ▶ Taiwan has not yet implemented a carbon tax policy or cap-and-trade system, but this issue has been under consideration.

### VAT/GST or sales taxes

- ▶ No changes are currently expected.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ The personal exemption for consolidated income tax may be increased to NTD 92,000, the standard deduction may be increased to NTD 124,000, and the special deduction of income from salaries and wages may be increased to NTD 207,000.
- ▶ A new amendment for the Culture and the Arts Reward and Promotion Act related to the new taxation system for art auctions was released. To revitalize the culture and arts industry market, the individual disposal income of artworks through exhibitions and auctions in Taiwan would be calculated at 6% deemed profit of the final transaction amount separately and would be withheld by 20% at source as the final tax instead of being included in the individual progressive taxation regime.

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

- ▶ No changes are currently expected.

### Developments in the governance of cryptocurrency

- ▶ New tax regulations and rulings are expected for income tax, value-added tax, estate and gift tax on cryptocurrencies, and comprehensive tax rulings will be announced to clarify the definition and specific tax implications.

## 2.5 Political landscape

- ▶ The Taiwanese Democratic Progressive Party (DPP) still retains its majority in the Legislative Yuan.
- ▶ Tax policy as of now is likely to remain stable and consistent.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ The MOF has announced the amendment to the Regulations Governing Application of Agreements for the Avoidance of Double Taxation with Respect to Taxes on Income. Key changes include clarification of the application of the principal purpose test, clarification regarding tax resident and determination of the existence of a permanent establishment.
- ▶ Building and land acquired after 1 January 2016 and sold after 1 July 2021 will be subject to a tax rate stipulated under Joint Property Tax System 2.0.
- ▶ Effective from 1 January 2021, individuals with capital gains from non-publicly traded share transactions should report the capital gains in their AMT return.
- ▶ Various COVID-19 pandemic measures to help businesses with their cash flow, costs and credit.

## 2.7 Major pending tax proposals not otherwise covered

- ▶ The Executive Yuan has proposed amendment to the Tax Collection Act. Key changes include (1) a delinquency charge in an amount equal to 1% of the amount of said tax shall be charged for every 3 days of delay, (2) that the taxpayer who evades tax payment by fraud or other unrighteous means shall receive a fine of no more than NTD 5,000,000 and (3) that the application for refund of overpaid tax may be filed within 10 years from the date of payment.

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

- ▶ The MOF generally adopts a risk-based approach of identifying compliance risk and prioritizing and tailoring specific compliance programs. The MOF will take enforcement actions against noncompliant businesses.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ The capital gain derived from buildings and land acquired after 1 January 2016 and sold after 1 July 2021.
- ▶ Increasing TP audit on intragroup changes, including royalty and services, reflecting partly the OCED DEMPE concepts adopted in Taiwan and partly poor financial results of entities due to the COVID-19 pandemic.
- ▶ Under the guidelines for virtual currency platforms: virtual assets and cryptocurrency platform operators to implement a real-name registration system and then record any transactions occurring after 1 July 2021 so that Taiwanese tax authority can trace taxable transactions.

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

The Executive Yuan has proposed amending the Tax Collection Act. Key proposed changes include, but are not limited to, the below:

- ▶ The delinquency charge in an amount equal to 1% of the amount of said tax will be charged for every three days of delay (currently it's charged for every two days of delay).
- ▶ The taxpayer who evades tax payment by fraud or other unrighteous means will receive a fine of no more than NTD 5,000,000 (currently it's NTD 60,000).
- ▶ The application for refund of overpaid tax may be filed within 10 years from the date of payment thereof (currently should be filed within 5 years).

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The tax authority has been developing a big data system to improve tax enforcement and information collection.



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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	VAT declarations for cross-border e-commerce business	Since May 2017, it has been mandatory for business entities carrying out cross-border e-commerce activity with annual sales greater than NTD 480,000 to file for VAT registration, declare the sales amounts for every two months and pay the VAT owed. The tax authority will likely continue to initiate tax audits in this area in 2022.
2	Capital gain of the real estate	Since buildings and land acquired after 1 January 2016 and sold after 1 July 2021 will be subject to a tax rate stipulated under the Joint Property Tax System 2.0, the tax authority may question whether the capital gain is calculated under the tax system correctly with sufficient supporting documents.
3	Related-party transactions	Related-party transactions may be examined to confirm that the transactions are conducted at arm's length and are able to be substantiated with contemporaneous and adequate TP documentation.
4	WHT compliance	Audits may be used to confirm that the withholding tax is levied in accordance with the tax provisions. Penalties are imposed for noncompliance.
5	Cryptocurrency	To confirm the nature and tax implications of types of cryptocurrency, it is expected the tax authority will set up rules to regulate the evolving but ever-changing cryptocurrency market.



Bangkok cityscape

# Thailand

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## EY key contacts

### Tax policy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 15 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	20% <sup>1</sup>	20% <sup>1</sup>	–
Personal income tax – top rate	35% <sup>2</sup>	35% <sup>2</sup>	–
VAT, GST or sales tax – standard rate	7% <sup>3</sup>	7% <sup>3</sup>	–

<sup>1</sup> <https://www.rd.go.th/english/6044.html>

<sup>2</sup> <https://www.rd.go.th/english/6045.html>

<sup>3</sup> <https://www.rd.go.th/english/6043.html>

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Thailand's tax reforms, which have been delayed to 2022 due to the COVID-19 pandemic, will aim to increase tax collections in the long term against the backdrop of an aging population and shrinking workforce.
- ▶ The Thai Board of Investment (BOI) approved a tax exemption, as part of the Industry 4.0 transformation, to enhance productivity, automation and digital technology in October 2021.
- ▶ Since 1 September 2021, Thailand has followed in the footsteps of many jurisdictions in imposing a VAT charge of 7% on nonresident digital service providers.
- ▶ The government has also recently approved a draft decree to regulate digital platform service businesses, whereby such businesses, both in and outside of Thailand, will need to notify the government before operating. The law will apply to various digital platform services, including online marketplaces, social commerce, food delivery, space sharing, ride and car sharing, and online search engines.
- ▶ Personal income tax reform is also in place as there is a relatively low number of registered personal income taxpayers in Thailand. The COVID-19 pandemic has shifted more sole traders online, and the Revenue Department aims to pull these individuals into the tax system, including online merchants and influencers, YouTubers and freelancers.
- ▶ Development of the electric vehicle (EV) industry is gaining momentum as state and private sectors are working to translate plans to make Thailand a major EV production hub into actions. The government is currently working on a new excise tax to stimulate domestic demand for EVs and encourage more foreign investment in the industry, expecting to finish the drafting within 2022.
- ▶ BEPS 2.0 will be a key factor for the Thai Revenue Department to develop local regulations in compliance with BEPS 2.0.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022

## Thailand

Tax types	Likelihood of changes in 2022	Direction of change
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022

Tax types	Likelihood of changes in 2022	Direction of change
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

#### Filing of CbCR:

- ▶ On 30 September 2021, the Revenue Department published Notification of the Director-General of Revenue Department No. 408 (DGN408) on CbCR filing obligations.
- ▶ DGN408 applies to MNE groups that have annual consolidated revenue of EUR 750m (approximately THB 28,000m) or more in the immediately preceding fiscal year.
- ▶ The CbCR must be filed together with the annual corporate income tax return within 150 days from the end of an accounting period.
- ▶ It will be effective from accounting periods starting on or after 1 January 2021 onward.
- ▶ The following entities are required to file CbCR in Thailand:
  - ▶ The ultimate parent entity (UPE) of and MNE that is incorporated under Thai law

- ▶ An entity of MNE that carries out business in Thailand, provided that the following conditions are met:
  - ▶ There is no requirement for CbCR filing in the country where the UPE is a tax resident.
  - ▶ The UPE's country of tax residence does not have an effective MCAA on exchange of information with Thailand.
  - ▶ There is an incident of automatic exchange systematic failure.
- ▶ A surrogate parent entity (SPE), appointed by the UPE, that is incorporated in Thailand may file the CbCR in Thailand on behalf of the UPE if the following conditions are met:
  - ▶ There is no requirement for CbCR filing in the country where the UPE is a tax resident.
  - ▶ The UPE must prepare an SPE appointment letter and notify the competent authority in Thailand of such an appointment.
  - ▶ The accounting period of the SPE must be the same as the UPE.

## Thailand

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

On 10 February 2021, the Revenue Code Amendment Act (No. 53) B.E. 2564 (2021) announced the amendment of Thailand's VAT rule for nonresident providers of electronic or digital services (so-called "e-services" under Thai law) to non-VAT registrants in Thailand with an effective date in Thailand on 1 September 2021 onward. The key amendments are as follows:

- ▶ Tax operation and documentation according to the Revenue Code (e.g., summons, notifications to pay tax, forms, tax invoices, reports, documental evidence) can be submitted electronically.
- ▶ The definition of the term "goods" under section 77/1(9) of the Revenue Code has been amended to exclude intangible assets delivered through the internet or any other electronic network, i.e., electronic services.
- ▶ "Electronic services" and "electronic platform" have been defined.
- ▶ In the case where a business person provides an electronic service from abroad and the service is used in Thailand by a non-VAT registrant, such business person will be subject to paying VAT by calculating an output tax without deducting input tax.
- ▶ Electronic platform owners will be subject to VAT instead of the foreign suppliers operating on their platform.
- ▶ The VAT procedures, such as registration, return filing and payment, can be performed electronically through the online platform.
- ▶ No tax invoice can be issued.

### **Taxes related to climate change or sustainability**

The BOI has announced the amendment to the type of manufacture of EV measures to support Thailand to become an EV manufacturing hub.

- ▶ The investment promotion extended to the production of battery electric vehicle (BEV), plug-in hybrid electric vehicle (PHEV) and hybrid electric vehicle (HEV) platforms that consist of an energy storage system, charging module and front and rear axle module.
- ▶ For the promotion of electric bicycles (e-bikes), corporate income tax is exempted for three to eight years, if the conditions are met.

### **VAT/GST or sales taxes**

- ▶ The reduced VAT rate of 7% has been extended for another two years, until 30 September 2023.

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

- ▶ No significant developments are expected.

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

- ▶ No significant developments are expected.

### **Developments in the governance of cryptocurrency**

The Bank of Thailand (BOT) has recently issued guidelines for regulating financial services involving stablecoins (cryptocurrencies where the price is pegged to a reserve asset), particularly Thai baht-backed stablecoins, which are classified as electronic money under the Payment Systems Act of 2017.

## 2.5 Political landscape

- ▶ There have been frequent protests in Bangkok related to public frustration from the economic downturn due to the COVID-19 pandemic.
- ▶ The Council of Ministers has approved a constitutional amendment changing how lawmakers are elected, a move expected to allocate more seats to big parties at the expense of smaller ones. Given its limitations, this constitutional amendment will do little to quell the public protests that have taken place. Thailand's Fiscal Policy Office has recently reported that the draft plan for tax restructuring for 2022-2026 will focus on four goals, namely, (1) enhancing the jurisdiction's competitiveness to achieve sustainable economic growth; (2) promoting the digital economy, by deploying technologies to upgrade the jurisdiction's tax management system, and promoting a green economy; (3) encouraging people to reduce the use of products that could harm the environment; and (4) promoting fair treatment and transparency and promoting social safety nets as well as the health sector.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ The Revenue Department has collaborated with the BOI on database integration in order to facilitate the business sector. The e-monitoring system was effective on 1 April 2021.
- ▶ Tax measures have been extended to promote Industry 4.0 personnel development and to encourage foreign investors to relocate production bases to Thailand.
- ▶ Tax measures in terms of withholding tax rate reduction and extension of tax return filing and payment deadline have been introduced to help alleviate taxpayers and maintain cash flow of corporate and individual taxpayers during the COVID-19 pandemic.

## 2.7 Major pending tax proposals not otherwise covered

- ▶ N/A

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ Focus on transfer pricing issues has been achieved by issuing the new rules and regulations in relation to CbCR and transfer pricing documentation that are effective for the fiscal years starting on or after 1 January 2021.
- ▶ Thailand enacted an amendment to the Revenue Code to accommodate the ratification process of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAC). This empowers tax officials to exchange tax information with all MAC jurisdictions. Thailand expected to deposit the instrument of ratification, which is the final stage of the treaty ratification process, within December 2021 and to be removed from the EU's grey list in 2022.
- ▶ The Revenue Department has cooperated with the Department of Special Investigation (DSI) to enhance two core policies (i.e., digital transformation and data analytics) in order to increase efficiency in collecting information and evidence, and reducing the procedure for the investigation of offenses related to special cases (e.g., issuing illegitimate tax invoices).
- ▶ Promote fairness in taxation between domestic and foreign entrepreneurs that are providing services in Thailand by participating in the Tax Inspectors Without Borders (TIWB) project under the OECD, especially in e-commerce business and to cope with tax evasion challenges from the transaction between MNEs by exchanging knowledge and sharing experiences about cross-border tax inspection with Her Majesty Revenue and Custom (HMRC).

