



# PKF worldwide tax update

December 2025

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# Welcome

In this fourth quarterly issue for 2025, the PKF Worldwide Tax Update newsletter again brings together notable tax changes and amendments from around the world, with each followed by a PKF commentary which provides further insight and information on the matters discussed. PKF is a global network with more than 510 offices, operating in over 150 countries across our five regions, and our tax experts specialise in providing high quality tax advisory services to international and domestic organisations in all our markets.

In this issue featured articles include discussions on:

- Significant personal and corporate income tax changes in Austria, Mexico, Puerto Rico and Romania
- Indirect taxes and VAT (case law) in Chile, Germany, Italy, Mexico, Slovak Republic, South Africa and the United Kingdom
- International tax developments (CFC/thin cap, CbC reporting, BEPS, MLI, Pillar 2, double tax treaties, transfer pricing, etc.) in Australia, Hong Kong, Peru, Spain, South Africa, Switzerland and Taiwan.

We trust you find the PKF Worldwide Tax Update for the fourth quarter of 2025 both informative and interesting and please do contact the PKF tax expert directly (mentioned at the foot of the respective PKF commentary) should you wish to discuss any tax matter further or, alternatively, please contact any PKF firm (by country) at [www.pkf.com/pkf-firms](http://www.pkf.com/pkf-firms).



# Australia

## ATO draft PCG 2025/D4: A practical guide for low-risk software payments

On 6 August 2025, the Australian Taxation Office (ATO) released draft Practical Compliance Guideline PCG 2025/D4, providing a targeted compliance framework for low-risk cross-border software payments. While narrow in scope, this guidance offers taxpayers an opportunity to reduce uncertainty and better manage compliance in a specific area of tax administration.

### Understanding PCG 2025/D4

PCG 2025/D4 outlines the ATO's compliance approach to determining whether certain cross-border payments for software may be treated as royalties subject to withholding tax. Importantly, the guideline applies only to arrangements that meet the ATO's definition of low risk and does not alter the underlying legal interpretation of what constitutes a royalty.

The guidance is intended to complement, not replace, the ATO's broader interpretative position in TR 2024/D1, which remains in draft pending the outcome of the PepsiCo litigation.

### Key features of the guideline

The PCG introduces a risk framework that categorises arrangements into:

- **White zone:** No further review (e.g. covered by an APA or court decision).
- **Green zone:** Low-risk arrangements that will not be subject to ATO review, provided specific criteria are met.

To qualify for the green zone, taxpayers must meet detailed eligibility criteria, including the nature of the software, the terms of the arrangement and the absence of restructuring aimed at avoiding withholding tax.

### Implications for taxpayers

While the scope of PCG 2025/D4 is limited, it provides a useful compliance tool for taxpayers with routine software licensing arrangements. Key considerations include:

- **Eligibility assessment:** Taxpayers should carefully assess whether their arrangements meet the green zone criteria. This includes reviewing contractual terms and the nature of the software provided.
- **Integration with transfer pricing:** Although the PCG focuses on royalty withholding tax, software payments may also be subject to transfer pricing rules. Taxpayers should ensure that pricing reflects arm's-length principles and is supported by appropriate analysis.
- **Restructuring caution:** The ATO has indicated that restructures resulting in reduced withholding tax may attract scrutiny, even if the arrangement appears low risk.

### Next steps

Taxpayers with software-related cross-border payments should:

- review existing arrangements against the PCG's criteria;
- identify any transactions that may qualify for green zone treatment; and
- prepare supporting documentation to substantiate the risk classification.



### PKF Comment

PCG 2025/D4 is a practical step towards greater certainty in a narrow but important area of international tax compliance. For taxpayers with low-risk software arrangements, it offers a pathway to reduce audit exposure and streamline reporting. However, it's essential to understand its limitations and ensure broader tax and transfer pricing obligations are still met.

For further information or advice in relation to this, or with respect to Australian taxation, please contact Becky Nguyen at [bnguyen@pkf.com.au](mailto:bnguyen@pkf.com.au) or call +61 3 9679 2291.

## Final ATO guidance on restructures and the thin capitalisation and debt deduction creation rules – PCG 2025/2

On 20 August 2025, the Australian Taxation Office (ATO) released PCG 2025/2, providing its final compliance approach to restructures undertaken in response to the new thin capitalisation rules and debt deduction creation rules (DDCR) introduced by the Treasury Laws Amendment (Making Multinationals Pay Their Fair Share—Integrity and Transparency) Act 2024. This guideline offers a risk assessment framework and practical examples to help taxpayers self-assess the compliance risk of their restructuring arrangements.

### Background

The Act introduced:

- new thin capitalisation rules under division 820 of the ITAA 1997; and
- DDCR under subdivision 820-EAA.

These reforms aim to limit excessive interest deductions and ensure fair tax contributions from multinationals.

### Structure of PCG 2025/2

The guideline is structured into:

- Main body: Compliance principles and risk framework
- Schedules:
  - Schedule 1: Debt deduction creation rules
  - Schedule 2: Restructures in response to the debt deduction creation rules
  - Schedule 3: Third-party debt test compliance approach (pending)
  - Schedule 4: Restructures in response to thin capitalisation changes.

### Schedule summaries

#### Schedule 1 – Debt deduction creation rules

This schedule outlines the ATO's compliance approach to arrangements that may trigger the DDCR provisions, which disallow interest deductions in certain related-party financing scenarios.

##### i. Type of arrangements covered

- Type 1 – Acquisition case: Disallows deductions where a CGT asset or obligation is acquired from an associate pair and funded by related-party debt.
- Type 2 – Payment/Distribution case: Disallows deductions where debt funds payments (e.g. dividends, royalties) to associate pairs.

##### ii. Risk assessment examples

- Five examples where DDCR do not need to be considered: These are low-risk, commercially driven arrangements that fall outside the scope of DDCR.
- Nine examples where DDCR may need to be considered: These involve related-party debt funding and may trigger DDCR depending on the structure and purpose.

**Example:** An entity borrows from a related party to acquire intellectual property from an associate. The transaction may fall under Type 1 and require DDCR analysis.

### iii. Tracing and apportionment requirements

- The DDCR require taxpayers to trace the use of debt funds, including direct and indirect transactions, and apportion interest deductions where necessary.

## Schedule 2 – Restructures in response to the debt deduction creation rules

This schedule outlines the ATO's compliance approach to restructures undertaken in response to the DDCR, categorising them into four risk zones:

### i. White zone: Further risk assessment not required

- White zone restructures do not require further ATO review and fall into the following categories:
  - A settlement agreement has been entered into since 8 April 2024 confirming the arrangement's treatment.
  - A court decision has clarified the Australian tax outcome.
  - The restructure was reviewed by the ATO and rated as 'low risk' or received 'high assurance' under a Justified Trust review.

### ii. Yellow zone: Compliance risk not assessed

Restructures fall into the yellow zone if they do not meet the criteria for either the green or red zones.

### iii. Green zone: Low risk

- These are acceptable restructures that are commercially justifiable and supported by documentation.
- To be considered low risk, a restructure must:
  - accurately calculate disallowed DDCR deduction;
  - not trigger Part IVA before or after the restructure;
  - be straightforward, commercially driven and on arm's-length terms; and
  - avoid any contrived or artificial elements.
- The ATO provides eight examples in this category.

**Example:** An entity restructures its financing to replace related-party debt with genuine third-party debt and uses the funds to acquire assets from an unrelated party. The restructure is supported by commercial documentation and aligns with business needs.

### iv. Red zone: High risk

- These are high-risk arrangements that appear artificial or contrived and are likely to attract ATO scrutiny.
- The ATO provides three examples in this category.

**Example:** An entity borrows from a related party to fund a dividend payment to its foreign parent, and the funds are then returned to the lender through a circular arrangement. The restructure appears designed to generate interest deductions without genuine commercial purpose.

## Schedule 3 – Third-party debt test (TPDT)

This schedule is currently pending finalisation. Once released, it will provide targeted compliance guidance for entities applying the TPDT under subdivision 820-EAB, including how to demonstrate that debt arrangements meet the criteria for genuine third-party debt.

## Schedule 4 – Restructures in response to thin capitalisation changes

i. This schedule outlines the ATO's view on compliance risks of restructures under the updated thin capitalisation rules, with examples to help taxpayers assess their risk level.

### ii. Key focus areas

- Restructures aimed at aligning with the fixed ratio test (FRT), group ratio test (GRT) or TPDT.
- Emphasis on whether restructures are commercially driven or primarily designed to maximise debt deductions.

### iii. Examples provided

- Low-risk arrangements (two examples): These involve genuine commercial restructures supported by documentation and aligned with business needs.
- High-risk arrangements (two examples): These involve artificial or contrived restructures that may trigger ATO scrutiny:
  - introducing new debt primarily to maximise interest deductions under the FRT, without a genuine business need; or
  - amending interest rates on conduit financing arrangements to inflate deductible amounts, lacking commercial justification.

## Implications for taxpayers

- Taxpayers must self-assess the risk level of their restructures using the PCG framework.
- High-risk arrangements may trigger Part IVA or specific anti-avoidance rules under section 820-423D.
- Entities applying the TPDT must ensure debt meets third-party conditions to avoid disallowance.

## Recommendations

1. Review existing and planned restructures against PCG 2025/2 risk zones.
2. Document commercial rationale and ensure arm's-length terms.
3. Avoid circular or artificial arrangements involving related parties.
4. Seek professional advice for complex restructures or TPDT applications.
5. Monitor updates, especially the finalisation of Schedule 3 and TR 2024/D3.



### PKF Comment

For further information or advice in relation to this, or with respect to Australian taxation, please contact Becky Nguyen at [bnguyen@pkf.com.au](mailto:bnguyen@pkf.com.au) or call +61 3 9679 2291.

BACK

# Austria

## Increase in the small business threshold from 1 January 2025

Until 31 December 2024, only entrepreneurs with their place of business in Austria could apply the small business exemption. The former threshold was €35,000 net. If this threshold was exceeded, all turnover of the entire calendar year became retrospectively taxable.

From 1 January 2025, the annual turnover threshold was increased to €55,000 gross. For the calculation of this threshold, the relevant factor is when the supply was performed, not when the consideration is received. If the threshold was exceeded in the previous year, the exemption is not available in the following year.

### Example 1

An entrepreneur generated turnover of €60,000 in 2024 and €49,000 in 2025.

Since the small business threshold was exceeded in 2024, the exemption cannot be applied in 2025.

The small business exemption is a personal exemption from VAT. Eligible entrepreneurs do not charge or pay VAT, but are also not entitled to deduct input VAT. The threshold of €55,000 applies to the individual entrepreneur, not to individual activities or business units.

### No retroactive taxation

Since 1 January 2025, if the threshold is exceeded by no more than 10%, the exemption still applies until the end of the calendar year and only ends in the following year. If the threshold is exceeded by more than 10%, the exemption ends at the time when the threshold is exceeded. There is no retroactive taxation of previous turnover.

### Example 2

An Austrian entrepreneur benefits from the small business exemption. From January to October 2025,

she generates turnover of €54,800. In November, she sells additional goods worth €500, and in December a further €100, resulting in total annual turnover of €55,400.

She can apply the small business exemption for all turnover in 2025. However, from 1 January 2026 onwards, the exemption under § 6 para 1 subpara 27 UStG no longer applies.

### Timing of performance

For threshold purposes, the decisive point is the time of performance of the supply. The time of payment is not relevant, even under the cash accounting method. Under cash accounting, VAT must only be paid to the tax office once payment is actually received.

### Option to taxation

Taxpayers may waive the small business exemption and opt for VAT taxation. In this case, supplies are taxed under the general rules and input VAT deduction is available. Preliminary VAT returns ('UVAs') and an annual VAT return must then be filed.

The option must be declared in writing to the tax office before the VAT assessment becomes final. It is binding for five years but can be revoked afterwards.



### PKF Comment

Unlike Austrian-based entrepreneurs, businesses with their place of business in another EU Member State can only apply the Austrian small business exemption upon application and must fulfil additional conditions.

If you believe the above measures may impact your business or require any advice with respect to Austrian taxation, please contact Stefan Frank at [stefan.frank@pkf.at](mailto:stefan.frank@pkf.at) or call +43 1 5128780 292.

