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Introduction  
Your speakers



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# International tax update



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## International tax update

Setting the scene



### One Big Beautiful Bill Act / s899

- Earlier versions proposed retaliatory taxes on persons from countries with “unfair foreign taxes” on US companies
- E.g. DSTs, UTPR
- NZ investors, groups, shareholders and businesses could have potentially faced a material increase in US taxes
- Ultimately removed due to agreement with G7 that US companies would not be subject to UTPR



### Digital Services Taxes

- Way to reallocate taxing rights in the absence of Pillar 1 agreement
- Pressure on countries to drop given likely US response – a number have (e.g. NZ, Canada, India, EU)
- Some potentially going-ahead with or keeping (e.g. Brazil)



### Tariffs

- US imposing tariffs on goods imported from most countries
- Rates have been changing – now more settled?
- Some countries negotiating trade deals to get reduced rates
- NZ – 15%



### UN Framework Convention on International Tax Cooperation

- “Aim of developing a framework convention that leads to fully inclusive and more effective international tax cooperation”
- Taxation of cross-border services
- Alternative to Pillar 1?
- US withdrawal

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International tax update

Key themes



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US tariffs and retaliatory measures

The US may be emboldened by recent successes

	US frustration	US threat	Results
EU	USD 236bn trade deficit	30% tariff on European exports into the US	<ul style="list-style-type: none"><li>15% tariff on European exports into the US</li><li>Europe to spend USD 600bn on US weaponry and USD 750bn on energy products on top of existing expenditures.</li></ul>
Japan	USD 70bn trade deficit	25% tariff on Japanese exports into the US	<ul style="list-style-type: none"><li>15% tariff on Japanese exports into the US</li><li>Japan to invest USD 550bn into US manufacturing industry</li></ul>
Indonesia	USD 18bn trade deficit	32% tariff on Indonesian exports into the US	<ul style="list-style-type: none"><li>19% tariff on Indonesian exports into the US</li><li>No tariffs on US exports to Indonesia</li><li>Indonesia agree to buy 50 Boeing aircraft and import USD 15bn of US energy commodities and USD 4.5bn of US agricultural products</li></ul>
Philippines	USD 5bn trade deficit	17% then 20% tariff on Filipino exports into the US	<ul style="list-style-type: none"><li>19% tariff on Filipino exports into the US</li><li>No tariffs on American exports to the Philippines</li></ul>
Vietnam	USD 12bn trade deficit	46% tariff on Vietnamese exports into the US	<ul style="list-style-type: none"><li>20% tariff on Vietnamese goods into the US</li><li>No tariffs on American exports to Vietnam</li></ul>
Pillar Two	US HQ companies subject to Pillar Two Global Minimum Tax (15%)	Section 899	<ul style="list-style-type: none"><li>US HQ companies no longer subject to Pillar Two,</li><li>OECD system to operate 'side-by-side' with US system</li></ul>

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Expect continued uncertainty and further changes in the international tax environment, with the continuous need to evaluate structures, value chains and the tax settings of countries you operate in.