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Enforcement of law relating to digital services (e-services) provided by foreign operators is expected by the Thai Revenue Department to collect tax throughout the budget year (ended 31 September 2022 for about THB 8,000m to THB 10,000m (approximately USD 240m to USD 400m).
- ▶ Enforcement of the Disclosure Form and the CbCR filings is under the new Transfer Pricing Act.
- ▶ Developments in the area of tax enforcement in relation to e-tax systems are expected in 2022.

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Regulations in terms of transfer pricing will continue to be developed, and Thailand can be expected to issue more supplemental regulations and guidelines.
- ▶ Tax measures with the BOI relate to the increased reduction of carbon emission and electric vehicles.
- ▶ The development of local regulations in relation to OECD BEPS for compliance and also preparation for OECD BEPS 2.0 should continue.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The Revenue Department has encouraged taxpayers to use more e-tax filings and payments, such as e-stamp duty, e-tax invoice and e-receipt, by providing tax incentives for developing or using the service relating to e-tax invoice and e-WHT systems.
- ▶ During the COVID-19 pandemic, the tax officers conducting tax audit accepted soft files instead of hard copies and virtual meetings.

## Thailand

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Transfer pricing	Related-party transactions have been a focus of the tax authorities since 2021 as the documents, e.g., transfer pricing disclosure form and CbCR, are required to be submitted to the Revenue Department pursuant to the Transfer Pricing Act.
2	Allocated expenses from related parties	Tax authorities are challenging, in more detail, allocated expenses from related parties and are seeking more evidence that such expenses relating to the business are for the purposes of making a profit. Any expense with no or insufficient supporting documents will be challenged by the tax authority and regarded as nondeductible expenses for CIT purposes.
3	Tax audits on delivery service platforms	Currently, the tax authorities focus on online business (i.e., delivery service platform) in a variety of tax types (e.g., revenue recognition, VAT submission, negative gross profit margin and continuous loss on net profit).
4	Illegitimate tax invoices	There is currently an investigation relating to tax invoices (e.g., false tax and incorrect tax invoices) that is cross-checking transactions in the area revenue office where the issuer's registered address is located.
5	Tax audits on dissolution	Extensive tax audits will be conducted upon the registration of dissolution in order to confirm that the company has no additional tax liability and is ready to liquidate.







Night city view of Amsterdam, the Netherlands

# The Netherlands

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 1 December 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	25% <sup>1</sup>	25.8% <sup>1</sup>	+3.2%
Personal income tax – top rate	49.5% <sup>2</sup>	49.5% <sup>2</sup>	–
VAT, GST or sales tax – standard rate	21% <sup>3</sup>	21% <sup>3</sup>	–

<sup>1</sup> Article 22 Dutch CIT Act. Taxable amount up to €245.000 is taxed against 15% in 2021; taxable amount up to €395.000 is taxed against 15% in 2022.

<sup>2</sup> Article 2.10 Dutch PIT Act. Applicable at a taxable income from €68.507 and up in 2021 and €69.398 and up in 2022.

<sup>3</sup> Article 9 Dutch VAT Act. Reduced VAT rate is 9% in 2021 and 2022.

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ The 2022 Tax Plan package mainly contains minor changes aimed at improving the tax system. Improvements will be made to existing taxes in the areas of housing, employment, greening, and business startups.
- ▶ The Tax Plan package contains considerably fewer policy measures than in previous years, in keeping with the government's caretaker status.
- ▶ Part of the 2022 Tax Plan package is legislation to implement specific reverse hybrid entity provisions as mandated by the EU ATAD II.
- ▶ The 2022 Tax plan package legislation is proposed to avoid double non-taxation resulting from the unilateral application of the arm's-length principle in the Netherlands.
- ▶ A tax proposal to revise the Dutch classification rules for entities incorporated under foreign law, and partnerships formed under Dutch law as well as foreign law, is expected in the winter of 2022. The proposed new entity classification rules are intended to be better aligned with international tax standards.
- ▶ With effect from 1 October 2021, the government has ended (most of) the generic support measures that have helped the Dutch economy as much as possible through the coronavirus pandemic.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022 <sup>4</sup>
4. Anti-hybrid rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022

<sup>4</sup> As per fiscal year 2022, the EBITDA-based interest deduction restriction (earnings-stripping rule) is further tightened from 30% to 20%. This might result in a lower interest deduction and higher (paying) tax in 2022.

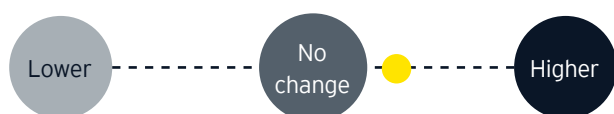
## The Netherlands

Tax types	Likelihood of changes in 2022	Direction of change
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022

Tax types	Likelihood of changes in 2022	Direction of change
15. Personal income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

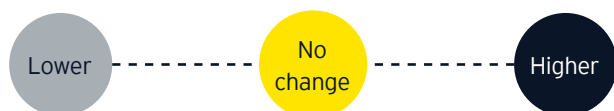
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ CIT rate: As per fiscal year 2022, the Dutch CIT rate in the first bracket stays at 15%, and the amount of taxable income to which this applies increased from €245,000 to €395,000. The top Dutch corporate income tax rate increased from 25% to 25.8%.
- ▶ Innovation box regime: The effective applicable tax rate in the innovation box regime stays 9%.
- ▶ New loss compensation rules: As per fiscal year 2022, a loss can be carried back one year and carried forward indefinitely. However, the offset of losses will be limited in a given year against the first €1 million of taxable profit. For taxable profit in excess of this amount, losses may only be offset up to 50% of this excess.

- ▶ Interest deduction limitations: As per fiscal year 2022, the EBITDA-based interest deduction restriction (earnings-stripping rule) is further tightened from 30% to 20%.
- ▶ Avoidance of double non-taxation resulting from the unilateral application of the arm's-length principle in the Netherlands: Currently, the Netherlands' transfer pricing rules require a unilateral upward or downward correction of the commercially applied transfer prices between related parties to confirm the recognition of an arm's-length profit for Dutch tax purposes. If a transaction between a Dutch corporate taxpayer and a foreign related party is not at arm's length, the proposed legislation denies a downward adjustment of the taxable income of the Dutch taxpayer (either as a payor or payee) to the extent a corresponding upward adjustment is not included in the taxable basis of a profit tax in the country of the foreign counterparty. The new rules are intended to take effect for fiscal years

## The Netherlands

starting on or after 1 January 2022. There are specific rules proposed for (depreciable) business assets acquired below their fair market value by a Dutch taxpayer during fiscal years starting on or after 1 July 2019 and before 1 January 2022.

- ▶ Reserve hybrid entity: As per fiscal year 2022, specific reverse hybrid entity provisions as mandated by the EU ATAD II will be applicable. These provisions counteract hybrid mismatches resulting from reverse hybrid entities, i.e., entities that are considered transparent from a Dutch tax perspective and if at least 50% of the voting rights, capital interests or profit rights in the entity are directly or indirectly held by related participants that are resident in a jurisdiction that qualifies the entity as nontransparent. In such case and as mandated by ATAD II, the so-called “reverse hybrid entity” would become subject to Dutch corporate income tax, dividend withholding tax or conditional withholding tax unless an exemption applies.
- ▶ Credit for certain withholding taxes against Dutch CIT for certain investors: The Dutch Government introduced legislation that limits the availability for a refund of dividend withholding tax (and gambling) tax for Dutch corporate taxpayers, pursuant to the Sofina court case of the ECJ (C-575/17).
- ▶ Conditional withholding tax on dividends: The Dutch Government aims to introduce additional tax measures related to payments of dividends to shareholders resident in low-tax jurisdictions or in jurisdictions included on the EU’s list of noncooperative jurisdictions or in certain perceived abusive situations. The applicable tax rate will equal the headline CIT rate. The legislative proposal is set to enter into force by 1 January 2024.
- ▶ Fiscal unity regime: In June and July of 2019, an internet consultation took place regarding the future of the Netherlands fiscal unity regime following certain EU court cases. Given the complexity of the matter and the potential impact on the overall Dutch tax regime, any changes to the fiscal regime will be left at the discretion of the new government.
- ▶ Conditional exit tax: A tax proposal introduces a conditional exit tax as part of the Dutch dividend withholding tax regime in the case of certain cross-border reorganizations. It is uncertain whether there is a majority in the House of Representatives for this proposal.

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

- ▶ The Netherlands do not have any specific direct or indirect taxes or rules on digital activity.
- ▶ The Netherlands is in favor of international measures with regard to taxation of the digital economy and is expected to follow the OECD/EU policy in this respect.

### **Taxes related to climate change or sustainability**

- ▶ Measures to encourage the sale of zero-emission cars (such as electric cars and hydrogen cars) will continue in 2022. This means that, where employees make private use of company cars, the reduction in the percentage of the vehicle’s value that is added to their taxable income will remain in place until the end of 2025. However, the maximum vehicle value (or “cap”) to which the reduction applies will be lowered sooner than set out in the National Climate Agreement. This means that the maximum vehicle value subject to the 6% reduction applicable from 1 January 2022 will be €35,000, falling to €30,000 from 2023. The percentage of the remainder of the vehicle value that will be added to taxable income will be the standard 22%.
- ▶ The environmental investment tax credit percentages will be increased to give businesses an extra incentive to invest in innovative, environmentally friendly business assets. This will allow them to deduct more costs from their taxable profit. From 1 January 2022, the percentages will be increased from 13.5%, 27% and 36% to 27%, 36% and 45%, respectively.

### **VAT/GST or sales taxes**

- ▶ No relevant developments

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

- ▶ The 2021 Tax Plan packages includes a couple of measures to reduce income tax and make work more financially rewarding. In 2022, the rate in the “new” first tax bracket (up to €69.398) will be reduced by 0.03 percentage points to 37.07%. The top rate will remain at 49.5%.
- ▶ The employment tax credit and the general tax credit will be raised further.
- ▶ As of 1 January 2021, a large number of tax allowances will be scaled back. The self-employed person’s allowance will be lowered in stages in order to reduce the tax differences between the self-employed and employees.
- ▶ The personal income tax rate on substantial shareholding (box 2) stays at 26.9% in 2022.
- ▶ The legislative proposal on excessive borrowing from an own company (*Wet excessief lenen bij eigen vennootschap*) is postponed for one year until 1 January 2023. The proposal regards the taxation of the debts of an individual business owner owed to the own company that are higher than €500,000 (excluding qualifying owner-occupied home debt).
- ▶ The tax allowance for savings and investments (box 3) is being raised from €50,000 to €50,650 per person. The tax rate stays at 31%. A discussion to modify box 3 is still ongoing.

- ▶ Minor changes to the work-related costs scheme (WKR): In the context of the pandemic support measures, the tax-free WKR budget for 2021 was increased from 1.7% to 3.0% on the first €400,000 of the taxable wage bill. It has been proposed to make this retroactive in the legislation on payroll tax. This increase has not been proposed for 2022. As a result, the tax-free WKR budget for 2022 will again be set at 1.7% of the first €400,000 of the taxable wage bill and 1.18% of the remainder. If a group of employers has chosen to apply the group exemption, this then applies per group.
- ▶ Tax-free allowance for costs incurred due to working from home: An allowance to cover the costs of working from home is taxable in 2021. An allowance for these costs can be allocated to the tax-free budget of the work-related costs scheme provided it is customary. From 1 January 2022, a new specific exemption will be added to the work-related costs scheme. This will make it possible to give employees up to €2 per full or partial day worked from home to cover the additional costs (electricity and water consumption, heating, coffee/tea and toilet paper) incurred due to working from home.
- ▶ Changes to the taxable moment of employee stock options: In the Netherlands, employee stock options are taxable as employment income as a benefit in kind (up to 49.5%). The taxable event of stock options is currently the moment of exercise (or alienation) of the stock option. Under the newly announced legislation, the taxable event for stock options will in principle be moved to the moment that the shares, received by exercising the stock options, become tradeable. However, it is possible to choose for taxation at the moment of exercise if an employee makes this choice via a written request to the employer.