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# Chile

## Amendments to VAT on remote sale of goods located abroad

Law No. 21713, published in the Official Gazette on 24 October 2024, concerning compliance with tax obligations, aims to strengthen tax compliance by reducing tax evasion and the informal economy. This law contains numerous amendments to several tax laws, including the Income Tax Law and the Tax Code.

The Sales and Services Tax Law was also affected by numerous changes, one of which came into effect on 25 October 2025. Specifically, from that date, the rules regarding the territoriality of this tax have been modified. Therefore, in certain cases, sales carried out remotely of goods located abroad are now subject to VAT at a rate of 19%. The new regulations stipulate that goods located abroad will be considered as located in Chile, and therefore their sale will be subject to VAT, when the following conditions are met:

- a) They are acquired remotely from a person not domiciled or resident in Chile.
- b) The acquirer is not a seller or service provider.
- c) The goods are destined for Chile even before their shipment or dispatch from abroad.
- d) Their price, including any ancillary charges levied in the same transaction, does not exceed US\$500 or its equivalent in Chilean currency.

Goods that meet the specified conditions are exempt from customs duties upon importation into the country.

Remote sales can be made directly by foreign sellers or through digital platform operators who act as intermediaries in the transaction. These operators may be domiciled or resident in Chile or abroad and are considered VAT taxpayers. Operators without domicile or residence in Chile are

subject to a simplified tax regime for compliance with the new tax obligations resulting from the legal amendment. To comply, they must register through the Internal Revenue Service (**Servicio de Impuestos Internos, SII**) website and file and pay their taxes on the same platform. It should be noted that this simplified regime has been applicable for several years to providers of remote digital entertainment services, software and similar services.



### PKF Comment

Sales of goods located abroad classified as 'low value' are now subject to VAT when made to persons who are not VAT taxpayers. To facilitate tax compliance with the obligations arising from the new regulations, the SII has implemented a special section on its website. Thus, operators without domicile or residence in Chile, registered with the SII, can choose to declare and pay the corresponding tax for one or three periods within 20 days following the end of the chosen period. Payment can be made in Chilean pesos, US dollars or euros. They are not required to issue tax documents.

It should be noted that sales of goods with a value exceeding US\$500, or when made to people who are VAT taxpayers, are subject to the normal import procedure, i.e. customs duties and VAT.

If you believe the above measures may impact your business or personal situation or require any advice with respect to Chilean taxation, please contact Antonio Melys Alvarez at [amelys@pkfchile.cl](mailto:amelys@pkfchile.cl) or call +56 22650 4332.

BACK

# Germany

## Federal Fiscal Court extends input VAT deduction for foreign entrepreneurs in Germany

If an entrepreneur based abroad wishes to deduct German input VAT and is not required to register for VAT purposes, an application for input VAT refund must be submitted. In addition to the generally non-extendable deadlines in the input VAT refund procedure (30 June of the following year for entrepreneurs based in third countries and 30 September of the following year for entrepreneurs based in other EU Member States), strict formal requirements must be met. In this context, the ruling of the Federal Fiscal Court ('BFH') of 25 June 2025 (XI R 17/22), published on 30 October 2025, is to be welcomed.

The BFH ruling extends input VAT deduction for foreign entrepreneurs in Germany. The BFH ruled that input VAT can be deducted in the general taxation procedure instead of the input VAT refund procedure, even if there are no domestic supplies at the time of receipt of the incoming invoice.

In the case in question, an entrepreneur based in a third country carried out a taxable supply of goods in Germany in 2018 and was registered for VAT for this purpose. Due to incorrect invoicing by the supplier, a correct invoice was only issued after amendment at the beginning of the following year, 2019. The tax office refused the input VAT deduction on the grounds that no taxable transactions had been carried out in the year in question and that the input VAT refund procedure therefore applied. The Federal Central Tax Office, which is responsible for the input VAT refund procedure, rejected the application for input VAT refund on the grounds of lack of reciprocity. As a precautionary measure, the entrepreneur therefore claimed the input VAT in his 2018 VAT return.

The BFH ruled that the first-time issuance of an invoice including VAT has no retroactive effect and is therefore generally only possible upon receipt of the amended invoice (invoice including German VAT). At the same time, the BFH ruled that the right to deduct input VAT arises as soon as the supply is received and can therefore also be deducted in the general taxation procedure if there is a VAT registration obligation at that time.

When receiving invoices with German input VAT, foreign entrepreneurs should check whether there is a VAT registration obligation in order to deduct input VAT in the less complex and more liquidity-friendly general taxation procedure. If there is no registration obligation, the strict requirements of the input VAT refund procedure must be met and the non-extendable deadlines must be observed. In addition, foreign entrepreneurs should check whether input VAT deduction has been missed in the past and, if so, whether it can still be claimed through earlier VAT registration.



### PKF Comment

If you believe any of the above measures may impact your business or require any advice with respect to German indirect taxes, please contact Dr. Mario Wagner at [mario.wagner@pkf-fasselt.de](mailto:mario.wagner@pkf-fasselt.de) or call +49 40 180401 162.

BACK ↗

# Hong Kong

## New double tax treaties with Jordan and Rwanda

Hong Kong has expanded its network of double tax treaties (DTTs) with the signing of two new tax pacts in September and October 2025, bringing the total number of DTTs to 54.

### Hong Kong–Jordan DTT

The Hong Kong–Jordan DTT, signed in Beijing on 4 September 2025, provides double taxation relief and other beneficial treatment (such as capital gains). In addition, withholding tax rates on dividends, interest and royalties imposed by Jordan will be capped at 5%, subject to the relevant conditions set out in the DTT being met (down from up to 10%).

### Hong Kong–Rwanda DTT

Signed in Hong Kong on 9 October 2025, the Hong Kong–Rwanda DTT similarly offers double taxation relief and other beneficial treatment. The agreement provides that withholding taxes on dividends, interest, royalties and technical service fees can be lowered to between 7.5% and 10%, subject to the relevant conditions outlined in the DTT being met (from up to 15%).

## Recent Pillar 2 registration requirements

Following the introduction of the Pillar 2 legislation into Hong Kong tax law earlier this year (please refer to the [March 2025](#) and [September 2025](#) issues of our PKF Worldwide Tax Update), the Hong Kong Inland Revenue Department issued letters in bulk in September 2025 to potentially in-scope MNE groups, outlining the following compliance obligations:

- **Registration and notification:** Constituent entities (CEs) must register via the new Pillar Two Portal (phased launch from January 2026) and obtain a group code using Form IR1485. Annual top-up tax notifications are due within six months of the fiscal year end (e.g. 30 June 2026 for a 31 December 2025 year end).

- **Filing obligations:** GloBE information returns and top-up tax returns must be e-filed by no later than 15 months after the fiscal year end. The filing deadline for the first transition year has been extended to 18 months. One designated Hong Kong CE can file on behalf of the entire MNE group.
- **Mandatory e-filing of profits tax returns:** Entities of in-scope MNE groups with an accounting year beginning on or after 1 January 2025 are required to e-file their profits tax returns starting from the year of assessment 2025/26.



### PKF Comment

These recent tax developments in Hong Kong tax law highlight the city's commitment to fostering a competitive and transparent business environment. The new DTTs with Jordan and Rwanda enhance cross-border investment opportunities, while the Pillar 2 requirements reflect a strategic approach to supporting key industries and ensuring global tax compliance. Businesses are advised to assess the implications of these changes on their operations and engage with tax professionals to optimise their tax strategies.

For further information concerning the above or any service request with respect to Hong Kong taxation, please contact Henry Fung (Tax Partner) at [henryfung@pkf-hk.com](mailto:henryfung@pkf-hk.com) or call +852 2806 3822.

BACK

# Italy

## No VAT exemption for services between UK and Italian branches when parent company joins EU VAT group

On 19 August 2025, the Italian Revenue Agency issued a ruling clarifying that when a parent company belongs to an EU VAT group, services provided by its UK branch to its Italian branch are subject to VAT in Italy and not exempt.

This ruling resolves a key question about the VAT treatment of transactions between permanent establishments of the same foreign company when one branch is part of a UK VAT group and the parent company is in an EU VAT group.

According to the Italian authorities, the 'subjective unity' between the parent company and its branches breaks down in this situation, based on EU case law (Skandia ruling) and Italian legislation.

As a result, services exchanged between the UK and Italian branches must be treated as taxable supplies for VAT purposes in Italy.

This decision provides important guidance for multinational companies with permanent establishments in different countries, clarifying when cross-border branch services are taxable under Italian VAT law.

## Tax cut for firms reinvesting in innovation and sustainability

Starting in 2025, Italy is offering a special tax break called **IRES premiale** to support companies that invest in innovation and energy-saving projects. This measure lowers the corporate tax rate from 24% to 20%, but only for the 2025 tax year.

To get this benefit, companies must reinvest profits from 2024 in certain types of assets, such as digital technologies and investments that reduce energy use.

These companies must also:

- keep at least 80% of 2024 profits in company reserves;
- use at least 30% of those reserves for eligible investments (or 24% of 2023 profits as an alternative); and
- maintain or increase employment, including hiring at least one new full-time employee.

If a company distributes the reserved profits or sells the assets too soon, it will lose the tax break, although leasing of assets is allowed provided certain conditions are met.

The tax break is claimed directly in the tax return – no prior approval is needed – but companies must keep documents like expert reports and energy certifications, should a tax review take place.

This new rule can be used together with other tax credits, as long as companies don't receive double benefits on the same expenses.

In essence, IRES premiale encourages companies to reinvest in digital tools, green technology and jobs, instead of taking profits out of the business.



### PKF Comment

If you believe the above measure may have an impact on your clients and you need to be supported on this subject, our team in Italy is available to provide any additional information you may need.

You can contact our professionals at PKF Studio TCL – Tax Consulting Legal at [g.podesta@pkf-tclsquare.it](mailto:g.podesta@pkf-tclsquare.it) or call +39 010 8183250 (Genoa office).

BACK

# Mexico

## New legal reform narrows tax litigation and digitises amparo procedures

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On 16 October 2025, Mexico enacted a decree amending the Amparo Law, the Federal Tax Code ('CFF') and the Organic Law of the Federal Administrative Justice Tribunal ('TFJA').

The reform introduces a mandatory digital system for judicial filings and limits the legal remedies available once a tax assessment becomes final (*firme*).

### Main highlights

- **Digital justice system**

All filings, notifications and case management in amparo proceedings (Mexico's constitutional protection lawsuits) must now be handled electronically through the Judicial Branch Online Portal, using an official judicial electronic signature. Government agencies are required to create digital user accounts and operate entirely through this platform.

- **Restricted suspension of tax enforcement**

Courts must balance public interest and good-faith arguments before suspending any enforcement action.

In tax-related amparos, suspension will only be granted if the taxpayer guarantees the tax liability, typically through a deposit or bank letter of credit.

- **New limits on administrative appeals**

Under the CFF, the revocation appeal – an administrative remedy filed before the tax authority – is now inadmissible when:

1. the taxpayer claims not to know the administrative act;
2. the act demands payment of a final tax credit;

3. the act rules on the prescription (expiration) of a final tax credit.

- **Reduced jurisdiction for the tax court**

The TFJA will no longer review enforcement or prescription acts related to tax credits that have already become final.

In these cases, the only available remedy will be the amparo lawsuit, which has narrower scope and stricter suspension requirements.

### Effective date

- The decree is effective from 17 October 2025 (the day after publication).
- The judicial branch has 360 days to adapt its digital system.
- Once operational, all government entities will have 180 days to register and start using the portal.

## Practical impact for foreign companies and investors

The reform impacts foreign companies and investors as follows:

- fewer legal defences once a tax credit is final;
- higher procedural risk during collection and enforcement stages;
- mandatory electronic interaction with Mexican courts for all authorities; and
- early litigation strategy becomes crucial – disputes must be handled before the tax assessment becomes final.

### In summary

This reform modernises Mexico's judicial system but also significantly limits taxpayers' ability to contest or delay tax enforcement after a final ruling, reflecting a stronger emphasis on tax collection efficiency over extended litigation.

## Senate approves Customs Law Reform – Effective date postponed to 1 January 2026

On 17 October 2025, Mexico's Senate approved the long-awaited Customs Law Reform (*Ley Aduanera*), introducing extensive updates to the country's customs and trade framework.