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Pillar Two

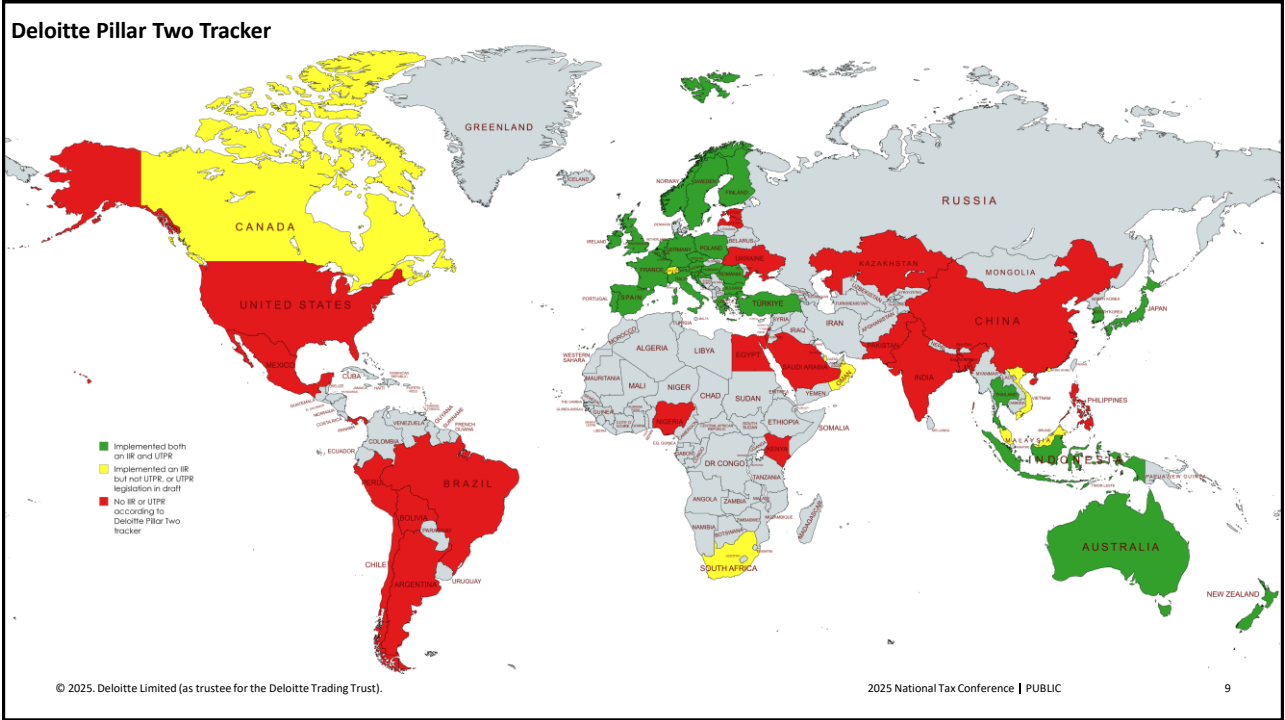
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Productivity and Tax Reform  
New Zealand and Australian approaches

- New Zealand

Investment Boost

Consultation on thin capitalisation and infrastructure

New FIF method for migrants: revenue account method

DTA negotiations
  - New DTAs agreed with Slovak Republic and Slovenia
  - Negotiations with:
    - Replacements – Australia, UK
    - Protocols – Germany, South Korea
    - New – Croatia, Hungary, Portugal, Iceland

Tax Authority Activity
  - IR – BEPS disclosure
  - Updated guidance on cross-border software transactions
- Australia

Announced but unenacted measures

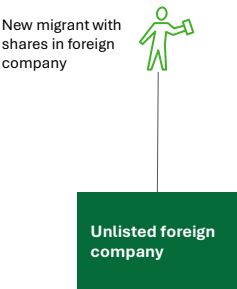
Economic Reform / Productivity roundtable
  - Company tax rate change?
  - Accelerated deductions?
  - Encouraging domestic R&D?
  - GST reform: wider base and higher rate in exchange for lower income tax rates?

New law / public CbC reporting

Tax authority activity – AU SF local file and reportable tax position changes

Australia is part way through a DTA expansion programme involving almost 20 countries
  - India, Iceland, Greece, Slovenia, Bulgaria, Colombia, Croatia, Cyprus, Estonia, Latvia, Lithuania, Ukraine, Brazil, NZ, South Korea, Sweden, Luxembourg

Proposed FIF changes  
Do these go far enough to attract FDI?



- FIF rules: Deemed taxable income based on 5% of cost / MV
- Issues:
- Deemed taxable income / tax liability regardless of whether income is received. Esp. for illiquid shares.
  - Valuation required on entry to FIF rules.
  - Issues with claiming FTCs if subject to tax in 'home' country (e.g. US).

- Proposals

Who / what

Issues with proposals?

Other barriers?
- Option to apply revenue account method (RAM)
  - Dividends received taxed
  - Realised capital gains taxed at 70%
  - Exit tax

- Person who become full NZ resident on or after 1 April 2024 – covid influx / some returning expats
  - Applies to unlisted, pre-migration shares only
  - Unless still subject to tax on citizenship basis (e.g. US)

- RAM option is positive, but...
  - Narrow application (who / what)
  - 70% inclusion – higher effective tax rate than other countries

- Financial arrangement rules
  - CFC rules
  - Mismatches in treatment (e.g. US LLCs)
  - Other aspects of FIF rules
  - Phase 2?



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### Funding

New Zealand and Australian approaches

- **New Zealand**
  - Thin capitalisation and infrastructure changes
  - Thin capitalisation changes on the fringes

- **Australia**
  - Australian thin capitalisation rules
  - Debt deduction creation rules

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