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

- ▶ No relevant developments

**Developments in the governance of cryptocurrency**

- ▶ No relevant developments

## 2.5 Political landscape

- ▶ After the election in March 2021, the formation of a new Dutch government (cabinet) is still in progress.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Tax changes introduced in the 2021 tax reform (see *The EY 2021 Tax Policy and Controversy Outlook*)
- ▶ Introduction or continuation of the economic and tax measures designed to mitigate effects of the COVID-19 pandemic
- ▶ Announcement of the 2022 tax plan package and proposals outlining expected legislative measures for the coming periods; see 2.1 and 2.4
- ▶ Ongoing discussions about different tax subjects, such as the tax avoidance by multinationals and fair taxation in the digital economy

## 2.7 Major pending tax proposals not otherwise covered

- ▶ Proposal to revise the Dutch classification rules for entities incorporated under foreign law and partnerships formed under Dutch as well as foreign law (*Wet aanpassing fiscaal kwalificatiebeleid rechtsvormen*)
- ▶ Proposal on excessive borrowing from an own company (*Wet excessief lenen bij eigen vennootschap*)
- ▶ Proposal on conditional exit tax as part of the Dutch dividend withholding tax regime in the case of certain cross-border reorganizations
- ▶ Consultation on tax transparency rules reporting by digital platforms on their sellers (DAC7) (*Wet implementatie EU-richtlijn transparantie inkomsten via de digitale platformeconomie en overige aanpassingen*)

## Section 3: Tax enforcement in 2022

### 3.1 Current general approach to tax enforcement

- ▶ The Dutch tax authorities have a well-developed and sophisticated electronic tax compliance and audit system.
- ▶ The Dutch tax administration is generally known for its high quality, reliability, approachability and a high degree of customer service.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Top priorities for the Netherlands are to be an attractive jurisdiction for foreign investors with substance, while being compliant and proactive with the implementation of certain international developments (such as BEPS 2.0) and anti-tax avoidance measures in line with the OECD and EU recommendations for abusive situations.

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ It is not expected that the tax authorities shift their audit focus onto new or different issues in 2022.
- ▶ It is not known whether the tax authorities will launch any new audit programs and/or new pre- or post-filing dispute resolution mechanisms.
- ▶ It is likely that the Dutch tax authorities will focus on tax fraud and prevention of tax avoidance and tax evasion.
- ▶ It is likely that the administrative burden for taxpayers increases in 2021 because of the implementation of several anti-tax avoidance measures.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The Dutch tax authorities have a well-developed and sophisticated electronic tax compliance and audit system.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>



### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Competitive tax investment climate, tax avoidance and tax evasion	The Netherlands aims to continue to offer a competitive tax investment climate for companies but at the same time address the developments on tax avoidance in line with the OECD and EU recommendations. The Dutch tax authorities will focus on tax fraud and prevention of tax avoidance and tax evasion. The Netherlands is in favor of international measures with regard to taxation of the digital economy and is expected to follow the OECD/EU policy in this respect.
2	Transfer pricing	<p>The tax administration, among others, has shown interest in performing head-office audits (which include intragroup services and other activities performed by the head office) and in analyzing the economic substance of transactions, in terms of alignment of functions and risks. Next to head-office activities, intangible transactions are often evaluated, as well as business reorganizations, centralized purchasing companies, captive insurance companies, and financial services transactions (including loans and guarantees). During these transfer pricing audits, the tax administration appears to have a particular interest in potential internal comparable uncontrolled profits and the economic substance of a transaction.</p> <p>The tax administration has also focused, as a natural result of the risk analysis, on transactions with entities in countries with low effective tax rates.</p>
3	Tax residency private persons	The Dutch tax authorities have shown interest in performing audits regarding the tax residency of private persons that emigrated from the Netherlands but still have ties with the Netherlands.
4	Withholding tax	The Netherlands has implemented the principal purposes test in the Dutch dividend withholding tax act effective 1 January 2018 and in the Dutch interest and royalty withholding tax that entered into force effective 1 January 2021. The Dutch tax authorities may scrutinize the economic substance of existing arrangements more actively going forward, especially in relation to jurisdictions that are listed on the Dutch or EU tax haven list.
5	Avoidance of double non-taxation resulting from the unilateral application of the arm's-length principle	Avoidance of double non-taxation resulting from the unilateral application of the arm's-length principle in the Netherlands: Currently, the Netherlands' transfer pricing rules require a unilateral upward or downward correction of the commercially applied transfer prices between related parties to confirm the recognition of an arm's-length profit for Dutch tax purposes. If a transaction between a Dutch corporate taxpayer and a foreign related party is not at arm's length, the proposed legislation denies a downward adjustment of the taxable income of the Dutch taxpayer (either as a payor or payee) to the extent a corresponding upward adjustment is not included in the taxable basis of a profit tax in the country of the foreign counterparty. The new rules are intended to take effect for fiscal years starting on or after 1 January 2022. There are specific rules proposed for (depreciable) business assets acquired below their fair market value by a Dutch taxpayer during fiscal years starting on or after 1 July 2019 and before 1 January 2022.



Istanbul the capital of Turkey.

# Turkey

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 13 December 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	25% (The rates are temporarily applicable for FYs 2021 and 2022. The statutory rate is 20%).	23% (The rates are temporarily applicable for FYs 2021 and 2022. The statutory rate is 20%).	-8%
Personal income tax – top rate	40% (The top rate will be applicable TRY 650k and above.)	40% (The threshold is not yet disclosed.)	–
VAT, GST or sales tax – standard rate	18%, 1%, 8%	18%, 1%, 8%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Taxing the digital economy in a healthy way (Turkey endorsed OECD BEPS Pillars One and Two) is which is the main objective change in the mid-term plan of the government for the period 2022 to 2024.
- ▶ Interest deduction limitation has been introduced in 2021, the initial provision of which was introduced in 2012. To implement the limitation, the President Decree published in February 2021 stated that enterprises whose current liabilities exceed the equity, up to 10% of the total amount of expenses and costs incurred relating with the excess amount, would be treated as nondeductible expenses for the Turkish company. The limit of the nondeductible financial costs and expenses cannot exceed 10% of the total of these costs.
- ▶ As of November 2021, the cumulative producer price index of the past 3 years exceeded 100%, and the producer price index of the past 12 months exceeded 10%, which means that the inflation adjustment for tax purposes for fiscal year 2021 would be applicable. However, the December 2021 index has yet to be disclosed as to whether the adjustment is applicable or not.
- ▶ The Tax Amnesty Law was enacted in June 2021 to increase the amount of tax revenue and remained in force until September 2021.
- ▶ One goal is to enhance tax collection and improve its effectiveness.
- ▶ Another is to encourage tax compliance through promoting tax equity and tax justice and promising that there will be no new tax amnesty until 2023.
- ▶ Challenging the illicit economy is one prominent measure of preventing tax losses.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022

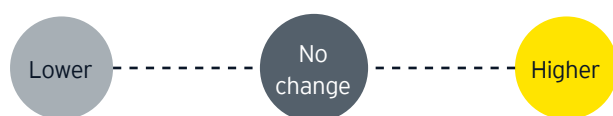
## Turkey

Tax types	Likelihood of changes in 2022	Direction of change
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022

Tax types	Likelihood of changes in 2022	Direction of change
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ Corporate tax with a rate of 23% will be charged on corporate earnings for the 2022 accounting period.
- ▶ If an inflation adjustment is applied, it would be a major workload for enterprises.

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

- ▶ In recent years, Turkey introduced three different taxes on digital business activities (i.e., VAT registration for nonresident service providers whose clients are resident non-taxpayers, withholding taxation for nonresident online advertising and digital service taxation).
- ▶ With regard to Turkish DST, the United States announced investigations will be conducted into certain jurisdictions on 2 June 2020. Jurisdictions included within the scope of this announcement include Turkey, Austria, Brazil, India, Italy, Spain, Turkey and the United Kingdom. After the investigations, the unilateral measures were found discriminatory, and the US imposed tariffs on products from these jurisdictions.

- ▶ Turkey endorsed OECD BEPS Pillars One and Two, and Turkey and the US announced an agreement regarding a compromise on a transitional approach to existing unilateral measures during the interim period before Pillar One.
- ▶ Turkish DST is still applicable, but in accordance with the agreement between Turkey and the US, DST liability that US-based companies accrue during the interim period will be creditable against future income taxes accrued under Pillar One of the OECD agreement.

### Taxes related to climate change or sustainability

- ▶ Turkey recently endorsed the Paris Agreement, and it is expected that important changes will be made on taxes related to climate change (e.g., carbon taxes and compliance with the EU's carbon border adjustment mechanism).

### VAT/GST or sales taxes

- ▶ No significant developments are expected.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ No significant developments are expected.

## Turkey

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

- ▶ No significant developments are expected.

### **Developments in the governance of cryptocurrency**

- ▶ It is known that the legislative proposal on cryptocurrency carried out to protect the consumer and prevent money laundering has reached the final stage and will be prepared by the end of 2021. In the scope of the proposal, first of all, crypto asset types will be defined. The effort for proposal continues under the coordination of the Ministry of Treasury and Finance with participation of the Capital Markets Board, the Revenue Administration, the Central Bank, and the Banking Regulation and Supervision Agency. However, there is no draft available to the public, but, to the best of our knowledge, the Ministry of Treasury and Finance is working on taxation alternatives regarding taxation of crypto assets.

## 2.5 Political landscape

- ▶ While the elections to be held in 2023 are getting closer, the economic policy of the current government is being criticized by major actors in the economy and leading persons of the business world, among others.
- ▶ The president insists on keeping interest rates below the inflation rate as the Turkish Lira consistently loses its value against other currencies.
- ▶ The inflation adjustment for tax purposes was likely either at the end of 2021 or 2022 because of prevailing trends despite the rates for the adjustment (last 3 years' cumulative index increase 100% or more and last 12 months' index increase 10% or more are).
- ▶ The Central Bank of Turkey frequently performs currency interventions, currently, it is not able to keep the currency value at the point requested by the government, since the currency deposits are depleted.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ The amnesty law was enacted into law in June 2021.
- ▶ The new Law No. 7338, Amending Certain Provisions in the Tax Procedure Law, and some other laws and entered into force on 26 October 2021.<sup>1</sup> Law No. 7338 includes amendments in various tax laws and aims to implement changes that encourage tax compliance of taxpayers, increase tax security, strengthen social justice and competitiveness, encourage investments, reduce conflicts and promote predictability in tax practices.
- ▶ With Law No. 7338, MAPs regarding double taxation treaties have been inserted in the Tax Procedure Law.

## 2.7 Major pending tax proposals not otherwise covered

- ▶ On 2 June 2020, a draft law on ratification of the MLI was submitted to the Grand National Assembly of the Turkish Parliament Plan and Budget Committee, which means the ratification process of the MLI has officially started. According to the draft law, Turkey chooses to apply Option C of the MLI (credit method for the elimination of double taxation). In this regard, the election made by Turkey for Option C replaces the exemption method completely with the credit method in all its 22 covered tax agreements. If the draft law on the ratification of the MLI is enacted as is, the "exception method" for the prevention of double taxation in Turkey's 22 tax agreements in force will be replaced with the "credit method," and dividends from these jurisdictions will be subject to "corporate tax" (25% as of December 2021) in Turkey in the future.
- ▶ If the draft law is enacted as is, necessary amendments may be made in the domestic legislation, as in other jurisdictions. For example, in a case where a tax credit is given for tax paid on the distribution of dividends by a foreign entity, the scope of such credit tax should cover not only the tax paid in the jurisdiction where the dividend distribution is made but also the tax paid in other jurisdictions on the same income.

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<sup>1</sup> EY Turkey Tax Alert, Turkey enacts new tax Law | EY – Global, [https://www.ey.com/en\\_gl/tax-alerts/turkey-enacts-new-tax-law](https://www.ey.com/en_gl/tax-alerts/turkey-enacts-new-tax-law).

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

- ▶ In Turkey, the Tax Inspectorate is the authorized institution that conducts tax audits routinely. As most of the tax audits have been concluded under the amnesty law, it is expected that new inspections will start rapidly in 2022. In this context, it is expected that tax controversies will arise between the Turkish tax authority and taxpayers in regard to new audits.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Tax inspections regarding transfer pricing
- ▶ Tax inspections regarding royalty and intangible rights
- ▶ Tax inspections regarding digital workplace

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ If inflation adjustment is applicable, it will have the most impact on companies whose nonmonetary assets are higher than the shareholders' equity. In addition, it will be applied after the first adjustment done in 2004, and it may cause additional compliance for companies.
- ▶ The EU Council added Turkey to the list of non-cooperative jurisdictions on tax matters.
- ▶ Since reforms regarding the mutual agreement procedure have been made, more applications can be promoted by the tax authority.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The tax authority has a positive approach to digitalization of the tax administration since Turkey has put into practice digitalization with the e-state system. For instance, the tax authority sends the majority of notifications or letters through this electronic system.
- ▶ According to the latest law passed by the parliament, a tax office could be established in the digital environment. In the same law, it is foreseen that tax inspections may be carried out remotely.
- ▶ In Turkey, the e-invoice application and other electronic applications, such e-records, etc., are mandatory for the majority of taxpayers.