A last-minute transitional article was added, postponing the law's effective date to 1 January 2026, allowing both the private sector and customs authorities time to prepare for implementation.

The reform will now return to the Chamber of Deputies for final review and ratification by the Finance and Public Credit Commission ('SHCP'), which is expected to occur promptly.

### Key areas of change

#### 1. Customs authority powers

- The reform clarifies and realigns the shared powers of the Tax Administration Service ('SAT') and the National Customs Agency of Mexico ('ANAM') to provide greater legal certainty and institutional coordination.
- It also authorises technological cooperation agreements between SAT, ANAM and the Digital Transformation and Telecommunications Agency ('ATDT') to enhance data integration and oversight.

#### 2. Technological and digital systems

- Companies engaged in foreign trade must implement interoperable digital customs systems that allow real-time remote access by authorities for monitoring and verification.

#### 3. Customs brokers and agencies

- Customs broker licences will now have a 10-year term, renewable for equal periods upon review by the new Customs Council.
- The Ministry of Finance ('SHCP') may issue sector-specific or product-limited licences, authorising brokers to operate only for certain types of goods.

- The reform also increases brokers' joint liability and requires the maintenance of updated client identification files.

#### 4. Courier and express services

- ANAM will oversee authorisation and monitoring of express and courier companies for customs clearance.
- Authorised operators must now maintain compliance documentation and risk-analysis systems to retain their permits.

#### 5. Customs procedures and controls

- Failure to comply with labelling or information NOMs (**Norma Oficial Mexicana**, Official Mexican Standards, being mandatory technical regulations) will now be grounds for precautionary seizure (embargo).
- The Administrative Customs Procedure ('PAMA') will be modified to streamline evidence submission and defence.
- For bonded warehouses, new time frames apply for the arrival of goods and for reporting discrepancies.
- In strategic bonded facilities (**recintos fiscalizados estratégicos**), only certified customs brokers will be allowed to handle operations, and all goods must be proven to undergo transformation or processing.

#### 6. Free trade agreement compliance

- New provisions ensure origin verification for goods in transit, used vehicles and rulings on origin determinations issued by SAT.

#### 7. Authorised economic operators (AEO)

- Additional requirements and cancellation causes are introduced for AEO certification, reinforcing operational integrity and traceability.

#### 8. Legal and administrative modernisation

- Updates multiple definitions, references and procedures to reflect simplified administrative control and modern terminology.

#### 9. Infractions and sanctions

- Expands the list of customs-related offences and significantly increases penalties, particularly for:
  - missing or incomplete operation files;
  - misuse of customs authorisations or facilities; and
  - inaccurate declarations of customs value.

#### Effective date

- The reform is effective from 1 January 2026 (postponed from the original 2025 proposal).
- Certain provisions may have specific implementation periods to be defined by secondary regulations.



#### PKF Comment

If you believe any of the above measures may impact your business or personal situation or require any advice with respect to Mexican taxation, please contact Jose Angel Trillo at [jtrillo@pkf.com.mx](mailto:jtrillo@pkf.com.mx) or call +52 (81) 8363 8211. Regarding transfer pricing matters in particular, you can reach out to Jimy Cruz at [jimy.cruz@pkf.com.mx](mailto:jimy.cruz@pkf.com.mx) or call +52 (33) 3122 2081.

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# Peru

## Recent case law – Sales-commission expenses paid to non-domiciled parties: Lack of reliable substantiation of services

### Tax Court ruling No. 6230-13-2025 (4 July 2025)

The Tax Court held that the documentation submitted did not credibly evidence the actual rendering of sales-commission services by the non-resident during a campaign. The following items were deemed insufficient:

- **Sales-commission invoice:** Issued in GBP and recorded using an incorrect exchange rate; moreover, an invoice alone does not substantiate that services were performed.
- **Payment slip – Form 1662:** Shows only the VAT (IGV) self-assessment/payment on services from non-domiciled providers, not that the underlying transactions took place.
- **Bank transfer receipts:** Evidence payments to the alleged supplier, but not the performance of services.
- **Documents titled ‘shipments to...campaign’:** Refer to a fiscal year different from the one audited and include a table that does not establish a link to the challenged transactions.
- **Payment order:** Does not prove that the transactions occurred; it is an internal document issued by the taxpayer, with no proof of receipt by the alleged provider.
- **Journal voucher:** Internal accounting report (accounts, descriptions, vouchers, etc.) that does not prove that the transactions actually occurred.

- **Proof of payment and coordination emails:** Email copies do not ensure authenticity or content; even if true, they – and the other documents – only show that payments were made.
- **Letter in English:** Not admissible due to lack of an official or expert translation, pursuant to article 241 of the Civil Procedural Code.

**Court’s conclusion:** While commission arrangements inherently involve the agent’s intermediation activities, in this case there is no evidence of any such activity that would justify the payments made.

### Key takeaways of this ruling

- Companies must maintain reliable records to substantiate all expenses, including those paid to non-domiciled parties.
- Payments to non-residents are subject to withholding tax rules, and failure to comply can result in penalties.
- Companies should review their internal processes for documenting commission payments to ensure compliance with tax laws.



### PKF Comment

If you believe the above measures may impact your business or require any advice with respect to Peruvian taxation, please contact Renato Vila at [rvila@pkfperu.com](mailto:rvila@pkfperu.com) or call +51 142 16 250.

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# Puerto Rico

## Recent tax developments

### 1. Act 91-2025 – Corporate alternative minimum tax (CAMT) adjustments

Enacted in July 2025, Act 91 introduced changes to the CAMT regime in Puerto Rico. The legislation modified the calculation thresholds for manufacturing and service companies with inter-company transactions, increasing the minimum tax liability from 17% to 20% in certain cases. This measure seeks to broaden the tax base and align local compliance more closely with US federal transfer pricing principles.

### 2. Act 94-2025 – Incentives Code amendments (Act 60-2019 modifications)

This Act amended Puerto Rico's Incentives Code, particularly the tax decree regime under Act 60-2019. Notable changes include:

- a stricter eligibility test for export services businesses (formerly Act 20), now requiring proof of substantial nexus with Puerto Rico;
- additional compliance reporting obligations for individuals under the resident investor decree (formerly Act 22), with annual filings due by 30 June; and
- adjustments to withholding tax rates on certain payments to non-residents.

### 3. Sales and use tax (SUT) digital compliance measures

The Puerto Rico Treasury Department (*Hacienda*) issued new administrative guidance in September 2025 requiring digital platforms facilitating local sales to implement automated reporting mechanisms for monthly SUT filings. This aims to reduce under-reporting in the rapidly growing e-commerce sector.



#### PKF Comment

Puerto Rico continues to refine its tax regime, balancing fiscal needs with its competitiveness as a jurisdiction for manufacturing, services and investment under the broader US tax framework. These developments may be of interest to multinational groups operating through Puerto Rico or considering relocation of services under the incentives regime.

For further information concerning taxes in Puerto Rico, please contact Edwin Torres Castro at [etorres@pkfpuertorico.com](mailto:etorres@pkfpuertorico.com) or call +1 787 400 9548.

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# Romania

## Various 2025 tax and legislative updates

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### 1. New e-invoicing compliance procedure – Order No. 2229/2025 (Official Gazette No. 895/2025)

The order approves the procedure for notifying the tax authorities when invoices related to supplies of goods or services paid at the time of delivery/performance are not transmitted through the RO e-Invoice system within the legal deadline set under art. 10(7) of Government Emergency Ordinance (GEO) No. 120/2021.

It also introduces the official form (Form 800 – ‘Notification regarding invoices not transmitted through RO e-Invoice’).

This procedure applies to cases where the supplier fails to comply with the legal transmission obligation, despite the immediate nature of payment.

### 2. Extension of e-Invoice exemptions – GEO No. 52/2025 (Official Gazette No. 907/2025)

This ordinance extends until 1 June 2026 the temporary exemption from RO e-Invoice obligations for:

- individual farmers applying the special regime for farmers; and
- foreign cultural institutes/centres operating in Romania under intergovernmental agreements.

### 3. Updates on fiscal registration forms – ANAF Order No. 2420/2025 (Official Gazette No. 995/2025)

The order amends prior Orders No. 1699/2021 and No. 631/2016 to align registration, modification and deregistration forms with the new VAT exemption threshold of 395,000 lei, effective from 1 September 2025 (as amended by GEO No. 22/2025).

The update affects a wide range of fiscal forms, including: 010, 013, 015, 016, 020, 030, 040, 070, 700 and 093.

### 4. Updates on prefilled VAT return (RO e-VAT) – ANAF Order No. 2351/2025 (Official Gazette No. 942/2025)

The order updates the prefilled VAT return (Form P300) following VAT rate changes effective from 1 August 2025.

The prefilled return continues to be made available via the Virtual Private Space (‘SPV’, the electronic system which allows the exchange of documents between taxpayers and the tax administration) by the fifth day of the month following the due date for the standard VAT return (Form D300), but notifications for differences are postponed until January 2026.

## 5. Updated RO e-VAT compliance notification – ANAF Order No. 2394/2025 (Official Gazette No. 977/2025)

The order amends the model and procedure for the RO e-VAT compliance notification to reflect the VAT rate adjustments introduced in August 2025.

## 6. Transparency obligations for fiduciaries – Amendment to Law No. 129/2019

A new article 57 (1) introduces specific transparency requirements for trusts and similar legal arrangements.

Fiduciaries (or equivalent persons) must file a statement identifying the beneficial owner upon registering the trust agreement with ANAF, for inclusion in the register of beneficial owners of trusts.

## 7. New double tax treaties ratified

- a) United Kingdom – Law No. 169/2025 (Official Gazette No. 996/2025)

Ratifies the convention between Romania and the United Kingdom for the elimination of double taxation on income and capital gains and the prevention of tax evasion, signed in London on 13 November 2024.

Effective in Romania from 1 January 2026.

- b) Andorra – Law No. 170/2025 (Official Gazette No. 996/2025)

Ratifies the convention between Romania and the Principality of Andorra for the elimination of double taxation on income and capital gains and the prevention of tax evasion, signed in New York on 27 September 2024.

Effective in Romania from 1 January 2026.



### PKF Comment

If you believe the above measures may impact your business or personal situation, or require any advice with respect to Romanian taxation, please contact Florentina Susnea at [florentina.susnea@pkffinconta.ro](mailto:florentina.susnea@pkffinconta.ro) or call +40 213 173 190 or +40 722 209 753.

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# Slovak Republic

## Various changes to VAT, income taxes and health and social insurance contributions

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### VAT deduction restrictions on vehicles

The purpose of the amendment is to introduce a flat 50% VAT deduction on the acquisition of passenger motor vehicles not used by the taxable person exclusively for business purposes, as well as on goods and services acquired in connection with the use of such vehicles.

The 50% flat VAT deduction will apply to the purchase and lease of passenger motor vehicles (excluding short-term leases), to acquisitions of such vehicles from another EU Member State and to imports of vehicles in categories M1, L1e and L3e (hereinafter 'passenger motor vehicles') that are also used for purposes other than business. This provision is intended to apply to passenger motor vehicles acquired between 1 January 2026 and 30 June 2028, or used during that period under a lease agreement other than a short-term lease.

The 50% flat deduction will apply not only to the passenger motor vehicles specified above, but also to goods and services supplied to the taxable person in connection with the use of those vehicles. This includes, for example, spare parts, fuel and car repair services. It should be noted that the flat deduction will also apply where such goods or services are acquired or received in connection with the use of passenger motor vehicles acquired before the reference period, or vehicles already in use before that period began.

The flat VAT deduction will not apply in the following cases specified by law:

- short-term or other leases;
- the transport of passengers and their luggage for consideration, including taxi services;
- the operation of a driving school, if the passenger motor vehicle is used as a training vehicle; or

- the use of a passenger motor vehicle as a demonstration or test vehicle, or as a replacement vehicle provided to a customer during the repair of the customer's own passenger motor vehicle or while other services are being performed on it.

These rules will likewise not apply where the taxable person does not classify the acquired passenger motor vehicle as a fixed asset, but records it as inventory (for example, car dealers).

In addition, the flat VAT deduction will not apply to passenger motor vehicles that the taxable person acquires or begins to use exclusively for business purposes in the period from 1 January 2026 to 30 June 2028. In such cases, the taxable person will be required to keep sufficiently detailed electronic records demonstrating the extent of the vehicle's exclusive business use. The fact that a passenger motor vehicle is used exclusively for business must also be notified to the tax authorities on a specific form.

### Income Tax Act

Under transitional provisions relating to the new 50% VAT deduction outlined above, any input VAT that a taxpayer is not entitled to deduct (i.e. the non-deductible 50% portion on passenger motor vehicles) will be treated as a non-deductible expense for income tax purposes.

### Personal income tax

New progressive tax rates for personal income were introduced. In addition, two new higher personal income tax rates of 30% and 35% will be introduced. The 30% rate will apply to the portion of the tax base exceeding approximately €60,000, and the 35% rate to income exceeding approximately €75,000.

The existing 19% rate will continue to apply up to a tax base of around €44,000, and the 25% rate to income between approximately €44,000 and about €60,000.

These new rates will take effect from 1 January 2026.

## Corporate income tax

The new minimum corporate income tax bands will apply for tax periods beginning on or after 1 January 2026:

Income (revenue) (€)	Minimum tax (€)
< 50,000	340
50,000 – 250,000	960
250,000 – 500,000	1,920
500,000 – 5,000,000	3,840
> 5,000,000	11,520

## Tax amnesty/general tax pardon

A new regulation gives taxpayers the opportunity to settle outstanding tax arrears recorded as at 30 September 2025 without penalties or interest on arrears.

This option is time-limited, with the arrears having to be paid during the period from 1 January 2026 to 30 June 2026. If a taxpayer has been charged a penalty or interest on arrears in connection with a tax debt, these will be cancelled by 30 September 2026, provided that the outstanding tax is paid during the amnesty period.

The regulation also provides that if a taxpayer, during the period from 1 January 2026 to 30 June 2026:

- submits a tax return whose filing deadline expired by 30 September 2025, and pays the corresponding tax within the same period, the penalty for failure to submit the tax return within the prescribed time limit, as well as the interest on arrears, will be waived; or
- submits a supplementary tax return to a tax return whose filing deadline expired by 30 September 2025, and pays the tax amount or the additional tax difference arising from that amended return within the same period, the penalty will likewise be waived.

## Health insurance contributions

From 1 January 2026, a law amendment increases the rate of contributions to public health insurance.

For employees, self-employed persons, self-paying insured persons and employers, this will mean the following:

- The employee contribution rate will increase to 5% (up by 1%), and to 2.5% (up by 0.5%) if the employee is a person with a disability.
- For self-employed persons and self-paying insured persons, for the period from 1 January 2026 to 31 December 2027, the contribution rate will increase to 16% (up by 1%), and to 8% (up by 0.5%) if the insured person is a person with a disability.
- The temporary measure under which the employer contribution rate was increased to 11% will remain in force until 31 December 2027.

## Social insurance

With effect from 1 January 2026, the adopted amendment introduces several changes that will have a particularly significant impact on self-employed persons:

- The obligation for newly self-employed individuals to pay social insurance contributions will arise on the first day of the sixth calendar month following the month in which a natural person obtains authorisation to carry on or operate a gainful activity.
- The mandatory social insurance contribution will also apply to existing self-employed persons whose income, according to their tax return, does not exceed the statutory threshold.
- The minimum monthly assessment base for social insurance will increase from 50% to 60% of the average monthly wage in the Slovak Republic (based on the average monthly wage two years ago).

From 1 January 2026, the amendment will also introduce several changes affecting employees, for example with respect to unemployment benefits and sickness benefits.



### PKF Comment

If you believe the above measures may impact your business or personal situation, or require any advice with respect to Slovak taxation, please contact Pavol Schwartz at [schwartz@pkf.sk](mailto:schwartz@pkf.sk) or call +421 948 274 280.

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# South Africa

## Carbon tax compliance – What to consider in 2025 and beyond

### Introduction

Carbon tax was introduced in South Africa in June 2019 as part of the government's response to climate change and the associated environmental challenges such as air and water pollution. The tax is designed to facilitate a transition to a low-carbon economy by internalising the cost of greenhouse gas (GHG) emissions.

The regime is premised on the 'polluter pays principle', requiring entities whose activities give rise to emissions to bear the cost of environmental degradation. This has important implications where the ownership of assets and the activities giving rise to emissions reside in different legal entities, raising potential risks of non-compliance with laws and regulations (NOCLAR).

### Scope of application

A carbon taxpayer is any person conducting a taxable activity if:

1. the aggregated installed capacity of emissions-generating equipment equals or exceeds the specified threshold; or
2. no threshold applies to the activity.

The list of taxable activities is set out in Schedule 2 of the Carbon Tax Act. Activities indicated as 'N/A' in the schedule fall outside the scope of taxation.

### Tax base

The carbon tax is levied on GHG emissions arising from:

- **Combustion emissions:** From burning fossil fuels such as coal, oil and gas, as well as wood and waste materials for energy or industrial purposes.
- **Fugitive emissions:** From unintended leaks and losses during the extraction, processing, storage and distribution of fossil fuels.

- **Industrial processes and product use:** Including emissions from cement, glass, iron and steel, and aluminium production.

When first introduced in 2019, the effective rate of carbon tax ranged from R6 to R48 per tonne of carbon dioxide equivalent (CO<sub>2</sub>e), after applying the various allowances. However, the headline statutory rate has since escalated significantly. As of 1 January 2025, the current carbon tax rate is R236 per tonne of CO<sub>2</sub>e, up from R190 in 2024 and R159 in 2023.

Looking ahead, under Phase Two (2026–2035), the basic tax-free allowance will reduce by 10% in 2026, followed by further annual reductions of 2.5%, which will increase the effective tax burden well above historical levels. This phased escalation is designed to place increasing pressure on emitters to adopt cleaner technologies and improve energy efficiency.

### Industry exposure

Entities operating in the following sectors may incur liability, subject to the relevant thresholds:

- Manufacturing and construction ( $\geq 10$  MW thermal capacity).
- Mining and quarrying, pulp and paper, textiles, food and beverages, and machinery production.
- Transport: Domestic aviation ( $\geq 100,000$  litres annually). Road and other forms of transport are excluded.
- Commercial, residential, institutional, agricultural and forestry operations ( $\geq 10$  MW thermal capacity).
- Waste management: Facilities receiving  $\geq 5$  tonnes of solid waste per day or with a capacity  $\geq 25,000$  tonnes.

### Exemptions and exclusions

Certain activities do not trigger a carbon tax liability, such as:

- road transport;
- enteric fermentation from livestock;
- refrigeration and air conditioning; and

- sugar cane farming (unless fossil fuels are combusted to generate heat or energy).

## Compliance considerations and deadlines

Carbon tax is both an environmental and fiscal instrument, and the liability may not always be transparent in group structures. The fact that emissions-generating activities and asset ownership can be housed in different legal entities increases the risk of undetected exposure.

The relevant reporting deadlines to ensure administrative compliance include:

- reporting via the South African Greenhouse Gas Emission Reporting System (SAGERS) by 31 March each year; and
- filing and payment via South African Revenue Service (SARS) eFiling by 31 July each year.

### PKF Comment

Carbon tax is an area with both financial and reputational consequences. Entities should proactively assess exposure, particularly in complex group structures, and obtain professional guidance where uncertainty exists.

Importantly, while the initial effective range was R6–R48 per tonne, the current rate stands at R236 per tonne of CO<sub>2</sub>e (2025) and is set to rise further as tax-free allowances are reduced under Phase Two. Proactive compliance, early adoption of cleaner technologies and the strategic use of carbon offsets will be critical in managing both financial and operational risk under South Africa's evolving carbon tax regime.

If you believe the above measures may impact your business or personal situation or require any advice with respect to South African taxation, please contact Paul Gering (PKF Durban) at [paul.gering@pkf.co.za](mailto:paul.gering@pkf.co.za) or call +27 31 573 5000.

## Recent tax developments and case law – VAT modernisation and tax on influencers

### VAT modernisation

The SARS VAT Modernisation Project has been brought closer to reality with the release of the 2025 Draft Tax Administration Laws Amendment Bill (TLAB). The VAT Modernisation Discussion Paper (‘the Discussion Paper’) was published by SARS in October 2023 and proposed that implementation would take place in approximately five years. Since then, the most significant step towards VAT modernisation has been the mention in the 2025 TLAB documents.

### Real-time reporting

The main proposal of the VAT Modernisation Project is to enable vendors to digitally transmit VAT data to SARS via secure channels which will facilitate real-time VAT reporting and compliance. When VAT data is digitally transmitted, it will be used to simulate the vendor's VAT return. The self-assessment concept will still be retained, that is, the vendor will still be required to submit its VAT return for a tax period on or before the due date.

### Phased approach

The proposal is to implement the digital transmission of VAT data in a phased approach, initially involving medium to large vendors, international vendors, vendors that transact with government, vendors that represent high risk to the National Treasury and any vendor that wishes to participate voluntarily. The later phases of the modernisation initiative will focus on integrating the remainder of the VAT vendor base, comprising micro, small and medium sized vendors.

### Modernised VAT return

As part of transitioning to real-time VAT reporting, there may be a need to modernise the VAT return to expand the data input disclosure points and to add new data input disclosure points, to enable more meaningful disclosure of tax data. The modernised VAT return will apply to the entire VAT vendor base.

## Factors for businesses to consider

- Businesses must ensure that their accounting information systems are capable of digitally transmitting VAT data (tax invoice or electronic tax invoice data) in the format as required by SARS, i.e. medium to large vendors must consider moving to an e-invoicing model if they have not already done so.
- Businesses must assess if their current accounting information systems are capable of extracting the necessary transactional data to complete and file the modern VAT return.
- Vendors must budget for the initial costs to be incurred regarding changes to be made to their accounting information systems.
- While the Discussion Paper does mention that these initial costs may be deducted for income tax and VAT purposes, as an incentive for complying and participating in the modernised VAT administrative framework, the cash outlay will be borne by the companies and hence must be included in relevant budgets.
- Companies must assess their current accounting information systems with regard to the quality and accuracy of tax data and, where necessary, implement procedures to improve data accuracy as SARS will have access to the data in real-time which will not allow tax teams to correct data before filing a VAT return.

## Case law – Woolworths v SARS – Deductibility of input tax (VAT)

A recent Supreme Court of Appeal (SCA) case concerned the deductibility of input tax (VAT) incurred on underwriting fees linked to capital-raising transactions for a rights issue to acquire shares as part of the acquisition of a company.

### Key takeaway

The SCA ruled in Woolworths' favour, finding that capital-raising transactions, even if infrequent, can form part of an enterprise's activity, especially for investment holding companies. The court reinforced that, when looking at the definition of an 'enterprise' under the VAT Act, one must look at a company's activities holistically. SARS can't isolate a one-off transaction from the broader enterprise context.

Investment holding or group companies may claim input VAT on capital-raising costs – provided they are linked to their broader enterprise purpose. This case is a strong precedent against SARS's narrow approach. For companies, it's a reminder to document transactions properly and seek professional opinions where appropriate – Woolworths avoided penalties partly because they had a tax opinion.

## Tax on social media influencers

SARS has made a recent announcement that it plans to target social media influencers who are non-compliant with income tax, VAT and PAYE tax legislation. Social media influencers earn significant revenue from paid brand partnerships, collaborations, sponsored posts, appearances and free gifts, e.g. clothing, products, travel vouchers, etc. Whether the income earned is in the form of cash, products or services, it meets the definition of 'gross income' and must be included in the taxable income of the recipient. As such, social media influencers who were not compliant with tax regulations may have now registered for income tax and VAT.

## Impact on companies doing business with social media influencers

Companies must consider the following:

- **Is the influencer an independent contractor?** An independent contractor is a person who employs three or more full-time employees, who are not connected persons in relation to him or her and who are engaged in his or her business throughout the particular year of assessment. If the influencer is not an independent contractor then they may be considered to be an employee.
- **Is the influencer an employee?** If the majority (generally at least 80%) of their income is from one major brand/company, they are subject to control by the company and they do not employ three or more full-time employees then the influencer will be deemed to be an employee and the company will be liable to withhold employee's tax (PAYE) on payments/remuneration made to the influencer.