## Turkey

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Indirect taxes (VAT, GST, sales and use, service taxes)	The main item in the agenda of Turkish tax authority tends to address fraudulent/sham document (invoice) use. The scope for a false document is quite broad, and in practice, all documents issued by the taxpayer are deemed as a false document. In this sense, any taxpayer that trades with such taxpayer is subject to additional tax assessment and tax penalty. The tax authority may make very broad interpretations during the tax inspection for VAT return requests and sometimes rejects such return requests that end up at tax litigation, e.g., rejection of VAT return for direct costs.
2	Tax residency and permanent establishment	The Turkish tax administration claims that some companies providing electronic services generate commercial revenue within Turkey through digital workplaces that should be considered as permanent establishments.
3	Transfer pricing	The Turkish tax audit board (the board) is typically enthusiastic to audit subsidiaries of multinational companies based on the transfer pricing rules. Common criticisms directed to these taxpayers are mostly related to royalties and licensing fees, management fees and procurement structures.
4	Treaty benefits	In recent years, it has been observed that the Turkish tax administration focused its audits on the implementation of beneficial owner clauses of DTTs. Additionally, with regard to transfer pricing audits, the auditors of the board are keen to reclassify the professional services income payments as royalties in cases where the professional services are provided from abroad (HQ of an MNE).
5	Tax refunds	In line with current legislation, tax audits are mandatory for tax refunds exceeding certain amounts. Thus, tax audits initiated upon refund applications are common.







Kiev, Ukraine

# Ukraine

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## EY key contacts

### Tax policy and controversy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 19 November 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	Standard rate: 18%	Standard rate: 18% <sup>2</sup> CFC's adjusted profit (where a controller is a CIT-payer): standard 18% rate <sup>3</sup>	Standard rate: no change CFC's taxation: enacted
	Lower rate: 0% rate (for small businesses) <sup>1</sup>	Lower rate (0%) for small businesses to no longer apply	Lower rate: eliminated
	Special/additional rates: 3%/0% of income (for insurance business); 10% of income (for gaming machines); 18% of income (for betting and gambling businesses); 30% of income (for lottery operators)	Special/additional rates: 3%/0% of income (for insurance business); 10% of income (for gaming machines); 18% of income (for betting and gambling businesses); <sup>4</sup> 30% of income (for lottery operators) <sup>5</sup>	Special/additional rates: no change
		Lower 9% rate for exit capital tax within special tax regime for IT industry being considered by Parliament <sup>6</sup>	Lower rate may be introduced for IT industry

	2021	2022	% change
Personal income tax – top rate	Standard rate: 18% (plus 1.5% military levy under PIT rules)	Standard rate: 18% <sup>7</sup> (plus 1.5% military levy under PIT rules) <sup>8</sup>	–
	Lower rates: 0% (for some inherited assets and gifts – close family members; for gifts with value below 25% of minimum wage as of 1 January of the current year); 5% (for sale and exchange of some immovable property; for sale (exchange) of movable property with restrictions; for other inherited assets and gifts)	Lower rates: 0% (for some inherited assets and gifts – close family members; for gifts with value below 25% of minimum wage as of 1 January of the current year) <sup>9</sup> ; 5% (for sale and exchange of some immovable property; <sup>10</sup> for sale (exchange) of movable property with restrictions; <sup>11</sup> for other inherited assets and gifts <sup>12</sup> )	–
	Special lower rates for passive income: 5% (for dividends received from resident CIT payers); 9% (for the dividends received from non-residents, non-CIT payers and mutual investment institutions)	Special lower rates for passive income: 5% (for dividends received from resident CIT payers); <sup>13</sup> 9% (for the dividends received from nonresidents, non-CIT payers and mutual investment institutions) <sup>14</sup>	–
		CFC's adjusted profit (where a controller is individual): 18% standard rate; <sup>15</sup> 5% (for dividends from Ukrainian legal entities-CIT-payers); <sup>16</sup> 9% (for CFC's profit distributed to a controller before filing CFC report (or within 2 years after reporting year) and included into annual PIT report <sup>17</sup> ; for dividends received from mutual investment institutions and non-CIT payers <sup>18</sup> ). Additionally, a 1.5% military levy applies to CFC's profit distributed to individual controller.	CFC's taxation enactment: 18%, 9% and 5% rates PIT plus 1.5% military levy

<sup>1</sup> Paragraph 44 of sub-section 4 of section XX of the Tax Code of Ukraine

<sup>2</sup> Paragraph 136.1 of article 136 of the Tax Code of Ukraine

<sup>3</sup> Paragraph 136.7 of article 136 of the Tax Code of Ukraine

<sup>4</sup> Article 136 of the Tax Code of Ukraine

<sup>5</sup> Paragraph 48 of subsection 4 of section XX of the Tax Code of Ukraine

<sup>6</sup> So-called Diya City regime, Draft Law No. 5376, registered on 14 April 2021

<sup>7</sup> Paragraph 167.1 of article 167 of the Tax Code of Ukraine

<sup>8</sup> Paragraph 161 of sub-section 10 of section XX of the Tax code of Ukraine

<sup>9</sup> Paragraphs 174.2 and 174.6 of article 174 of the Tax Code of Ukraine

<sup>10</sup> Paragraphs 167.2, 172.2 and 172.3 of article 172 of the Tax Code of Ukraine

<sup>11</sup> Paragraphs 173.1 and 173.2 of article 173 of the Tax Code of Ukraine

<sup>12</sup> Subparagraph 174.2.2 of paragraph 174.2 of article 174 of the Tax Code of Ukraine

<sup>13</sup> Subparagraph 167.5.2 of paragraph 167.5 of article 167 of the Tax Code of Ukraine

<sup>14</sup> Subparagraph 167.5.4 of paragraph 167.5 of article 167 of the Tax Code of Ukraine

<sup>15</sup> Subparagraph 170.13.1 of paragraph 170.13 of article 170 of the Tax Code of Ukraine (effective as of 1 January 2022)

<sup>16</sup> Subparagraph 170.13.3 of paragraph 170.13 of article 170 of the Tax Code of Ukraine (effective as of 1 January 2022)

<sup>17</sup> Subparagraphs 170.13.2.1 and 170.13.2.2 of subparagraph 170.13.2 of paragraph 170.13 of article 170 of the Tax Code of Ukraine (effective as of 1 January 2022)

<sup>18</sup> Subparagraph 170.13.3 of paragraph 170.13 of article 170 of the Tax Code of Ukraine

## Ukraine

	2021	2022	% change
VAT, GST or sales tax – standard rate	<p>Standard rate: 20%</p> <p>Lower rates: 14% (on import and supply of certain agricultural products)</p> <p>7% (on qualifying pharmaceuticals and medical products; certain cultural, tourism and temporary accommodation services)</p> <p>0% (on export of goods, services of international transportation, tolling services)</p>	<p>Standard rate: 20%<sup>19</sup></p> <p>Lower rates: 14% (on import and supply of certain agricultural products)<sup>20</sup></p> <p>7% (on qualifying pharmaceuticals and medical products; certain cultural, tourism and temporary accommodation services)<sup>21</sup></p> <p>0% (on export of goods, services of international transportation, tolling services)<sup>22</sup></p>	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ The Ukrainian Government continues to look for resources to finance the growing budget deficit.
- ▶ Further implementation of BEPS initiatives into Ukrainian tax law will occur in 2022, including CFC rules (Action 3) and CbC reporting and Master File (Action 13).
- ▶ Combating the “shadow economy” remains a priority. To this end, the Government plans to introduce indirect methods of taxation on personal income. At the same time, the Government is offering temporary “tax amnesty” for individuals (voluntary disclosure program with respect to unreported taxable income and assets).
- ▶ The Government aims to stimulate the IT sector by introducing the special legal and preferential tax regime for the IT industry (Diia City), which significantly reshuffles the regulatory and tax framework for IT business operation.
- ▶ The Government intends to implement CRS and plans to make the first exchanges of information based on it in September 2023 for the 2022 reporting year.

<sup>19</sup> Subparagraph “a” of paragraph 193.1 of article 193 of the Tax Code of Ukraine

<sup>20</sup> Subparagraph “r” of paragraph 193.1 of article 193 of the Tax Code of Ukraine

<sup>21</sup> Subparagraph “b” of paragraph 193.1 of article 193 of the Tax Code of Ukraine

<sup>22</sup> Subparagraph “6” of paragraph 193.1 of article 193 and article 195 of the Tax Code of Ukraine

## 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022

## Ukraine

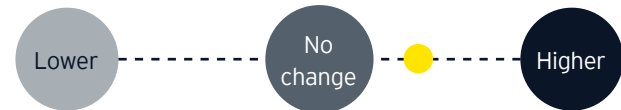
Tax types	Likelihood of changes in 2022	Direction of change
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input checked="" type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ The following corporate income tax rules will become effective in 2022:
  - ▶ CFC rules for individuals and legal entities
  - ▶ New transfer pricing filings (Master File, CbC reporting)
  - ▶ The business purpose test for transactions with nonresidents from low-tax jurisdictions and incorporated in specific legal forms
- ▶ Special preferential tax regime for IT industry (Diia City) is expected to be voted by the Parliament and start applying on 1 January 2022 (Draft Law No. 5376). This regime anticipates the option to apply a 9% tax on exit capital vs. the 18% standard corporate income tax.
- ▶ Nonresidents are becoming more of a focus of the Ukrainian tax law.
- ▶ There is an initiative to limit tax loss carryforwards for large taxpayers by 50% annually.

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

- ▶ A 20% VAT for digitally supplied services is effective beginning 1 January 2022. Qualifying nonresidents will be subject to VAT registration and compliance in Ukraine.

### Taxes related to climate change or sustainability:

- ▶ A recent initiative for implementing the European Green Deal (Draft Law No. 5600) includes several provisions:
  - ▶ Increase the environmental tax on CO<sub>2</sub> emissions from UAH 10 per 1 ton to UAH 30 per 1 ton, and increase the environmental tax for other activities on environment pollution

- ▶ Increase the environmental tax on emissions of pollutants into waters by 1.6 times and provide for their increase by 8 times in 2029 (gradually)
- ▶ Establish the differentiation of royalty rates for special use of surface waters depending on 9 areas of river basins instead of 14

### VAT/GST or sales taxes

- ▶ There is an initiative to restrict crediting input of VAT based on VAT invoices older than six months.
- ▶ Additional lower VAT rates are suggested for the sale of tickets on sport events and for the supply, storage, transportation and distribution of natural gas, electricity, heat, and water
- ▶ A number of VAT incentives for business continue to apply, additional exemptions are proposed for specific operations.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ CFC rules start applying in 2022.
- ▶ The CFC's retained earnings are subject to personal income tax at 18%, 9% or 5% rates and a 1.5% military levy (ML).
- ▶ "Tax amnesty" anticipates lower PIT rates of 2.5%, 5% or 9%, depending on the types of assets.
- ▶ Special preferential tax rates within Diia City regime for IT business:
  - ▶ 5% PIT
  - ▶ 22% unified social tax (UST) based on a minimum wage
  - ▶ 1.5% ML
- ▶ The definitions of labor relationships are proposed to be fixed at the law level, which could enhance hidden employment challenges.

## Ukraine

- ▶ There is an initiative to exempt from PIT and ML nonsignificant amounts of win/prize (excess amount to be subject to 18% PIT and 1.5% ML).
- ▶ There is an initiative to introduce 18% PIT for income/profit received from third and subsequent sales of real estate during the reporting year.

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

- ▶ N/A

### Developments in the governance of cryptocurrency

- ▶ There is a proposal (Draft Law No. 2461) to regulate taxation of cryptocurrency trading activities (with an impact on CIT, VAT and PIT).
- ▶ The law on virtual assets was vetoed by the President and is being amended (Draft Law No. 3637).

## 2.5 Political landscape

The program of government activities includes the following steps oriented to increase the efficiency of tax policy:

- ▶ Simplifying and digitalizing tax administration
- ▶ Introducing electronic tax audits
- ▶ Improving tax literacy and high-quality tax consultations
- ▶ Taking measures to prevent aggressive tax planning (e.g., review of the existing DTTs and setting up effective information exchange)
- ▶ Furthering implementation of the BEPS Action Plan (including focus on control over transfer pricing to increase transparency of international transactions)
- ▶ Creating a stimulating legal and tax regime for the IT industry in Ukraine (Diia City) to attract foreign investors
- ▶ Revisiting ecological tax to increase its efficiency and decrease environmental pollution
- ▶ Continuing the introduction of tax incentives to facilitate the economic activities of taxpayers during the COVID-19 period

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Most changes were introduced by the Law No. 466-IX (as further amended by the Law of Ukraine No. 786-IX), namely:
  - ▶ New tax rules for PE (specified definition of a PE; tax registration obligation for nonresidents operating through representative offices and PEs in Ukraine; broadened powers toward incompliant nonresidents; new rules for CIT calculation by PEs, etc.)
  - ▶ Taxation of capital gains from qualifying foreign-to-foreign transfers of real-estate-rich Ukrainian companies and foreign companies deriving their value from Ukraine-based real estate

- ▶ The concept of “constructive dividends”
- ▶ Business purpose test to limit deductions in transactions falling under TP control
- ▶ Principal purpose test for access to double tax treaty preferences
- ▶ “Look-through” approach to determine beneficial owner of income payable from Ukraine (implies self-declaring of beneficial owner status)
- ▶ New upward tax adjustments (including upward adjustment on 30% value of exported goods/services to qualifying nonresidents)
- ▶ Extension of the rules on accelerated tax depreciation and extension of its scope
- ▶ Obligation to file the notification on participation in the international group of companies for TP purposes
- ▶ A special regulatory and preferential tax regime was introduced for big investors, subject to qualifying conditions. The tax preferences are temporary and anticipate a conditional five-year tax exemption in any period until 2035.
- ▶ There are developments and wide discussions on “Diia City” regime for the IT industry (Draft Law No. 5376).
- ▶ The process for amending DTTs concluded by Ukraine is ongoing. The protocols to treaties with the Netherlands and Austria entered into force in 2021, and those with Qatar, Denmark and UAE are pending.
- ▶ The U.S. Internal Revenue Service postponed the deadline for submission of reports on reportable accounts within the framework of FATCA for Ukraine until 1 September 2021.