- **Is the influencer registered for VAT?**  
Influencers (operating in their individual capacities or through a company) who were not previously registered for VAT may now have to be registered if they earn more than R1 million in a 12-month period. Hence, companies may start to see VAT invoices from social media influencers and the 'value' of the supply may need to be discussed as previously this may not have been an issue. This will be relevant as all payments to the influencer will now be subject to VAT at 15% which will have cash flow implications as the company will need to pay the VAT and claim the input tax in the next month's VAT return. Where such a company is non-resident and not registered for VAT in South Africa, this 15% VAT (assuming that the service rendered by the influencer is not wholly consumed outside of South Africa) will be an additional cost to the non-resident company acquiring such service.
- **Do withholding taxes on foreign entertainers apply?** If resident companies are paying foreign social media personalities to appear at events in South Africa, then they must consider if the withholding tax on foreign entertainers will apply, subject to the application of the relevant double tax treaty.

## PKF Comment

If you believe any of the above measures may impact your business or personal situation or require any advice with respect to South African taxation, please contact Kubashni Moodley at [kubashni.moodley@pkf.co.za](mailto:kubashni.moodley@pkf.co.za) or call +27 31 573 5000.

## Ceasing South African tax residency: Key tax implications for emigrants

As more South Africans consider emigration, whether for security, lifestyle, career or financial reasons, many overlook the significant tax consequences of formally ceasing South African tax residency. This is especially critical for individuals with substantial asset portfolios both locally and abroad. Understanding the tax framework is essential to avoid unexpected liabilities, including the risk of double taxation.

### Exit tax

The most immediate financial consequence of ceasing tax residency in South Africa is the imposition of capital gains tax (CGT), commonly referred to as the 'exit tax'. This tax is triggered under section 9H of the Income Tax Act (ITA), which deems a notional disposal of an individual's worldwide assets (subject to certain exceptions) the day before they cease to be a South African tax resident.

The rationale is that the individual has benefited from South Africa's public infrastructure and services while resident and must therefore settle tax on the accrued gains of their global assets up to the point of departure. After ceasing residency, only South African-sourced income remains taxable in South Africa.

The exit tax applies to most asset types, including but not limited to:

- unlisted company shares;
- listed stocks and bonds;
- shares in South African immovable property companies;
- foreign immovable property; and
- vested interests in the assets of a local trust.

However, certain assets are excluded from the deemed disposal rule (as these remain taxable in South Africa even after the individual becomes a non-resident) and include:

- immovable property located in South Africa;

- interests in approved South African retirement funds;
- assets linked to a permanent establishment in South Africa; and
- shares or options acquired through employee share incentive schemes (subject to sections 8A, 8B or 8C of the ITA).

The resulting capital gain is calculated as the difference between the market value of the worldwide assets on the date of deemed disposal and their base cost. This gain is then subject to a maximum effective tax rate of 18% (assuming the individual's marginal income tax rate is at the highest rate of 45%).

### Double taxation risk on foreign property

Individuals who own foreign property should exercise caution when relocating to the jurisdiction which imposes CGT and where the foreign property is situated, as this may give rise to double taxation upon the property's eventual disposal.

This situation arises because South Africa imposes CGT on a deemed disposal of foreign property at its market value the day before an individual ceases to be a tax resident. In addition, the foreign country where the property is located will levy tax on the actual capital gain when the property is eventually sold, calculated as the difference between the sale proceeds and the original base cost (the foreign jurisdiction will most likely not recognise a step-up in the base cost of such property situated in that country in which the individual is now resident).

Since no actual sale takes place at the time of ceasing residency, no foreign tax is triggered, and therefore no foreign tax credit (FTC) under section 6quat of the ITA can be claimed in South Africa. Additionally, relief under applicable double tax treaties (DTTs) is generally unavailable in this scenario. This is because section 9H of the ITA deems the disposal to occur while the individual is still a South African resident, thereby preserving South Africa's taxing rights.

As a result, the same capital gain may be subject to tax twice: first in South Africa upon cessation of residency, and again in the foreign jurisdiction when the property is sold.

This legislative gap effectively penalises individuals for ceasing South African tax residency, resulting in a higher tax burden than if they had remained residents and sold the asset in the ordinary course.

### Formalising non-resident status

Merely leaving South Africa is not enough to terminate tax residency. Non-compliance with the formal cessation process leaves the individual liable for tax on their global income in South Africa.

In the year of emigration, taxpayers must navigate the complexities of dual tax status and must declare worldwide income for the period of residency and only South African-sourced income for the period thereafter. The final tax return (ITR12) must reflect the change in residency and include the exit tax liability from the deemed disposal.

To be recognised as a non-resident, individuals must prove to SARS that they are no longer 'ordinarily resident' in South Africa or have become a tax resident of another country through the application of a double tax agreement (DTA).

Ordinary residence is determined through a factual enquiry, guided by objective criteria that support the individual's subjective intention to permanently depart South Africa and no longer regard it as their real home. Where it is established that a person has ceased to be ordinarily resident, the change in tax residency is effective from the date on which they left South Africa with the intention not to return.

If an individual who is resident by virtue of the physical presence test wishes to cease their South African tax residency, that person must be physically outside the Republic of South Africa for a continuous period of at least 330 full days, after which that person will be deemed to have ceased to be a resident from the day they left South Africa.

The cessation of residency process includes updating the RAV01 form on SARS eFiling with the relevant date, supplemented by a comprehensive submission of supporting documentation to evidence the establishment of a permanent, ordinary residence in the new country or to demonstrate that the taxpayer is exclusively resident in the foreign country under the terms of an applicable DTA.

Given the complexity of the exit tax and the potential for costly mistakes, professional tax advice is strongly recommended. Proper planning can help mitigate risks, ensure compliance and structure the emigration process in a tax-efficient manner.



## PKF Comment

For further information or advice in relation to this, or with respect to South African taxation, please contact Simone Esch (PKF Cape Town) at [simone.esch@pkf.co.za](mailto:simone.esch@pkf.co.za) or call +27 (0) 21 914 8880.

## Global minimum tax – What you need to know

### Introduction

Global minimum tax (GMT) was recently introduced in South Africa with retrospective application to tax years starting from 1 January 2024.

The purpose of this introduction was to align South Africa with the OECD's introduction of Global Anti-Base Erosion (GloBE) model rules under the Pillar 2 initiative and enable South Africa to impose a multinational top-up tax at a rate of 15% on the excess profits of in-scope multinational enterprise (MNE) groups.

On 12 September 2025, SARS issued their first guidance on the GMT compliance and filing requirements. SARS issued the notice on their website, indicating that a dedicated project team, including IT specialist and system engineers, has been appointed to integrate the GMT compliance procedures and forms into the existing eFiling system.

### Who does this apply to?

The rules apply to large MNE groups with global consolidated annual revenues in at least two of the four preceding fiscal years equal or exceeding €750 million.

This includes both South African-headquartered groups and foreign-headquartered groups with subsidiaries, branches or joint ventures in South Africa.

South African companies or branches that are part of an in-scope MNE group are considered domestic constituent entities (DCEs). DCEs must comply with the GMT rules.

### Compliance requirements

A DCE of an in-scope MNE group must register with SARS for GMT as well as submit a GloBE information return (GIR) with SARS in the prescribed form and format by the prescribed due date, under the GMT legislation.

SARS has also permitted that, where one or more South African DCEs is required to file a GIR, each of the South African DCEs may appoint a 'designated local entity' that will file on the group's behalf. The DCEs must submit a notice to SARS of the elected 'designated local entity' by no later than six months prior to the filing due date of the GIR.

### Filing dates

First filing of GIR: No later than 18 months after the end of the first reportable fiscal year. For example, for the 2024 reportable fiscal year, the GIR must be filed before 30 June 2026 (assuming a calendar year end).

Subsequent filing of GIR: Must take place no later than 15 months after the end of the second and following reportable fiscal years.

### Summary

The introduction of GMT is expected to impact various industries and sectors with significant cross-border operations, particularly those involved in the digital economy, technology, pharmaceuticals and finance.

## Penalties

The GMT Act sets out the penalties for non-compliance which are as follows:

- An administrative non-compliance penalty of up to R50,000 may be imposed by the Commissioner, being a fixed amount penalty imposed under sections 210 and 211 of the Tax Administration Act.
- For unpaid top-up tax exceeding:
  - R5 million: The penalty doubles to R100,000 per month; and
  - R10 million: The penalty triples to R150,000 per month.

### PKF Comment

If you believe the above measures may impact your business or personal situation or require any advice with respect to South African taxation and transfer pricing matters in particular, please contact Antonia Nicoloudakis at [antonian@pkfoctagon.com](mailto:antonian@pkfoctagon.com) or call +27 (0)10 003 0150.

## South African trusts: Permitted externalisation of funds to offshore trusts

Until recently, South African trusts were not permitted to transfer assets directly to a non-resident trust.

However, in 2023, SARS offered a mechanism to allow for funds to be distributed by South African trusts to non-resident trusts, provided all regulatory approvals are obtained from both SARS and the South African Revenue Bank (SARB).

### Initial verification process

Approval must first be obtained from SARS by securing a manual compliance letter. This is done

by emailing SARS at [MLCA@sars.gov.za](mailto:MLCA@sars.gov.za) with the information set out below.

#### 1. Trust deed requirement

The South African trust deed must provide that the distribution is permitted and the non-resident trust must be named a beneficiary of the South African trust.

#### 2. Tax compliance requirement

The assets that will be distributed (and any disposals triggered) must be correctly subject to tax in South Africa. In addition, sufficient funds must be retained by the trust to pay all applicable taxes due in relation to such a distribution or subsequent disposal.

Once the manual compliance letter has been obtained, further approvals must be obtained from both SARS and the SARB.

## Process to transfer funds abroad

The process for transferring funds from a South African trust to a non-resident trust under exchange control regulations is as follows:

#### 1. SARS tax clearance

The application for a foreign distribution must be made to SARS to obtain a SARS tax clearance (a 'letter of compliance'). This is typically issued within 21 working days on condition that the flow of funds is not complex. It is important to note that if the tax affairs of the South African trust are not in good order, tax clearance will not be forthcoming.

#### 2. SARB application

Once the tax clearance is received, an application to the SARB must be submitted via an authorised dealer (appointed banks or financial institutions), including all supporting documentation and a motivation letter. SARB will then review ownership structures, tax compliance and the trust deeds for compliance before considering whether to approve the application or not.

### 3. Transfer of funds

If the application has been approved by the SARB (typically within six to eight weeks), the funds may be transferred to the non-resident trust in compliance with exchange control regulations.

Note: SARB approval is not guaranteed and is valid for 12 months from the date of approval. SARS and SARB may request additional information at their discretion.

### Summary of conditions for non-resident distributions

The conditions which must be met for non-resident distributions are:

1. The non-resident trust must be a named beneficiary in the South African trust's trust deed.

2. The South African trust must be tax compliant and resident in South Africa.
3. All taxes relating to the distribution must be settled in full with SARS.
4. Approvals must be obtained from both SARS and SARB (through an authorised dealer) to transfer the funds abroad.



### PKF Comment

For further information or advice in relation to this, or with respect to South African taxation, please contact Antonia Nicoloudakis at [antonian@pkfoctagon.com](mailto:antonian@pkfoctagon.com) or call +27 (0)10 003 0150.

## Changes to the trust landscape

The trust landscape in South Africa has undergone significant changes in recent years, particularly from a tax and compliance perspective, driven by both domestic reforms and international pressure. Some of the key developments are considered below.

No.	Issue	What is required	Tax implication
1.	<b>Restriction of the conduit pipe principle</b>	Historically, trusts could distribute income and capital gains to non-resident beneficiaries, who would then be taxed at their own marginal rates. This was based on the conduit pipe principle, which allowed income to retain its nature when passed through a trust. Effective from 1 March 2024, this principle is now limited to South African resident beneficiaries only.	For non-residents, income and capital gains are taxed in the hands of the trust at the applicable trust rates (e.g. 45% for income, 36% for capital gains).
2.	<b>Enhanced beneficial ownership disclosure</b>	In response to the Financial Action Task Force (FATF) and global anti-money laundering standards, South Africa amended the Trust Property Control Act via the General Laws Amendment Act (effective from April 2023).  Trustees are now required to: <ul style="list-style-type: none"><li>▪ identify and record all beneficial owners of the trust;</li><li>▪ maintain up-to-date records and lodge them with the Master of the High Court; and</li><li>▪ disclose trust involvement in transactions with accountable institutions.</li></ul>	Non-compliance can result in fines up to R10 million or imprisonment.