## 2.7 Major pending tax proposals not otherwise covered

- ▶ Draft Law No. 5054 envisages a non-exhaustive list of “red flags” indicating the existence of labor relationships regardless of the formalization of such relations between the parties. If at least three of the “red flags” are in place, the relations between parties could be reclassified into employment (e.g., regulation of the work process, systematic payment of remuneration, establishment of work schedule, reimbursement of travel and other work-related expenses, etc.).
- ▶ The draft law suggests including foreign legal entities into the statutory definition of “employer.”
- ▶ If this law is adopted, it is likely that the tax authorities could intensify their efforts on hidden employment schemes, including transactions with private entrepreneurs and with foreign companies.



## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ Ukrainian tax authorities are known for their strict interpretations of the tax and financial accounting rules during tax audits.
- ▶ However, due to COVID-19 pandemic, many fiscal measures of the tax authorities were suspended by the package of COVID-19 laws enacted during 2020 and the prolonged quarantine. This includes temporary exemption from tax fines and interest for tax violations committed during quarantine, so a moratorium on tax audits (both with exceptions), and specific tax incentives, etc. Some types of tax audits have been excluded from the scope of moratorium.
- ▶ A new tax registration obligation was enacted for nonresidents (operating in Ukraine through representative offices and permanent establishments; directly or indirectly acquiring real-estate-rich Ukrainian companies).
- ▶ Further digitalization of tax administration is in process, including the extension of functionality of the e-cabinet of a taxpayer, filing of financial and tax reporting, and the provision of individual tax rulings in electronic form.
- ▶ Wholesale fiscalization of taxpayers is ongoing with the mandatory application of cash registrars in qualifying cases.
- ▶ A risk-oriented approach to registration/suspension refuse-to-register VAT invoices applies, and it remains a contentious topic for taxpayers, giving rise to many court disputes.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Tax registration and compliance of nonresidents
- ▶ Transfer pricing compliance
- ▶ CFC rules

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Special preferential tax regime for the IT industry
- ▶ VAT on digital services supplied by nonresidents
- ▶ New transfer pricing reporting (Master File and CbC reporting)

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ Digitalization of tax administration is in process, including extension of functionality of the e-cabinet of a taxpayer, filing of financial and tax reporting, and the provision of individual tax rulings in electronic form and enabling remote access to tax services.

## Ukraine

### 3.6 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2022?

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures <i>Exemption from import VAT and/or import duties of qualifying goods (e.g., humanitarian aid); VAT exemption for software and other qualifying supplies; exemption application of tax incentives driven by COVID-19 (import duty, import VAT, VAT on supplies of goods necessary to overcome COVID-19 pandemic)</i>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Multilateral (such as ICAP)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other: <i>New tax registration and compliance obligations for qualifying non-residents</i>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	<b>Transactions' actual performance test</b> ( <i>disallowance of deductions and VAT credit; continued</i> )	The key focus of the tax authorities during tax audits is analyzing the reality of the business transaction (so-called "transaction actual performance test"), which implies actual movement of assets as a result of the transaction. The most common grounds to challenge the tax deduction of costs and VAT credits related to transactions are (i) that the counterparty does not have enough resources to carry out business activities, i.e., personnel, assets; (ii) the absence of the counterparty at the place of its registration; (iii) the absence of information on actual transportation and storage of goods based on its physical characteristics and volume; (iv) information that a counterparty is a sham business; and (v) insufficient supporting documents or technical defects therein.
2	<b>Nonresident's activity in Ukraine</b> ( <i>continued and intensified</i> )	Tax audits of nonresidents' activities are expected to increase in 2022 due to the fact that the recent tax reform law significantly specified PE rules by bringing them in line with BEPS standards (Action 7). The same law introduced a tax registration requirement for nonresidents operating in Ukraine through PEs and representative offices. The tax authorities are granted more administrative powers in relation to noncompliant nonresidents, including a fine of UAH 100,000, a tax lien on property, forceful tax registration, and tax assessments.

	Issue name	Description
3	<b>Business purpose test</b> <i>(disallowance of deductions and VAT credit)</i>	<p>The recent tax reform law reintroduced the business purpose test for deductions in relation to certain operations with nonresidents (controlled and operations with nonresidents from low-tax jurisdictions and registered in special legal forms). It is expected that in 2022 the tax authorities may scrutinize the transactions' economic substance even more. If they consider that the transaction lacks economic substance, they would challenge related deductible expenses and VAT credit.</p> <p>The tax authorities are familiar with the business purpose test and historically applied it in practice even when there was no technical mechanism of the use of such test.</p>
4	<b>Transactions with related parties, including transfer pricing issues</b> <i>(continued)</i>	<p>The tax authorities historically scrutinize transactions with related parties, especially related nonresidents. They usually check compliance with TP rules (both material aspect of compliance with the arm's-length principle and technical aspect of filing TP reports and TP documentation), where statutory thresholds for TP controls are met.</p>
5	<b>Withholding tax and treaty benefits</b> <i>(continued)</i>	<p>The tax authorities historically audit and widely challenge entitlement to benefits (tax relief or reduced WHT rates) under double tax treaties. For this purpose, they, in addition to raising challenges based on a lack of or improper formalization of a tax residency certificate, argue that a nonresident income recipient does not qualify as the beneficial owner of income, that the principal purpose test is not met, that the nonresident income recipient has PE in Ukraine to which such income is attributable, or that other treaty eligibility conditions are not met.</p> <p>We expect that this tendency would likely remain as one of the top tax audits issues in 2022, especially given that the recent tax reform law further specified a beneficial owner test, an introduction of PPT, a "look through" approach, and a constructive dividends concept into national tax law.</p>
6	<b>Interpretation of financial accounting rules</b> <i>(continued)</i>	<p>Given that CIT is calculated based on a taxpayer's financial result determined according to the financial accounting rules, the tax authorities may challenge CIT treatment and assess additional CIT liabilities based on their fiscal interpretations of the financial accounting rules.</p> <p>The most popular grounds for tax reassessments include discounting of financial liabilities, foreign exchange differences in transactions with related nonresidents, recognition of income from free-of-charge use of trademarks and other intellectual property rights, and recognition of income from all types of activities and from writing off bad debts (accounts payable), etc.</p>



Tolerance bridge, Dubai

# United Arab Emirates

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 12 February 2022.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	N/A	N/A	–
Personal income tax – top rate	N/A	N/A	–
VAT, GST or sales tax – standard rate	5%	5%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Revenue diversification
- ▶ International tax developments (e.g., BEPS 2.0)

### 2.2 Tax changes in 2022

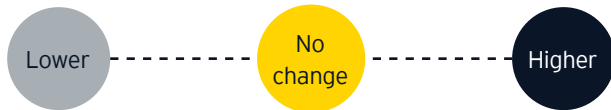
Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

## United Arab Emirates

Tax types	Likelihood of changes in 2022	Direction of change
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

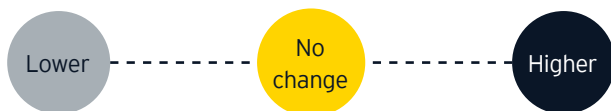
### Overall corporate income tax responsibility (the combined effect of base/rate)



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ N/A at present, but introduction of the federal CIT is expected in 2022, with possible implementation in 2023.

As an overview of taxation in the United Arab Emirates (UAE), please note that there is currently no federal UAE taxation. Each of the individual Emirates (Dubai, Sharjah, Abu Dhabi, Ajman, Umm Al Quwain, Ras Al Khaimah and Fujairah) has issued corporate tax decrees that theoretically apply to all businesses established in the UAE (generally with headline tax rate of up to 55%). However, in practice, these laws have not been applied.

Corporate taxes are currently only imposed at the Emirate level on the following:

- ▶ Oil and gas producing companies (oil and hydrocarbon companies with actual production in the Emirate) as per specific government concession agreements (which are confidential)
- ▶ Branches of foreign banks under specific tax decrees or regulations or fixed in agreements with the Rulers of the Emirates in which the branches operate

Note that this is merely how the practice has evolved in the UAE and at the level of the individual Emirates. There is no general exemption in the Emirates' tax decree. Anyone investing in the Emirates should be aware of the risk that the tax decree may be more generally applied in the relevant Emirate in the future, of the remote risk that it may be applied retroactively, and be mindful of the potential introduction of federal (UAE) level taxation in the future (see above comment).

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

- ▶ Direct tax: N/A at present
- ▶ Indirect tax: No changes anticipated in 2022

### Taxes related to climate change or sustainability

- ▶ N/A

### VAT/GST or sales taxes

- ▶ More guidance is expected to be published by the Federal Tax Authority (FTA) in 2022 on its policy surrounding the VAT treatment of supplies made within certain industries (such as financial services).

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ N/A

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

- ▶ N/A

### Developments in the governance of cryptocurrency

- ▶ Direct tax: This is N/A at present.
- ▶ Indirect tax: It is understood that cryptocurrency policy is on the agenda within the UAE, and there may be policy updates and/or guidelines released with respect to the VAT treatment of related transactions in 2022 or later.

## United Arab Emirates

### 2.5 Political landscape

- ▶ The UAE is a federation of seven Emirates. It has a Council of Ministers, or Cabinet, headed by the Prime Minister, which has executive authority to introduce and promulgate legislation. The Federal National Council, whose members are drawn from the individual Emirates based on their population, has both a legislative and a supervisory role under the UAE Constitution and is responsible for examining, and possibly amending, all proposed federal legislation.

### 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ None for direct tax/international tax

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ Not applicable for corporate income tax.
- ▶ Economic Substance Regulations (ESR) – The licensing authorities have been actively raising queries regarding ESR compliance and it is expected that more comprehensive audits of ESR filings will commence shortly. As such, annual compliance with ESR is essential as penalties can be severe (the most significant violation may result in the trade license of an entity being suspended or revoked).
- ▶ It is understood that there are considerable VAT penalties that have not been settled by taxpayers, which has prompted the FTA to launch an “amnesty” of sorts, whereby historical penalties may be eligible for a discount of 70% where paid by 31 December 2021.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ There has been little published with respect to enforcement activities for VAT and no particular themes or trends have been observed.

### 2.7 Major pending tax proposals not otherwise covered

- ▶ On 31 January 2022, the Ministry of Finance (MOF) of the UAE confirmed that the UAE will introduce federal corporate tax (CT) for financial years starting on or after 1 June 2023. While the CT law has not yet been issued, the MOF has publicly communicated key elements of CT policy and design through an FAQ document. The MOF has stated that further information shall be issued toward the middle of 2022.

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

None have been announced, though the following are understood to be on the agenda:

- ▶ E-invoicing is expected for VAT.
- ▶ On 31 January 2022, the MOF of the UAE confirmed that the UAE will introduce federal CT for financial years starting on or after 1 June 2023. While the CT law has not yet been issued, the MOF has publicly communicated key elements of CT policy and design through an FAQ document. The MOF has stated that further information shall be issued toward the middle of 2022.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The tax authority is committed to the digitalization agenda and the development of its back-end systems and processes.
- ▶ It is expected that the FTA may adopt innovative and digitalized mechanisms to improve its compliance and enforcement function. The FTA is expected to look for ways it can gather more transactional data electronically in the coming years and to use this as part of a risk profiling and audit framework.



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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	VAT	General audits of businesses, without any particular focus on specific industries or issues
2	Excise tax	General audits of businesses, without any particular focus on specific industries or issues
3	Tax refunds	Will commonly trigger further audit/investigation from the FTA



Rush hour at Liverpool Street Station/London (UK)

# United Kingdom

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*This information is current as of 16 December 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	19%	19%	–
Personal income tax – top rate	45%	45%	–
VAT, GST or sales tax – standard rate	20%	20%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ The UK government is prioritizing recovery from the COVID-19 pandemic, referred to as “leveling up,” which includes encouraging development outside of London and the South East, and meeting the UK’s net-zero by 2050 objective.
- ▶ Changes in autumn 2021 indicate a pivot toward reducing the deficit, with a commitment to reach balance in 2023-24. More policy announcements are anticipated in 2022 to help meet this objective, although the UK government monitors COVID-19 developments and will adjust policies accordingly.
- ▶ The UK left the European Union on 31 January 2020, and the transition period ended on 31 December 2020, leaving the UK and the EU operating under a Trade and Cooperation Agreement (TCA). The full economic impact of this has yet to be felt, with several trade barriers yet to be fully implemented and the COVID-19 pandemic reducing the movement of people across borders. Government policy is likely to focus on supporting this transition.
- ▶ UK inflation is predicted to reach its highest level for 20 years, peaking at 4.6% in April 2022. The UK’s central bank, the Bank of England, will implement monetary policy to tackle this. Fiscal policymakers will likely consider this rise too.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input checked="" type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022

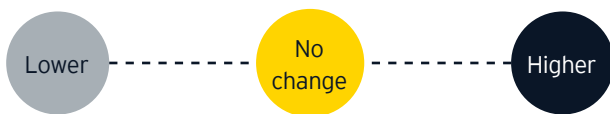
## United Kingdom

Tax types	Likelihood of changes in 2022	Direction of change
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	

Tax types	Likelihood of changes in 2022	Direction of change
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ The corporate tax rate will remain at 19% for 2022 but will rise to 25% from 1 April 2023, other than for less profitable companies (<£50,000 per annum).
- ▶ To prevent deferral of investment, investment in new qualifying plants will receive relief at 130% until the corporate tax rate rises to 25% (1 April 2023). Additionally, other plants may qualify for 100% relief up to £1m per annum.
- ▶ The period for carryback of losses is normally limited to one year but has been extended to three years for 2021 or 2022. The additional amount carried back beyond one year is limited to £2m.
- ▶ In 2022, the government will legislate to require businesses in scope of country-by-country reporting to maintain a master file and local file in line with OECD BEPS Action 13.
- ▶ Qualifying expenditure for both the research and development expenditure credit (RDEC), and the SME research and development relief will be expanded to include data and cloud computing costs.

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

- ▶ No major changes are expected for this period. The UK entered into an agreement with the US such that, for those companies within BEPS 2.0 Pillar One, any DST charged in excess of the equivalent rate incurred under the first year of BEPS 2.0 Pillar One would be available for credit against obligations under Pillar One. The UK has also announced a new consultation on an online sales tax, although this tax is not expected to come into force in 2022.

### Taxes related to climate change or sustainability

- ▶ Plastic packaging tax will take effect from 1 April 2022, and registration thresholds and liability calculations will run from this date. The tax applies to qualifying plastic packaging when manufactured in the UK, imported into the UK or purchased from a supplier that has not accounted for PPT where the purchaser knew or should have known PPT was unpaid.
- ▶ The tax is £200 per metric tonne of taxable finished plastic packaging. To qualify, it must meet the definition of plastic, packaging, finished and taxable. An example of a product that is not taxable is where more than 30% of the plastic is recycled.

## United Kingdom

### VAT/GST or sales taxes

- ▶ Penalties for late VAT returns – A new points-based penalty regime will be introduced for VAT return periods from 1 April 2022. Once a taxpayer reaches a certain points threshold, the UK tax authorities, Her Majesty's Revenue and Customs (HMRC), will levy a penalty of £200.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ The PIT allowance will be frozen at £12,570 pa. through to April 2027. Similarly, the basic rate band (which applies from £12,570 to £50,270) will be frozen for the same period.
- ▶ Health and Social Care Levy – From 1 April 2022, the rate of social security (National Insurance) on employers, employees and the self-employed will be increased by 1.25 percentage points. In addition, the rate of dividend tax will also be increased by 1.25 percentage points.
- ▶ Treatment of losses – The same treatment of losses rules applies for income tax as for corporation tax (see above).

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

- ▶ The government will introduce a new alcohol duty regime in 2023 that will reduce the number of tax bands from 15 to 6, and rates will be in line with alcohol content.

### Developments in the governance of cryptocurrency

- ▶ No significant developments are expected.

## 2.5 Political landscape

- ▶ The Conservative government elected in December 2019 has begun to focus on its manifesto priorities now that the UK-EU TCA has been in place a year and the UK begins to recover from the COVID-19 pandemic.
- ▶ The Autumn Spending Review 2021, COP26 hosted in the UK in November 2021, and the cabinet reshuffle in September 2021 evidenced a stronger pivot toward the government's priorities of recovering from the COVID-19 pandemic, "leveling up" and meeting the UK's net-zero by 2050 objective. As part of the cabinet reshuffle, the Department of Housing Communities and Local Government was renamed Department for Levelling Up, Housing and Communities.
- ▶ Moving into 2022, relationships with the EU are impacted by attempts to renegotiate parts of the Northern Ireland Protocol. Relationships with France in particular are impacted by the UK-EU TCA disputes and the Aukus defense deal signed between the UK, US and Australia.
- ▶ An election is not expected in the UK until 2024. Therefore, a change of government is not expected in 2022.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ The COVID-19 pandemic was again the key driver of tax policy changes in 2021. Policies implemented focused on the recovery from the pandemic, which the Conservative government pitched as "build back better."
- ▶ Initial support was extended, including the Coronavirus Job Retention Scheme (CJRS), which was due to end 30 April 2021 but was extended to 30 September 2021.
- ▶ A fourth Self-Employment Income Support Scheme grant was available to claim from April 2021 of 80% of profits up to £7,500. A fifth grant was made be available in July 2021, where businesses that have seen a reduction of 30% or more in turnover were eligible for an 80% grant, capped at £7,500.
- ▶ The 100% business rates (local business property tax) relief in England for retail, hospitality and leisure was extended to 30 June 2021, with a 66% relief until March 2022.

## 2.7 Consultations announced

- ▶ Open consultations include:
  - ▶ Response to accounting changes for insurance contracts (International Finance Reporting Standards 17); consultation closes on 22 February 2022
  - ▶ Re-domiciliation regime; consultation closed on 7 January 2022
  - ▶ Alcohol duty reform – implementation of new rules; consultation closes on 30 January 2022
  - ▶ How and when the self-employed and landlords should register for income tax self-assessment; call for evidence closes on 22 February 2022
  - ▶ Delivering budget commitments on business rates; technical consultation closes on 22 February 2022
  - ▶ Modernizing tax debt collection for nonpaying businesses; call for evidence closes on 22 February 2022
  - ▶ OECD's Model Mandatory Disclosure Rules to tackle noncompliance draft regulations; consultation closes on 8 February 2022
  - ▶ Consulting on making stamp duty land tax (SDLT) reliefs fairer; consultation closes on 22 February 2022
  - ▶ Making sure that landfill tax continues to support environmental objectives; call for evidence closes on 22 February 2022
  - ▶ The role that umbrella companies play in the labor market; call for evidence closes on 22 February 2022
- ▶ Consultations announced includes:
  - ▶ Online sales tax for online retailers
  - ▶ Options to simplify the VAT treatment of fund management fees
  - ▶ Administering low-income trusts and estates

## Section 3: Tax enforcement in 2022

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### 3.1 Current general approach to tax enforcement

- ▶ HMRC applies a risk-based approach to enforcement and compliance.
- ▶ HMRC has a “promote, prevent, respond” strategy to tackle noncompliance, which aims to:
  - ▶ Promote compliance by designing it into systems and processes
  - ▶ Prevent noncompliance at or near the time of filing
  - ▶ Respond effectively to noncompliance
- ▶ HMRC’s strategy focuses on:
  - ▶ Maximizing collection of revenues
  - ▶ Bolstering resources to tackle evasion and noncompliance in the tax system
- ▶ International tax, especially transfer pricing, continues to be a priority area in relation to MNEs. During 2021, HMRC recruited for senior roles to work in this area.
- ▶ HMRC takes a leading role in international forums to fight tax crime and continues to develop the Joint Chiefs of Global Tax Enforcement (J5) initiative to crack down on tax evasion and tax crime. The UK’s Corporate Criminal Offence (CCO) of failure to prevent the facilitation of tax evasion is a major plank of these efforts.
- ▶ As part of the “promote, prevent, respond” strategy, HMRC has an increasing focus on the systems and processes that support tax returns and has recruited more systems audit specialists to develop capacity to check the substance behind senior accounting officer (SAO) filings as the focus on tax risk moves “upstream” to events prior to the tax return being filed.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Transfer pricing and DPT investigations, whether through traditional enquiries or “self-enquiries” as a result of MNEs receiving a Profit Diversion Compliance Facility (PDCF) “nudge” letter. The PDCF is seen as a success by HMRC, and the concept could be expanded to other areas beyond international tax risk.

- ▶ Forensic investigation of factual data includes emails to test functional analysis or to satisfy purpose tests in legislation. “Show, not tell” is the approach most commonly seen in UK tax investigations.
- ▶ Greater focus on tax risk management including SAO certification processes, publication of Tax Strategy, and evidencing a response to the CCO. All of these are tested under HMRC’s Business Risk Review+ process of annual reviews for clients managed by the Large Business Directorate (generally >£200m UK turnover), with failures leading to the business being deemed “high risk” and, therefore, receiving more tax interventions from HMRC.

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Checking COVID-19-related support scheme claims, specifically checks on the accuracy of claims made under the furlough scheme, CJRS, are expected.
- ▶ Increased demand for access to MAP. As a result of increased international tax controversy in the UK and overseas and with dispute resolution processes having been improved under BEPS Action 14, MAP is now seen far more frequently and plays a part in tax controversy management strategy. In October 2021, HMRC implemented a measure to implement tax treaty MAP decisions relating to DPT, having previously viewed DPT as not being a covered tax under the UK’s treaties.
- ▶ From April 2022, large businesses are required to notify HMRC where they have adopted an uncertain tax treatment. This legislation is designed to improve HMRC’s ability to identify issues where businesses have adopted a different legal interpretation to HMRC’s view. HMRC considers that this will help to reduce tax losses caused by businesses adopting tax treatments that do not stand up to legal scrutiny.

### 3.5 How would you describe the tax authority’s approach to and overall status of the digitalization of the tax administration?

- ▶ HMRC has embraced digitalization of tax administration through the launch of Making Tax Digital for VAT. However, implementation timelines for income tax for small businesses and for corporation tax have slipped back to 2024 and 2026, respectively, in part due to the COVID-19 pandemic.
- ▶ HMRC is known to use data from CbCR as part of its risk assessing process for international tax risk with MNEs, especially for businesses that have been sent a PDCF “nudge” letter.

## United Kingdom

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Multilateral (such as ICAP)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Transfer pricing	There will be continued focus on all transfer pricing issues through enquiries but particularly through the PDCF, a disclosure facility introduced in 2019, in which HMRC sends warning letters to international groups where HMRC perceives that there is a risk of profit diversion. Issues include CbCR data, e.g., where a large proportion of residual profits arise in a low-tax jurisdiction despite low headcount.
2	Tax avoidance	HMRC takes a crosscutting approach to investigating and challenging avoidance schemes, with an anti-avoidance strategy relying on enhanced disclosure requirements, enhanced penalties for users and enablers of avoidance schemes, and a strategic approach to litigation where the taxpayer has not conceded 100% of the liability HMRC regards as due.
3	Disallowance of deductions	Unallowable purpose legislation (S441 CTA 2009) – Litigation of cases is expected to continue, following Oxford Instruments, BlackRock, KwikFit, et al.
4	Senior accounting officer	For those clients within the scope of SAO (>£200m UK turnover) and particularly for those managed by HMRC's Large Business Directorate, there has been a strong focus by HMRC on the systems and processes behind the tax returns made by the business. HMRC has recruited more systems audit specialists to bolster their capability in this area.
5	COVID-19-related support schemes (CJRS, SEISS)	Audit of the rapidly rolled out business support scheme payments made during the pandemic, specifically the furlough scheme (Coronavirus Job Retention Scheme).







US Capitol building, Washington, DC

# United States

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 8 February 2022.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	26% <sup>1</sup>	26% <sup>1</sup>	–
Personal income tax – top rate	37% <sup>2</sup> Additionally, a 20% deduction for individuals for domestic “qualified business income” from a partnership, S corporation or sole proprietorship creates an effective 29.6% tax rate for certain pass-through income.	26% Additionally, a 20% deduction for individuals for domestic “qualified business income” from a partnership, S corporation or sole proprietorship creates an effective 29.6% tax rate for certain pass-through income.	–
VAT, GST or sales tax – standard rate	0% <sup>3</sup>	0%	–

<sup>1</sup> The federal marginal rate is 21%. The 26% figure reflects the fact that many states and US municipalities also levy their own corporate income taxes, as well as other types of business taxes based on net worth or gross receipts. Some of these rates are as high as 11.5%. For corporations, these state and local income taxes are generally deductible for federal income tax purposes, and thus, the federal benefit reduces the overall effective rate. The average total effective business tax rate imposed on business activity by state and local governments in fiscal year 2020 was 4.5%.