No.	Issue	What is required	Tax implication
3.	<b>Foreign tax credits</b>	<p>From 1 March 2025, trusts may claim foreign tax credits on income or capital gains earned abroad. These credits:</p> <ul style="list-style-type: none"> <li>▪ must not exceed the portion of South African tax related to that income; and</li> <li>▪ can be carried forward for up to six years if unused.</li> </ul>	Foreign tax credits may now be claimed.
4.	<b>Expanded definition of a trust</b>	<p>The statutory definition of a trust now includes:</p> <ul style="list-style-type: none"> <li>▪ portfolios of collective investment schemes; and</li> <li>▪ portfolios of hedge fund collective investment schemes.</li> </ul>	This broadens the scope of entities subject to trust tax rules.
5.	<b>Filing requirements and deadlines</b>	<p>SARS has tightened compliance around trust tax returns:</p> <ul style="list-style-type: none"> <li>▪ All trusts, even dormant ones, must file ITR12T annually.</li> <li>▪ Third-party data returns (IT3(t)) must be submitted for amounts vested to beneficiaries.</li> <li>▪ Trustees must submit supporting documents like trust deeds, financials and beneficial ownership organograms.</li> </ul>	Late payment penalties and interest on late submissions.
6.	<b>Section 7C anti-avoidance measures</b>	<p>SARS continues to scrutinise low/interest-free loans to trusts or related companies. Section 7C of the Income Tax Act:</p> <ul style="list-style-type: none"> <li>▪ triggers donations tax on such arrangements – the difference between the interest charged and the official SARS rate is treated as a deemed donation, deemed to occur on the last day of the trust's year of assessment (usually 28/29 February); and</li> <li>▪ applies even when loans are made to companies controlled by trusts or their beneficiaries.</li> </ul>	This deemed donation is subject to donations tax (typically 20%, or 25% for amounts exceeding R30 million).



### PKF Comment

For further information or advice in relation to this, or with respect to South African taxation, please contact Antonia Nicoloudakis at [antonian@pkfoctagon.com](mailto:antonian@pkfoctagon.com) or call +27 (0)10 003 0150.

## Tax court judgment on general anti-avoidance rules (GAAR) – G v the Commissioner for the South African Revenue Service (September 2025)

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The latest tax court judgment handed down in the Cape Town High Court dealt with the application of the GAAR as provided for in terms of section 80A to L of the Income Tax Act, 58 of 1962 (ITA). SARS was successful in terms of the GAAR assessment that they raised to counteract the consequences of the impermissible avoidance arrangements ([South African Revenue Service v Absa Bank Limited and Another 2024 \(1\) SA 361 \(SCA\)](#)).

The South African judiciary permits taxpayers to structure their affairs so that they pay the minimum amount of tax for which they are liable ([Commissioner for South African Revenue Service v Knuth and Industrial Mouldings \(Pty\) Ltd 62 SATC 65 at paragraph 42](#)). However, taxpayers may not evade or impermissibly avoid tax ([Commissioner for South African Revenue Service v NWK Ltd 2011 \(2\) SA 67 \(SCA\) at page 74](#)).

In this matter, the taxpayer sold distributable reserves and was found to have been engaged in a complicated tax-driven scheme, the purpose of which was to create a pool of secondary tax on companies (STC) credits. In order to sell distributable reserves, there had to be companies that wished to acquire distributable reserves, or alternatively companies that needed distributable reserves for the purpose of declaring dividends on preference shares issued by them. The companies that had distributable reserves in which shares were purchased and the companies in the structure that received the incoming dividend from the aforementioned companies had to meet the following five requirements:

- i. they had no liabilities;
- ii. they had no assets other than cash or possibly negotiable instruments or loans to a shareholder, preferably in the form of a promissory note;
- iii. they had no contingent liabilities;
- iv. they had no undisclosed liabilities; and
- v. they had no trading history.

STC liabilities arising on future dividend declarations by third-party South African companies that received the dividends from the scheme could then offset these STC credits. The scheme, if successful, so SARS contended, could be used to create a potentially endless pool of STC credits that could be 'sold' (transferred in return for a fee) to South African entities by way of receiving dividends. The purchasers, in turn, would be able to use the STC credits to reduce their anticipated liabilities for STC when declaring dividends to their shareholders, thus reducing their true tax liability.

The taxpayer started afresh each time with a new company in order to achieve this as the new company would not have any undisclosed liabilities or trading history. The scheme which the taxpayer created and implemented as a whole was found to have fallen within the web of the provisions of the GAAR as contained in Part IIA of Chapter III of the ITA. The taxpayer derived R46,664,500 from the scheme.

The tax court held that the taxpayer created rights and obligations which would not normally be created by persons dealing at arm's length, and that these transactions were in fact not carried out in a bona fide business manner. These arrangements which gave rise to the STC credits in the hands of the external companies, and which gave rise to the taxpayer receiving the funds, were in fact impermissible arrangements within the scope of the GAAR provisions contained in section 80A to L of the ITA.

If SARS deems an arrangement impermissible, the following will happen:

- SARS may recalculate the tax liability as if the arrangement had not occurred.
- The taxpayer may lose the tax benefit.
- SARS may impose penalties and interest.
- The arrangement may be recharacterised to reflect its true substance.

SARS views some of the following examples as activities that warrant GAAR application:

- artificial steps added to a transaction solely to reduce tax;

- use of shell companies or offshore structures with no real business purpose; and
- transactions that are inconsistent with their economic reality.

Here are examples of GAAR in action in South Africa, based on SARS guidance and the ITA:

### Example 1: Sale and leaseback with round-trip financing

Company A owns a building and sells it to Company B (a related entity with assessed losses). Company B immediately leases the building back to Company A. Company A claims lease payments as tax-deductible expenses. Company B pays no tax due to its assessed loss.

The GAAR trigger is the round-trip financing. Funds flow from B to A (purchase), then back from A to B (lease payments). The tax benefit consists of Company A receiving deductions without real change in risk or cash flow. The lack of commercial substance in terms of the transaction doesn't alter business risks or net cash flow meaningfully. In this instance, SARS may disregard the transaction, recharacterise the lease payments and levy tax as if the transaction never occurred.

### Example 2: Use of a tax-indifferent party

A South African company routes a transaction through a foreign entity that pays little or no tax. The foreign entity receives income that would have been taxable if received directly by the South African company. The GAAR trigger is the foreign entity which is a tax-indifferent party and the transaction is structured to shift income to avoid tax. SARS may combine or disregard the foreign party's role and reallocate income to the South African company.

### Example 3: Misuse of tax provisions

A taxpayer uses a series of steps to exploit a loophole in the ITA. The steps are legal but have no real business purpose other than tax avoidance. The GAAR trigger is the misuse or abuse of the Act where an abnormality in a transaction structure is detected, the main purpose of which is to obtain a tax benefit. SARS may recharacterise the transaction, combine steps or treat it as if it never occurred.

In conclusion, GAAR apply when the main purpose of a transaction is to obtain a tax benefit and it lacks commercial substance or involves abnormal steps. SARS has wide powers to adjust tax liabilities, combine parties and levy penalties and interest. As is clear from the recent proposed amendments to the tax Acts, SARS is determined to analyse the substance over legal form in every business transaction, due to renewed international focus on tax evasion and tax avoidance measures to be implemented by revenue authorities across the world. Tax planning is a useful tool to ensure that companies structure their affairs to pay the minimum amount of tax for which they are liable. However, the concept of arm's-length transactions which are commercially sensible is crucial when doing so, to avoid the application of the GAAR at all costs.



#### PKF Comment

For further information or advice in relation to this, or with respect to South African taxation, please contact Antonia Nicoloudakis at [antonian@pkfoctagon.com](mailto:antonian@pkfoctagon.com) or call +27 (0)10 003 0150.

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# Spain

## Recent tax developments affecting foreign individuals and businesses

Throughout 2025, several tax reforms have come into force in Spain that directly affect foreign individuals and legal entities with economic interests in the country. Below we highlight two key measures introduced by recent legislation, followed by a summary of other relevant updates that may be of interest to international investors, professionals and companies.

### 1. Implementation of mandatory e-invoicing and the VERI\*FACTU system

Spain's digital transformation in invoicing is structured around two major regulatory obligations that affect all business operators, including foreign entities with activity in the country:

#### a) VERI\*FACTU system (secure invoicing software)

- Legal basis: Law 11/2021 (anti-fraud measures); developed by Royal Decree 1007/2023 of 5 December.
- Requirement: Businesses must adapt their invoicing systems to ensure integrity, traceability and immutability of records.
- Timeline:
  - On 2 December 2025, the Spanish Treasury delayed (Royal Decree 15/2025) to 2027 the entry into force of VERI\*FACTU. The new timetable is: (i) 1 January 2027 for businesses subject to corporate income tax; and (ii) 1 July 2027 for all other taxpayers (other companies and the self-employed).
- Technical features: Digital signature, QR code, chained records and optional real-time transmission to the Spanish Tax Agency ('AEAT') under the VERI\*FACTU modality.

#### b) Mandatory e-invoicing (issuance and receipt)

- Legal basis: Law 18/2022 ('create and grow law').
- Requirement: All B2B transactions must be invoiced and received in structured electronic format.
- Timeline:
  - **2025** for companies with annual turnover exceeding €8 million (once technical regulations are published).
  - **2026–2027** for SMEs and self-employed professionals, depending on turnover and regulatory rollout.

**Who is affected?** Foreign companies operating in Spain, especially those with a permanent establishment or providing VAT-liable services. These entities must ensure their invoicing systems and processes comply with the new legal and technical standards.

## 2. Expansion of the special tax regime for inbound taxpayers

Law 28/2022, promoting the start-up ecosystem, amended article 93 of Law 35/2006 (personal income tax) to broaden the scope of Spain's special tax regime for inbound taxpayers.

### Key changes

- The regime now includes entrepreneurs, remote workers and family members of the primary taxpayer.
- Eligible individuals are taxed only on Spanish-source income at a **fixed rate of 24%** for six years.
- Foreign assets are exempt from Spain's wealth tax.
- No obligation to file the foreign asset disclosure form (**Modelo 720**) or pay the temporary solidarity tax on large fortunes.

**Who is affected?** Foreign individuals relocating to Spain for professional, entrepreneurial or family reasons, provided they meet the residency and employment criteria.

## Other tax updates

The following measures have also come into force in 2025 or are expected to be implemented shortly. They may affect foreign operators depending on their activity or investment profile:

### 1. Minimum tax for multinational groups

- Law: Law 7/2024
- Scope: Multinational groups with subsidiaries in Spain.

### 2. Taxation of real estate owned by non-residents

- Law: Royal Legislative Decree 5/2004; AEAT Manual (May 2025)
- Scope: Non-residents owning property in Spain.

### 3. Limits on carry-forward of tax losses ('BINs')

- Law: Law 27/2014; Law 7/2024
- Scope: Large foreign companies subject to Spanish corporate tax.

### 4. Deductions for energy-efficient renovations

- Law: Law 35/2006; Royal Decree-Law 9/2024
- Scope: Foreign property owners in Spain.

### 5. Deduction for electric vehicle purchases

- Law: Royal Decree-Law 9/2024
- Scope: Foreign residents acquiring vehicles in Spain.

### 6. Tax on net interest and commission margins

- Law: Law 7/2024
- Scope: Foreign financial institutions operating in Spain.

## PKF Comment

Spain continues to modernise and adapt its tax system to international standards, with a clear focus on digitalisation, transparency and attracting foreign talent and investment. The implementation of mandatory e-invoicing and the expansion of the inbound taxpayer regime are particularly relevant for foreign individuals and companies operating in Spain.

At PKF Attest, we are available to assist with the interpretation and application of these measures, and to provide tailored advice for international clients navigating the Spanish tax landscape.

If you believe the above measures may impact your business or personal situation or require any advice with respect to Spanish taxation, please contact Jesús González Ruíz-Jarabo at [jesus.gonzalezrj@pkf-attest.es](mailto:jesus.gonzalezrj@pkf-attest.es) or call +34 915 561 199.