## Section 2: Tax policy in 2022

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### 2.1 Key drivers of tax policy change

- ▶ Against the backdrop of COVID-19, the Biden administration has continued to focus on addressing the economic and health impacts of the pandemic.
- ▶ In October 2021, the administration laid out a revised Build Back Better (BBB) framework that would implement new social spending programs, expand tax credits for middle- and lower-income taxpayers and provide more green energy incentives. Changes to corporate and international taxes and tax increases on high-income taxpayers continued to be identified as ways to pay for these policies. The U.S. House of Representatives passed the BBB Act in 2021, but the measure has not been brought to the Senate floor.
- ▶ The dynamics created by a 50-50 political split in the Senate have made it challenging for the Democrats to advance the BBB; all Senate Democrats must vote yes for it to pass. Inflationary pressures, reservations expressed by some Senators and the looming mid-term elections are also shaping BBB negotiations.
- ▶ President Biden has acknowledged that the size of the BBB will likely need to be reduced to gain enough support for the bill to pass the Senate. It remains to be seen which BBB provisions will be cut. The size of the final package will determine the amount of revenue (and the number of tax changes) needed. Thus, the tax policy landscape remains in flux for 2022 – tax changes may be enacted, but the size and scope of the changes may differ from what was proposed in 2021.
- ▶ Adding to the complexity, without the changes that are pending in the BBB legislation, the US global intangible low-taxed income (GILTI) regime likely would not be considered to be a qualifying regime under the OECD BEPS 2.0 initiative. The OECD proposals involve a new global minimum tax framework at a 15% rate and revisions to existing nexus and profit allocation standards, which could significantly alter where a company's income is taxed. Presently, 137 countries have agreed to the proposed global tax reforms, and the US is an active participant in the initiative. There is still much technical work to be completed on the substantive details of the proposals, and the timeline is ambitious, with most provisions targeted to take effect in 2023.
- ▶ The Biden administration has promoted policies to shape environmental sustainability in both the Infrastructure Investment and Jobs Act (IIJA) and the BBB. Also, at the COP26 meeting in the fall of 2021, the US was one of nearly 200 jurisdictions to sign the Glasgow Climate Pact, setting out actions and commitments that each country would follow to limit global warming.
- ▶ As US businesses seek to decarbonize their supply chains in response to US climate policies, supply chain resiliency will be another key policy driver, with the Biden administration promoting trade policies intended to promote stronger, more diversified domestic production of key strategic products.

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<sup>2</sup> In addition to the federal rate, US state and municipal individual income tax rates apply, ranging from 0% to 13.3%. The Tax Cuts and Jobs Act (TCJA) imposed an annual \$10,000 limitation on the deductibility of most state and local taxes (\$5,000 for married filing separately), and any such taxes deducted remain taxable under the federal personal alternative minimum tax. The TCJA also doubled the standard deduction, moderating the state and local tax deduction limitation. Additionally, the net investment income tax (NIIT) has been in effect since 1 January 2013. The 3.8% tax applies to certain net investment income of individuals, estates and trusts that have income over statutory threshold amounts. These complex federal and personal income tax adjustments are not included in the rate used here. Only the highest federal regular tax rate is displayed.

<sup>3</sup> However, many state and local governments impose sales taxes, with combined rates varying from 0% to over 10%. It is estimated that there are more than 12,000 separate sales tax rate jurisdictions in the United States.

## United States

### 2.2 Tax changes in 2022<sup>4</sup>

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same* tax in 2022 <input type="checkbox"/> Higher tax in 2022 <small>* TCJA changes will result in less interest expense allowed as a deduction</small>
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input checked="" type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022

Tax types	Likelihood of changes in 2022	Direction of change
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Enhanced incentives in 2022 <input checked="" type="checkbox"/> Same* incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022 * TCJA changes will require amortization of R&D costs over 5 to 15 years
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input checked="" type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
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14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input checked="" type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

<sup>4</sup> The size and scope of any tax changes will depend on whether the Democrats enact BBB (or similarly themed) legislation in 2022. Tax changes could be significant depending on the amount of revenue needed. The BBB Act passed by the House of Representatives 19 November 2021, and the 11 December 2021 Senate Finance Committee's modified legislative text both contained significant international, corporate and individual tax increases. See EY Tax Alerts 2021-2235, "Senate Finance Committee proposes significant technical changes to international tax provisions in budget reconciliation bill," <https://taxnews.ey.com/news/2021-2235-first-impressions-senate-finance-committee-proposes-significant-technical-changes-to-international-tax-provisions-in-budget-reconciliation-bill>, and 2021-9027, "House approves Build Back Better Act reconciliation bill," <https://taxnews.ey.com/news/2021-9027-house-approves-build-back-better-act-reconciliation-bill>.

## United States

### 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

### 2.4 Tax policy outlook for 2022 – detail

#### Corporate income taxes

- ▶ The Biden administration's \$1.75 trillion spending bill (BBB) stalled at the end of 2021. The administration has continued to negotiate with Democratic lawmakers and may support a smaller version of the bill.
- ▶ While it remains to be seen which provisions will make it into any final legislation, the 19 November 2021 House-passed BBB legislation contained the following business tax changes, among others:
  - ▶ A 15% corporate alternative minimum tax based on book income for companies with more than \$1b in profits
  - ▶ A 1% surcharge on stock buybacks
  - ▶ Changes to the US international tax regime that would increase taxes paid by most US multinational companies, including changes to the rules governing the foreign tax credit, the rules for computing GILTI and the deduction for foreign-derived intangible income, and revisions to the base erosion and anti-abuse tax
  - ▶ New interest deduction limitations for US corporations that are part of multinational financial reporting groups
- ▶ Any of these provisions, or other tax changes that have been part of prior legislative discussions, could resurface in a new/ revised bill.

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

- ▶ While the United States does not have a digital services tax, US states are using a variety of approaches to try to tax the digital economy. The state of Maryland imposed a new digital

advertising services tax that applies at a graduated rate to any company with at least \$100m in global annual revenue and at least \$1m in annual gross revenue derived from digital advertising services within the state; it is scheduled to go into effect in 2022. Similar proposals have been put forward in several other states.

- ▶ Other states have proposed expanding their sales and use tax base to include specified digital products and services, including digital goods, streaming services and platform companies. Some states, rather than focusing on digital advertising services, have opted to expand their sales tax or impose new taxes on other digital outputs.

#### Taxes related to climate change or sustainability

- ▶ In addition to provisions incentivizing climate resilience, electric vehicles and electric buses, the IIJA, signed into law 15 November 2021, reinstates and amends expired excise taxes on chemicals manufactured in the US or imported. It also increases the tax base for imported substances containing only 20% taxable chemicals (vs. 50%).
- ▶ The House-passed BBB Act included several clean energy provisions, totaling \$555 billion. Long-term extensions of existing green energy tax credits, as well as several new tax credits, were included that could help finance renewable energy projects intended to address climate change. It remains to be seen whether a revised BBB includes these energy-focused provisions or if they appear in other legislative vehicles.

#### VAT/GST or sales taxes

- ▶ There is no VAT at the federal level, but there is a trend among states to expand their sales tax bases to services and digital goods, generally.

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

- ▶ The BBB would have expanded the NIIT to business income of individuals with incomes greater than \$400,000 and imposed other taxes on high-income earners and high net worth individuals.
- ▶ Personal income tax rate reductions are being considered in a number of states.
- ▶ The rise in inflation has caused a greater-than-usual increase in certain annual limits for 2022:
  - ▶ Social Security wage limit increased from \$142,800 to \$147,000.
  - ▶ Salary reduction limit for qualified plans (e.g., 401(k)) increased from \$19,500 to \$20,500.
  - ▶ Health flexible spending account (FSA) pretax contribution increased from \$2,750 to \$2,850.
  - ▶ Pretax limit on parking and transit benefits increased from \$270 to \$280.
  - ▶ Adoption assistance benefit limit increased from \$14,440 to \$14,800.
- ▶ Most state and local temporary COVID-19 income tax and withholding rules for remote workers are expired in 2022. Employers will need to be certain they are tracking the geographic location of remote workers to avoid penalties for underreporting and underwithholding.
- ▶ State unemployment insurance (SUI) trust funds were severely impacted by COVID-19. Employers will need to closely review their SUI cost estimates to take into account increases that are likely in some states.
  - ▶ Several states had to issue corrected SUI rate notices in 2021. Employers will need to confirm that they have made the correct SUI contributions.

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

- ▶ N/A

### **Developments in the governance of cryptocurrency**

- ▶ Generally, there has been a growing focus on cryptocurrency oversight and regulation at both the federal and state levels. The IIJA applies information reporting requirements to digital assets (including cryptocurrency), updates and expands the definition of a broker for these assets, and adds digital assets to the current rules requiring businesses to report cash payments greater than \$10,000.

## **2.5 Political landscape**

- ▶ Both the executive and legislative branches are currently controlled by the Democrats, but their margin in Congress is very narrow, particularly in the Senate, where there is a 50-50 split and the Vice President is the tie-breaking vote. This dynamic makes it difficult to enact legislation that does not have bipartisan support, because even one Democratic Senator has the power to block passage of legislation.
- ▶ This power dynamic, played out in debates between the progressive and moderate wings of the Democratic party over which tax proposals to include in the BBB, showcases the challenges of securing the votes needed to enact major legislation.
- ▶ Both parties are already focusing on midterm elections scheduled for November 2022. These elections have the potential to shift the balance of power in the legislative branch to the Republicans. If this happens, there would be a Democratic President and a Republican Congress – with very different legislative agendas. The lack of cooperation between the Democratic and Republican parties so far signals that, in such a scenario, there might be little chance of significant tax legislation.

## **2.6 What major tax policy changes occurred in your jurisdiction in 2021?**

- ▶ On 11 March 2021, President Biden signed into law the \$1.9 trillion American Rescue Plan Act (ARPA), which focused on pandemic relief and included provisions on taxes, health care, unemployment benefits, direct payments, state and local funding and other issues. Provisions on tax issues like worldwide interest, Section 6050W reporting, excess business loss and Section 162(m) executive compensation were also included.
- ▶ On 15 November 2021, President Biden signed the IIJA into law. Among its many provisions, the bill repealed employee retention credits (ERCs) as of 30 September 2021. The repeal of ERCs effectively cut the extension under ARPA in half by retroactively eliminating ERCs for the fourth quarter of 2021. Thus, wages paid after 30 September 2021 were no longer eligible for the credit. The IIJA also reinstated and expanded Superfund excise taxes and imposed new information reporting requirements for digital assets (including cryptocurrency).

## **2.7 Major pending tax proposals not otherwise covered**

- ▶ N/A

## Section 3: Tax enforcement in 2022

---

### 3.1 Current general approach to tax enforcement

- ▶ The IRS budget and headcount are significantly increasing for the first time after a decade of steady decline.
- ▶ The IRS has increased its workforce, adding more examiners, lawyers, engineers and other tax professionals.
- ▶ For large business taxpayers, audits are often focused on centralized “campaign” issues that might affect a large number of taxpayers.
- ▶ The IRS has stopped doing continuous audits of taxpayers, moving instead to a yearly risk analysis model.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the three leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ The IRS has opened initial audits of positions related to the TCJA.
- ▶ Transfer pricing and international issues remain audit focus areas.
- ▶ The IRS has also expressed ongoing interest in expanding its audit focus on partnerships, large corporations and high net worth individuals.

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ Tax law changes, both under the TCJA and those implemented in connection with COVID-19 stimulus, will continue to be areas of IRS audit focus.
- ▶ The IRS is also expected to continue its audit focus on various credits, including the research credit.
- ▶ Refund claims proliferated with recent tax changes and will continue to draw IRS scrutiny.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The IRS continues to discuss updating its technology systems.
- ▶ The IRS continues to develop its data analytics response and is using these tools in some instances to identify taxpayers for audit.
- ▶ It is also allowing more e-filing and electronic signatory options than in the past. The IRS is still in the earlier stages of developing and implementing its data analytics response when compared to other tax administrations that have been working longer with these tools.



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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More joint or simultaneous audits	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Transfer pricing/foreign base company sales income manufacturing branches	Cross-border intercompany transactions, particularly those involving intangible property and high-value services: The IRS also has an active campaign examining positions related to the manufacturing branch rules of subpart F, particularly in the case of Mexican maquiladoras.
2	R&D tax credit	The IRS seems to be increasing its focus on R&D tax credits. For refund claims, they recently issued new instructions for taxpayers that require greater reporting. They have also posted more robust examples of an acceptable “concise description” for reporting research credit on Schedule UTP (Uncertain Tax Positions).
3	Transition tax	The IRS has an active campaign on the Section 965 transition tax enacted as part of the TCJA. They have recently expanded the campaign to partnerships.
4	Foreign tax credits	Refund claims in which additional credits have been claimed as the result of foreign tax settlements are an audit focus.
5	Losses	Losses claimed in COVID-19 years and carried back to pre-TCJA periods are expected to be a focus of IRS audits.