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# Switzerland

## Cancellation of the deemed rental income and introduction of property tax on second homes

On 28 September 2025, the Swiss people and cantons voted by a clear majority of 57.7% to introduce cantonal property taxes on second homes. This reform particularly affects owners of owner-occupied residential property.

The deemed rental value (part of taxable income) for owner-occupied residential property will be completely eliminated in the future – both for primary residences and second homes. In return, most maintenance costs for owner-occupied properties as well as private debt interest will no longer be tax deductible or will only be deductible in special circumstances.

To cover for the potential tax losses, the cantons are given the authority to introduce a special property tax on second homes that are predominantly owner-occupied.

It is not yet clear when the amended law will become effective and which cantons will introduce a special property tax on second homes.

### PKF Comment

The cancellation of the deemed rental income will make tax compliance easier. On the downside, maintenance work and, in particular, investments into renewable energies (which are currently tax deductible) will probably significantly decrease in the long term. Since maintenance work is currently fully deductible from taxable income, a significant increase in the construction industry was already seen in the last month. Time will tell how and what the cantons will do in order to make up the tax losses as a result of the cancellation of the deemed rental income in the future.

## Double tax treaty updates

The Federal Council adopted the dispatch on the double tax treaty (DTT) with Zimbabwe, expanding its DTT network in southern Africa. The treaty is mostly based on the OECD model convention (including BEPS). In order for the treaty to come into force, the Swiss Parliament needs to approve it.

Switzerland has further amended the DTTs with Serbia, France and Croatia.



### PKF Comment

For further information or advice concerning Swiss unilateral and international taxation, please contact Dominique Kipfer at [dominique.kipfer@pkf.ch](mailto:dominique.kipfer@pkf.ch) or Rilana Wolf-Bayard at [rilana.wolf@pkf.ch](mailto:rilana.wolf@pkf.ch) or call +41 44 285 75 00.

BACK

# Taiwan

## Cross-border sales of electronic services considered Taiwan-sourced income

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The National Taxation Bureau of the Southern Area (NTBSA), Ministry of Finance, recently stated that when a foreign profit-seeking enterprise (foreign company) has no fixed place of business or business agent in Taiwan, the income it earns from cross-border sales of electronic services to Taiwan is considered Taiwan-sourced income.

If such income falls under the withholding scope defined in article 88 of the Income Tax Act, the withholding agent (the domestic buyer) must withhold income tax at the prescribed rate when making payment to the foreign enterprise.

If the domestic buyer (withholding agent) agrees to bear the withholding tax on behalf of the foreign enterprise, the buyer may, before making payment, apply to its local tax office to determine:

1. an applicable profit ratio; and
2. the domestic profit contribution ratio.

After approval, the buyer can calculate the taxable income based on these ratios and withhold tax accordingly.

### Example

Company A in Taiwan purchases online advertisements through a foreign company B's website.

Company B has no fixed place of business or agent in Taiwan.

Company A pays B NT\$100,000 as service fees.

Under normal rules, Company A should withhold 20%, i.e. NT\$20,000, as income tax.

However, if Company A agrees to bear the withholding tax and applies to NTBSA for an

approved profit ratio of 30% and domestic profit contribution ratio of 50%, then the taxable income would be:

$$\text{NT\$}100,000 \times 30\% \times 50\% = \text{NT\$}15,000$$

With a 20% withholding rate, the actual tax payable is:  $\text{NT\$}15,000 \times 20\% = \text{NT\$}3,000$

### Application requirements

When a withholding agent applies for approval of the applicable profit ratio and domestic profit contribution ratio for a foreign digital service provider, it must:

- complete the form, 'Application for Applicable Profit Ratio and Domestic Profit Contribution Ratio for Foreign Profit-Seeking Enterprises Engaged in Cross-Border Sales of Electronic Services'; and

- attach supporting documents, such as:
  - proof that the applicant bears the Taiwan-source withholding tax;
  - relevant contracts;
  - description of the foreign company's business operations;
  - explanation of domestic and overseas transaction processes;
  - documents showing main business activities; and
  - other related and necessary supporting materials.

### Additional reminder

Before applying, the withholding agent may check the Ministry of Finance eTax Portal (under 'Overseas e-Commerce Taxation Zone; Profit-Seeking Enterprise Income Tax; Approved Profit Ratio and Domestic Profit Contribution Ratio List') to see if the foreign enterprise (overseas e-commerce provider) already has approved ratios announced by the tax authority.

If the enterprise is not on the list, the withholding agent should prepare the required documents and apply to its local tax bureau for approval.



### PKF Comment

If you believe the above measures may impact your business or personal situation or require any advice with respect to Taiwanese taxation, please contact Jamie Ho at [jamieho@pkf.com.tw](mailto:jamieho@pkf.com.tw) or call +886 8792 2628.

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# United Arab Emirates

## Recent updates on corporate tax and VAT

### Corporate tax

The Federal Tax Authority (FTA) of the United Arab Emirates (UAE) has released the Corporate Tax Decree-Law, i.e. 'Federal Decree-Law No. 47 of 2022 – Taxation of Corporations and Businesses' ('Corporate Tax Decree-Law'/CT Decree-Law) effective for financial years starting on or after 1 June 2023.

The Ministry of Finance (MoF)/FTA have also released several cabinet decisions, ministerial decisions, clarifications and user manuals which provide further guidance on CT Decree-Law provisions.

Recently issued guidance in connection with Corporate Tax Decree-Law can be summarised as follows:

Sr.no	List of cabinet/ministerial/FTA decisions and explanation
1	<p><b>There are certain decisions, guides, public clarifications and business bulletins that have been issued recently with regard to UAE CT law, as set out below:</b></p> <ul style="list-style-type: none"><li>▪ <b>Cabinet Decision No. 35 of 2025</b> – The decision has provided more details on the areas which will be considered as 'nexus in state', any transactions that will be treated as a 'transfer of rights in immovable property' and requirements of registrations.</li><li>▪ <b>Cabinet Decision No. 55 of 2025</b> – The cabinet decision expands the scope of 'exempt person' to include a taxable person incorporated in a foreign jurisdiction that is wholly owned and controlled by an exempt person provided it conducts activities of the exempt person, holds assets or invests funds for the benefit of the exempt person or carries out activities ancillary to the main activity of the exempt person.</li><li>▪ <b>Ministerial Decision No. 96 of 2025</b> – The decision specifies the conditions for treating qualifying investment funds/real estate investment funds and qualifying limited partnerships as exempt from corporate tax.</li><li>▪ <b>Ministerial Decision No. 197 of 2025</b> – The decision sets out the depreciation rules for investment properties held at fair value for taxpayers electing for the realisation basis under article 20(3) of the CT Decree-Law. It allows an annual deduction equal to the lower of 4% of original cost or the tax written down value (WDV), pro-rated for part-year ownership.  For assets held before the first tax period starting on or after 1 January 2025, the opening WDV is determined by reducing original cost by 4% for each full year held. The election is irrevocable, must be made in the first tax return and applies to all investment properties measured at fair value.  On realisation – such as sale, derecognition, policy change or cessation – previously claimed depreciation must be reversed. An anti-abuse rule permits the FTA to deny deductions for non-commercial or related-party arrangements, and the resulting timing differences must be reflected in deferred tax. The rules apply to tax periods beginning on or after 1 January 2025.</li><li>▪ <b>Ministerial Decision No. 229 of 2025</b> – The decision repeals the previous Ministerial Decision No. 265 of 2023 and the provisions in this decision will be applicable from 1 June 2023 (i.e. retrospective effect). This decision is in line with the previous decision and expands the scope of qualifying treasury and financing services to explicitly include activities conducted by a taxpayer for their own account. Also, the decision has expanded the definition of 'qualifying commodities' and clarified the term 'Trading of Qualifying Commodities'.</li><li>▪ <b>Ministerial Decision No. 230 of 2025</b> – The decision specifies the recognised price reporting agencies for the qualifying activity of 'Trading of Qualifying Commodities'.</li></ul>

Sr.no	List of cabinet/ministerial/FTA decisions and explanation
	<ul style="list-style-type: none"> <li data-bbox="244 215 1447 353">▪ <b>Corporate Tax Guide on Taxation of Family Foundations – CTGFF1</b> – The guide provides information on the requirements to qualify as a fiscally transparent family foundation, the treatment of family foundations and their beneficiaries under UAE corporate tax law and information regarding registration, compliance, etc.</li> <li data-bbox="244 371 1447 544">▪ <b>Public Clarification on Taxation of Investors in a Real Estate Investment Trust (REIT) that is Exempt from Corporate Tax as Qualifying Investment Fund – CTP005</b> – The clarification outlines the tax treatment of investors in a qualifying REIT, the timing for investors to include this income and the compliance obligations of the REIT and the investors. The clarification provides several examples to support understanding of the tax rules.</li> <li data-bbox="244 562 1447 734">▪ <b>Public Clarification on Waiver of Administrative Penalty for Failing to Submit a Corporate Tax Registration Application within a Specified Deadline – CTP006</b> – The clarification addresses the waiver of penalties levied for late corporate tax registration where the first corporate tax return is filed within seven months of the financial year end of the company. If the penalty has been paid, it will be refunded, and where it remains unpaid, it will be waived.</li> <li data-bbox="244 752 1447 891">▪ <b>Public Clarification on Financial Statements and Related Audit Requirements for a Tax Group – CTP007</b> – The clarification specifies that aggregated financial statements for a tax group should be provided and that these should be audited. It explains how aggregated financial statements need to be prepared.</li> <li data-bbox="244 909 1447 1081">▪ <b>Public Clarification on Corporate Tax Treatment of Family Wealth Management Structures – CTP008</b> – The clarification provides guidance on the corporate tax treatment of family wealth management structures (like family foundations, holding companies, special purpose vehicles (SPVs), single family offices (SFOs) or multi family offices (MFO)) and the family members of foundations.</li> <li data-bbox="244 1099 1447 1581">▪ <b>Public Clarification on Application of the Valuation Method under the Transitional Rules as set out in the Ministerial Decision No. 120 of 2023 on Disposal of Qualifying Immovable Property by a Real Estate Developer that is a Taxable Person – CTP009</b> – The clarification sets out the application of the valuation method under the transitional rules as stated in article 2(2)(a) of Ministerial Decision No. 120 of 2023 to real estate developers that are taxable persons making off-plan sales and recognising the revenue from those sales over the period of construction, in line with IFRS 15 (or equivalent standard under IFRS for SMEs), in respect of projects under construction (and not yet completed before the start of the first tax period), in the situations specified below: <ul style="list-style-type: none"> <li data-bbox="284 1435 1447 1496">i. where land was owned before the first tax period and the construction commenced after the start of the first tax period; and</li> <li data-bbox="284 1514 1447 1574">ii. where the project is work in progress at the start of the first tax period and the construction commenced before the first tax period.</li> </ul> </li> <li data-bbox="244 1599 1447 2045">▪ <b>User manuals on various topics</b> – The FTA has issued several user manuals on important topics which help taxpayers when navigating the FTA EmaraTax portal: <ul style="list-style-type: none"> <li data-bbox="284 1682 1447 1742">i. <b>Self Registration Corporate Taxpayer</b> – The user manual helps taxpayers submit their corporate tax self registration application.</li> <li data-bbox="284 1760 1447 1821">ii. <b>Corporate Tax Payments</b> – The user manual helps taxpayers make their corporate tax payments.</li> <li data-bbox="284 1839 1447 1899">iii. <b>Corporate Tax Return</b> – The user manual helps taxpayers file their corporate tax return.</li> <li data-bbox="284 1917 1447 1977">iv. <b>Change in Corporate Tax Period</b> – The user manual helps taxpayers apply to change their corporate tax period.</li> <li data-bbox="284 1995 1447 2056">v. <b>Corporate Tax De-registration</b> – The user manual helps taxpayers submit their corporate tax de-registration application.</li> </ul> </li> </ul>

## VAT update

With respect to VAT, the UAE FTA has recently released the following amendments/updates which are given below:

Date	Tax	Type of update	Particulars of update
September 2025	VAT	Ministerial decision	Ministerial Decision No. 243 of 2025 on the Electronic Invoicing System and Ministerial Decision No. 244 of 2025 on the Implementation of the Electronic Invoicing System
April 2025	VAT	Public clarification	VATP044 – Concerned Services – Accounting for Output Tax, Issuing Tax Invoices and Input Tax Recovery
April 2025	VAT	Public clarification	VATP043 – Application of the Reverse Charge Mechanism on Precious Metals and Precious Stones between Registrants in the State for the purposes of Value Added Tax
April 2025	VAT	Public clarification	VATP032 – Gold and Diamonds – Amendment to Tax Treatment of Making Service

The updates may be summarised as follows:

- **Ministerial Decision No. 243 of 2025 on the Electronic Invoicing System and Ministerial Decision No. 244 of 2025 on the Implementation of the Electronic Invoicing System**

Both ministerial decisions outline implementation timelines and provide a blueprint to smoothly implement e-invoicing in the UAE. They also indicate that any person carrying on business should assess readiness, prepare to appoint an accredited service provider (ASP) and implement the system according to the phased implementation deadlines.

The critical aspects of the e-invoicing system for anyone conducting business in the UAE are summarised below.

### 1. Phased implementation of e-invoicing

#### a) Pilot phase (effective date: 1 July 2026)

- Requirement – Pilot programme with a select group of taxpayers
- Deadline to appoint ASP – Not provided, but will be required to appoint ASP before pilot implementation.

#### b) Voluntary implementation (effective date: 1 July 2026)

- Requirement – Any person opting to implement voluntarily
- Deadline to appoint ASP – Not provided, but will be required to appoint ASP before voluntary implementation.

#### c) Mandatory implementation

Phase	Requirement	Deadline to appoint ASP	Effective date
<b>Phase 1</b>	Person with revenue* equal to or above AED 50 million	31 July 2026	1 January 2027
<b>Phase 2</b>	Person with revenue* below AED 50 million	31 March 2027	1 July 2027
<b>Phase 3</b>	Government entity (as defined)	31 March 2027	1 October 2027

\* In the table above, 'revenue' denotes the gross income earned by a person during the most recent accounting period, based on the financial statements prepared in accordance with applicable legislation in the UAE or, if such financial statements are not available, based on other documentation acceptable to the FTA.

### 2. Transactions subject to the e-invoicing rules

- Business-to-business (B2B) transactions
- Business-to-government (B2G) transactions.

### 3. Exclusions from e-invoicing system

- **Government entities** – Any business transactions conducted by government entities (as defined) in a sovereign capacity and which are not in competition with the private sector.
- **International transportation of passengers**
  - International passenger transportation services provided by an airline (defined) via an aircraft (defined), where an electronic ticket (defined) is issued to passengers.
- **Airline services** – Any services provided directly to passengers by an airline that are ancillary to the services mentioned above, where an electronic miscellaneous document (defined) is issued for such services.
- **International transportation of goods**
  - International transportation services in respect of goods provided by an airline, where an airway bill (defined) is issued for such services, are eligible for a temporary exclusion for a period of 24 months from the date on which the electronic invoicing system becomes effective.
- **Financial services** – Financial services that are exempt from VAT or subject to VAT at the zero rate, in accordance with article 42 of the VAT Executive Regulation.

**Note:** Business-to-consumer (B2C) transactions are not subject to the electronic invoicing system and any person (defined) engaged exclusively in such transactions is not subject to the electronic invoicing system. This exclusion applies until such time as determined by a decision issued by the minister.

The list of exclusions and inclusions for the e-invoicing system may be extended as determined by the MoF. Similarly, additional information on excluded businesses may be further extended and clarified by the MoF.

### 4. Exchange and reporting obligations

An issuer must issue and transmit an electronic credit note to the recipient where:

- a business transaction is cancelled;
- the agreed consideration for the business transaction is reduced for any reason;
- the consideration for the business transaction is returned in full or in part; or
- an administrative or numerical error occurs in relation to the business transaction.

Other reporting obligations include:

- The recipient must process electronic invoices and electronic credit notes through the electronic invoicing system.
- Where the issuer is a registrant, the issuer must issue and transmit the electronic invoice and the electronic credit note to the recipient within the timeline prescribed by the VAT Law (i.e. within 14 days of the date of supply as per UAE VAT Law).
- Where the issuer is not registered for UAE VAT, the electronic invoice or electronic credit note must be issued and transmitted by the issuer through the electronic invoicing system within 14 days of the date of the business transaction.
- Where an agent acts on behalf of a principal, the agent may issue and transmit the electronic invoice or electronic credit note through the electronic invoicing system on behalf of the principal.
- The recipient may issue an electronic invoice or an electronic credit note on behalf of the issuer in respect of a supply of goods or services provided both the recipient and issuer are registrants, in accordance with the conditions prescribed in the VAT Executive Regulation or as otherwise determined by the minister.
- **VATP044 – Concerned Services – Accounting for Output Tax, Issuing Tax Invoices and Input Tax Recovery**

The FTA, through public clarification VATP040 issued in April 2025, mandated the requirement of self-invoicing for transactions subject to the reverse charge mechanism. Following this, in May 2025, the FTA released a detailed public clarification specifically addressing the import of concerned services outlining the accounting for output VAT, issuing tax invoices and input VAT recovery. Key aspects are highlighted below.

### 1. Relief from self-invoicing obligation for import of concerned services

Given the FTA's power under article 59(7) (b) of the VAT Executive Regulation to waive the requirement for issuance of a tax invoice coupled with the administrative burden of issuing tax invoices to itself for concerned services, the FTA acknowledges that the recipient is not required to issue a self-invoice, provided the recipient obtains and retains the invoice issued by the overseas supplier, which clearly specifies the details and consideration paid for the concerned services.

### 2. Exceptional cases: Substitute documentation for supplier invoices

In exceptional circumstances where the supplier has not issued a tax invoice, a document or a combination of documents that include at least the following particulars are deemed acceptable as the supplier's invoice:

- the name and address of the supplier of the concerned service, e.g. a foreign entity supplying the service from outside the UAE;
- the name and address of the recipient;
- the date the document was issued;
- the date the service ended;
- description of the service supplied; and
- consideration for the supply, including the relevant currency and, where applicable, the payment terms.

### 3. Documentation requirement for input VAT recovery in such cases

The recipient is eligible to recover input VAT even if it does not issue a self-invoice, provided that it retains the invoice issued by the overseas supplier, or a combination of documents (as mentioned above) collectively considered to be such an invoice.

#### ▪ VATP043 – Application of the Reverse Charge Mechanism on Precious Metals and Precious Stones between Registrants in the State for the purposes of Value Added Tax

- **Expansion of the scope of the domestic reverse charge mechanism on precious metals and stones:** The scope of the domestic reverse charge mechanism (RCM) has been expanded beyond gold and diamonds to include additional precious metals (silver, palladium, platinum), stones (e.g. pearls, rubies, sapphires, emeralds) and jewellery primarily made thereof.
- **Conditions for domestic RCM:** The RCM applies only if all the following conditions are met:
  - The recipient is VAT-registered in the UAE.
  - The recipient intends to resell the goods or use them in manufacturing taxable precious goods.
  - A written declaration must be provided by the recipient before the date of supply, confirming:
    - i. the intention to resell or use the goods for production; and
    - ii. that the recipient is registered for UAE VAT.
  - Prior to the date of supply, the declaration from the recipient must be received and kept. It should be verified that the recipient is registered for VAT (e.g. via the tax registration number (TRN) verification tool on the FTA's website) and evidence from the verification tool should be retained.

In cases where the recipient fails to submit the required documents, the domestic RCM will not apply and the supplier will be required to impose VAT. Further, the recipient will not be eligible to recover input VAT on the supply even if a tax invoice was received from the supplier.

— **Cases where the domestic reverse charge is not applicable:** The domestic RCM does not apply in the following cases:

- The items do not meet the definition of 'goods' under article 1 of Cabinet Decision No. 127 of 2024.
- The recipient is not VAT-registered in the UAE.
- The required declaration is not provided by the recipient.
- The supply is a zero-rated export (direct or indirect).
- Where the supply of the precious goods is out of scope, e.g. where ownership of the precious goods supplied for resell transfers to the buyer inside a designated zone.
- The supply of precious goods before 15 February 2025 (except for the supply of gold and diamonds covered under Cabinet Decision No. 25 of 2018).

The new RCM rules for precious goods do not have retrospective application. Therefore, the supply of precious goods prior to 15 February 2025 (excluding gold and diamonds) do not qualify for domestic reverse charge and fall under standard VAT rules.

▪ **VATP032 – Gold and Diamonds – Amendment to Tax Treatment of Making Service**

Any supplier charging a single price for precious goods and making services should check if it qualifies as a single composite supply or multiple supplies.

— **Single composite supply:** If the supplier charges a single price for precious goods and making services, the supply would be regarded as a single composite supply if all the conditions are met:

- The supply consists of a principal component (precious goods) and ancillary/incidental elements, e.g. making service.
- The price for the precious goods and the related services are not charged separately.
- The precious goods and the related services are supplied by the same supplier.

If all the above conditions are met, the RCM would be applicable on precious goods including the making charge.

— **Multiple supplies:** If the supplier charges separate prices for the precious goods and for the making services, the supplier is regarded as making multiple supplies. In such a case, only the VAT related to the precious goods may be accounted for under the RCM. For making services, the supplier is required to account for VAT.

## PKF Comment

The MoF has released important decisions with respect to UAE e-invoicing outlining the phased implementation, covered transactions, exclusions and reporting obligations. Further, the FTA clarified documentation requirements on transactions for the import of services, the application of the RCM on precious metals and stones and the amended tax treatment of making service.

These updates reflect the FTA's commitment to fostering transparency and ensuring compliance within the tax ecosystem. Businesses are encouraged to review their VAT return processes to align with these updates.

For further information or advice concerning taxes in the UAE, please contact Mr. Shailesh Kumar at [skumar@pkfuae.com](mailto:skumar@pkfuae.com) or call +971 4 388 8900.

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# United Kingdom

## HMRC updates VAT recovery rules for pension fund investment costs

On 18 June 2025, HMRC published Revenue and Customs Brief 4 (2025), announcing a significant policy change regarding the VAT recovery of costs incurred in relation to pension fund investment activity. This update simplifies the VAT treatment for employers and pension trustees and marks a departure from the previous dual-use approach.

### Background

Historically, HMRC's policy distinguished between VAT incurred on pension administration (recoverable by the employer) and VAT on investment management services (generally not recoverable). Following the 2013 CJEU decision in *Fiscale Eenheid PPG Holdings BV cs te Hoogezand (C-26/12)*, HMRC allowed employers to recover VAT on investment costs, but only where they could demonstrate that they had contracted for and paid for the services.

To facilitate VAT recovery, employers often relied on arrangements such as:

- VAT grouping with pension trustees; or
- trustees supplying administration services to the employer.

However, these arrangements introduced complexity, particularly where investment costs were deemed to have dual use – benefiting both the employer and the pension trustees – requiring apportionment of input tax.

### New policy

HMRC has now removed the requirement to apportion VAT on investment costs between employers and trustees. The key changes are:

- **Investment costs will no longer be treated as having dual use.**

All VAT incurred on investment management services will be regarded as input tax of the employer, provided the usual VAT recovery rules are met.

- **Trustees supplying pension fund management services to the employer** and charging for them may also recover VAT on their own costs, provided they are VAT-registered and the costs are used to make taxable supplies.

This change is intended to simplify compliance and reduce administrative burdens for both employers and trustees.



### PKF Comment

This policy shift is a welcome simplification for employers operating occupational pension schemes. By removing the dual-use concept, HMRC has clarified the VAT recovery position and reduced the need for complex structuring or apportionment methodologies.

However, employers should still ensure:

- contracts for investment services are clearly in the employer's name;
- VAT invoices are addressed to the employer; and
- input tax recovery is supported by evidence that the costs relate to the employer's taxable business activities.

Trustees who charge the employer for pension management services should also review their VAT registration status and ensure they meet the conditions for input tax recovery.

For further information or advice in relation to this, or with respect to UK indirect taxes, please contact Gavin West at [gavin.west@pkfsmithcooper.com](mailto:gavin.west@pkfsmithcooper.com) or call +44 (0)1332 332021.

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