Ho Chi Minh city, Vietnam

# Vietnam

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## EY key contacts

### Tax policy

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*The 2022 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders in the jurisdictions concerned and represents only the personal views of those respondents.*

*This information is current as of 12 December 2021.*

## Section 1: Tax rates (2021-2022)

### 1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	20%	20%	–
Personal income tax – top rate	Resident: 35% Nonresident: 20%	Resident: 35% Nonresident: 20%	–
VAT, GST or sales tax – standard rate	10%	10%	–

## Section 2: Tax policy in 2022

### 2.1 Key drivers of tax policy change

- ▶ Electronic invoices are being applied and used for all Vietnamese enterprises.
- ▶ Tax audits are increasing focus on transfer pricing.
- ▶ A new law on tax administration will take effect.
- ▶ Incentives, tax exemptions and reductions in corporate income tax for some science and technology enterprises and projects producing supporting technology products are expected.

### 2.2 Tax changes in 2022

Tax types	Likelihood of changes in 2022	Direction of change
1. Overall size of corporate tax base in 2022	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
2. Capital gains tax (imposed on corporations)	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
3. Business interest deductibility	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022
4. Anti-hybrid rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Higher in 2022
6. Controlled foreign company rules	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes in 2022 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
7. Thin capitalization rules	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2022 <input type="checkbox"/> Same tax in 2022 <input checked="" type="checkbox"/> Higher tax in 2022

## Vietnam

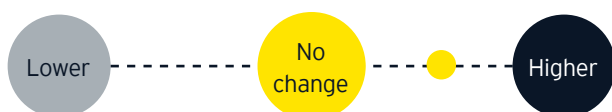
Tax types	Likelihood of changes in 2022	Direction of change
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
9. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower tax in 2022 <input checked="" type="checkbox"/> Same tax in 2022 <input type="checkbox"/> Higher tax in 2022
10. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input checked="" type="checkbox"/> Enhanced incentives in 2022 <input type="checkbox"/> Same incentives in 2022 <input type="checkbox"/> Reduced incentives in 2022
12. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
13. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Larger in 2022
14. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2022 <input type="checkbox"/> Change possible or somewhat likely in 2022 <input checked="" type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Lower in 2022 <input checked="" type="checkbox"/> Same in 2022 <input type="checkbox"/> Higher in 2022
15. Personal income tax base	<input type="checkbox"/> Change already proposed or known for 2022 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2022 <input type="checkbox"/> No changes expected in 2022	<input type="checkbox"/> Smaller in 2022 <input type="checkbox"/> Same in 2022 <input checked="" type="checkbox"/> Larger in 2022
16. Do you expect changes to tax enforcement generally?	<input type="checkbox"/> Yes – significantly increased enforcement in 2022 <input type="checkbox"/> Yes – somewhat increased enforcement in 2022 <input type="checkbox"/> Yes – decreased enforcement in 2022 <input checked="" type="checkbox"/> No – same enforcement in 2022	
17. Do you expect significant tax reform in your jurisdiction in 2022?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

## 2.3 Tax policy outlook for 2022 – summary

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



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



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



● Denotes level of change

## 2.4 Tax policy outlook for 2022 – detail

### Corporate income taxes

- ▶ The total amount of provisional corporate income tax paid in the first three quarters of the tax year must not be lower than 75% of the amount of corporate income tax payable according to the annual settlement.

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

- ▶ Foreign e-commerce traders and digital platform-based service providers without a permanent establishment in Vietnam are now required to register with the Vietnamese tax authority to enable declaration and payment of tax.

### Taxes related to climate change or sustainability

- ▶ The Vietnamese National Assembly Standing Committee has decided to continue the 30% cut in environment tax on jet fuel to support the aviation industry by issuing the resolution No. 1148/2020/UBTVQH14.

### VAT/GST or sales taxes

- ▶ Circular No. 43/2021/TT-BTC amends and supplements a few points on guidance on VAT law.

### Personal taxes (such as on wages, employment, inheritance and wealth)

- ▶ No changes to taxes on wages and employment are expected in 2022.

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

- ▶ Decree No. 52/2021/ND-CP extends the time limit for payment of VAT, CIT, PIT and land rent.

### Developments in the governance of cryptocurrency

- ▶ No significant developments are expected.

## 2.5 Political landscape

- ▶ No changes to the political landscape are expected in 2022.

## 2.6 What major tax policy changes occurred in your jurisdiction in 2021?

- ▶ Circular 80/2021/TT-BTC guiding for the Government's Decree No.126/2020/ND-CP prescribing tax administration
- ▶ Circular 78/2021/TT-BTC guiding for the Government's Decree No.123/2020/ND-CP prescribing invoices and records
- ▶ Circular 03/2021/TT-BTC guiding on remission of CIT incurred by science and technology enterprises as prescribed in the Government's Decree No.13/2019/ND-CP
- ▶ Decree 52/2021/ND-CP on deferral of VAT/CIT/PIT and land rents in 2021

## 2.7 Major pending tax proposals not otherwise covered

- ▶ Proposals: The Ministry of Finance has issued draft proposals to amend five tax laws (value-added tax, corporate income tax, special consumption tax, personal income tax and natural resource tax) to the Vietnamese government.
- ▶ Consultations: None are expected.

## Section 3: Tax enforcement in 2022

### 3.1 Current general approach to tax enforcement

- ▶ The Vietnamese tax authorities currently have a heavy focus on transfer pricing, tax incentive and capital gains tax audits, especially after indirect transfer and transfer pricing transactions have concluded. VAT refunds continue to be inefficient, resulting in a long process for taxpayers and driving many tax disputes. The Ministry of Finance and the General Taxation Department have been reviewing several VAT refund dossiers, which were completed by local tax authorities, as well as concentrating tax audits on PIT and transfer pricing issues. Customs authorities are doing more audits of post customs clearance, concentrating on the dutiable value of imported goods and harmonized system code classifications.

### 3.2 What is the tax audit outlook for 2022?

- Higher number and/or intensity of tax audits expected
- Around the same number and/or intensity of tax audits expected
- Lower number and/or intensity of tax audits expected

### 3.3 What are the five leading broad themes or trends in relation to tax enforcement in your jurisdiction in 2022?

- ▶ Focus on related-party transactions
- ▶ Indirect capital transfer
- ▶ CIT incentive

### 3.4 Which three expected or ongoing developments in relation to tax legislation, tax administration or tax enforcement will have the most impact on companies in 2022?

- ▶ The Vietnamese Government applies the tax reduction policy on the VAT rate due to the COVID-19 pandemic.
- ▶ Widespread adoption of e-invoices is expected.
- ▶ Proposed: Expenses for epidemic prevention will be supported by the State Budget.

### 3.5 How would you describe the tax authority's approach to and overall status of the digitalization of the tax administration?

- ▶ The tax authorities tend to use digitization in the process of deciding at which businesses to conduct tax audits and inspections by analyzing revenue, costs and tax risks related to those businesses.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More joint or simultaneous audits	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s):		
Jurisdiction-specific	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Multilateral (such as ICAP)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>

### 3.7 Top tax audit issues in 2022

	Issue name	Description
1	Transfer pricing	Transfer pricing documentation requirements have become far stricter, demanding three tiers of documentation (global master file, local file and CbCR), and a timeline to submit the documentation is also specified. Tax authorities are not accepting APA application dossiers, and more focus is being placed on intragroup services and royalty payments to related parties.
2	VAT refund	The tax authorities are paying more attention to the conditions for VAT refunds, not only in relation to the regulations of VAT, but also in relation to other relevant provisions.
3	Service fee charged by related parties	The tax authorities are very focused on the deductibility of the service fee charged by related parties if: <ul style="list-style-type: none"> <li>▶ The service is provided solely for the benefit of or creating value for other related parties and for the benefits of related-party shareholders.</li> <li>▶ There is duplication of service fees provided by many related parties and they cannot determine added value for taxpayers.</li> <li>▶ Services are benefits received for being the member of a group.</li> <li>▶ Costs incurred by the related party plus the services provided by the third party through the intermediary which do not add any value to the service</li> </ul>
4	Technology transfer	The tax authority is paying closer attention to technology transfer agreements, especially between related parties, and the price of technology transfers between related companies shall be audited. Some technology transfers (including those related to investment projects, capital contributions by technology and franchising) between Vietnam and overseas entities must be registered with the competent authority.
5	Capital gains	The tax authority evaluates indirect capital transfer transactions in order to impose capital gains tax.

# Glossary of terms

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**AEOI:** Automatic Exchange of Information

**ALP:** arm's-length principle

**AMT:** alternative minimum tax

**APA:** advance pricing agreement

**ASEAN:** Association of Southeast Asian Nations

**ATAD:** Anti-Tax Avoidance Directive

**BAPA:** bilateral advance pricing agreement

**BEPS:** base erosion and profit shifting

**BEPS 2.0:** the ongoing project on addressing the tax challenges arising from the digitalization of the economy

**BEPS IF:** BEPS Inclusive Framework

**BtB:** Business to business

**BtC:** Business to consumer

**CA:** competent authority

**CbC:** country-by-country

**CbCR:** country-by-country reporting

**CCTB:** Common Corporate Tax Base

**CCCTB:** Common Consolidated Corporate Tax Base

**CFC:** controlled foreign company

**CGT:** capital gains tax

**CIF:** cost, insurance and freight

**CIT:** corporate income tax

**CRS:** Common Reporting Standard

**DAC:** Directive on Administrative Cooperation

**DAC6:** EU Directive on the mandatory disclosure and exchange of information

**DAC7:** EU tax transparency rules reporting by digital platforms on their sellers

**DTA:** deferred tax asset

**DEMPE:** develop, enhance, maintain, protect and exploit

**DPT:** diverted profits tax

**DST:** digital services tax

**DTT:** double taxation treaty

**EBIT:** earnings before interest and taxes

**EBITE:** earnings before interest, taxes and exceptional items

**EBITDA:** earnings before interest, taxes, depreciation and amortization

**EC:** European Commission

**ECJ:** European Court of Justice

**EEA:** European Economic Area

**EP:** European Parliament

**ETMs:** electronic tax mechanisms

**ETT:** electronic transaction tax

**EU:** European Union

**EU ATAD 2:** EU requirement for Member States include in domestic legislation a number of anti-hybrid provisions in line with OECD BEPS Action 2

**FA:** formulary apportionment

**FATCA:** Foreign Account Tax Compliance Act

**FBAR:** Report on the Foreign Bank and Financial Accounts

**FBT:** fringe benefits tax

**FDI:** foreign direct investment

**FTA:** Free-trade agreement

**FTT:** financial transaction tax

**G20:** an intergovernmental group comprising 19 countries and the European Union

**GAAR:** General Anti-Abuse Rule

**GCC:** Cooperation Council for the Arab States of the Gulf



**GCT:** general corporation tax

**GDP:** gross domestic product

**GHG:** greenhouse gas emissions

**GloBE proposal:** Global Anti-Base Erosion proposal under Pillar Two of the OECD

**GST:** goods and services tax

**HNTE:** high and new technology enterprise

**HNWI:** high-net-worth individual

**IC:** integrated circuitry

**ICAP:** International Compliance Assurance Programme

**IFRS:** International Financial Reporting Standards

**Incoterms:** International Commercial Terms are a series of pre-defined commercial terms published by the International Chamber of Commerce relating to international commercial law

**IMF:** International Monetary Fund

**IP:** intellectual property

**ITR:** income tax return

**LOB:** limitation of benefits

**M&A:** mergers and acquisitions

**MAP:** mutual agreement procedure

**MAPA:** multilateral advance pricing agreement

**MCAA:** Multilateral Competent Authority Agreement of the OECD for the CRS

**MBTA:** mandatory binding tax arbitration

**MDR:** Mandatory Disclosure Regime (also referenced as DAC6)

**MLI:** multilateral instrument or the OECD's Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting as part of the CRS

**MOSS:** mini one-stop-shop

**MNC:** multinational company

**MNE:** multinational enterprise

**NOL:** net operating loss

**O&G:** oil and gas

**OECD:** Organisation for Economic Co-operation and Development

**PE:** permanent establishment

**PFTZ:** Pilot Free Trade Zone

**PIT:** personal income tax

**PPT:** principal purpose test

**PTA:** preferential trade agreement

**R&D:** research and development

**RCEP:** Regional Comprehensive Economic Partnership

**RETT:** real estate transaction tax

**RPBT:** retail price before taxes

**SAFT:** Standard Audit File for Tax

**SME:** small- or medium-sized enterprise

**SST:** sales and service tax

**TARIC code:** Tarif Intégré Communautaire (Integrated Tariff of the European Communities)

**TP:** transfer pricing

**UBO:** ultimate beneficial owner

**UN:** United Nations

**VAT:** value-added tax

**VOD:** video-on-demand

**WHT:** withholding tax

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