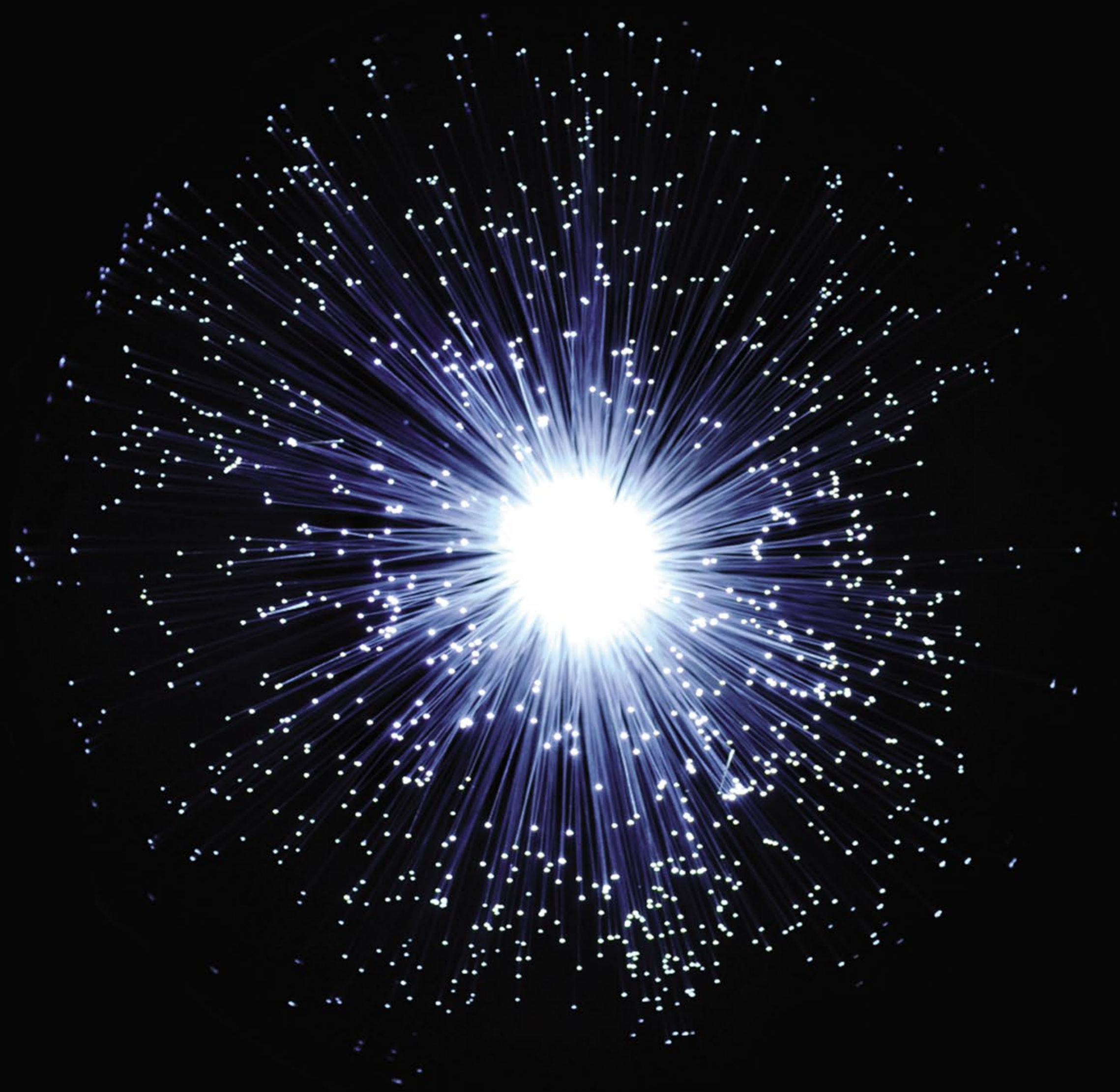

Global Tax Developments Quarterly

Accounting for Income Taxes

Summary of recent international tax developments that may have implications on accounting for income taxes under US GAAP

January 1, 2021 – March 31, 2021
April 8, 2021
Issue 2021-1

Contents

Introduction

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Unless otherwise indicated, the content in this document is based on information available as of March 31, 2021. Accordingly, certain aspects of this document may be updated as new information becomes available. Financial statement preparers and other users of this document should take actions to remain abreast of and carefully evaluate additional events that may be relevant to accounting for income taxes matters.

Applicable US GAAP guidance

Under US GAAP, the effects of new legislation are recognized upon enactment. More specifically, the effect of a change in tax laws or rates on a deferred tax liability or asset is recognized as a discrete item in the interim period that includes the enactment date. The tax effects of a change in tax laws or rates on taxes currently payable or refundable for the current year are reflected in the computation of the annual effective tax rate after the effective dates prescribed in the statutes, beginning no earlier than the first interim period that includes the enactment date of the new legislation. However, any effect of tax law or rate changes on taxes payable or refundable for a prior year, such as when the change has retroactive effects, is recognized upon enactment as a discrete item of tax expense or benefit for the current year. While there is no specific guidance as to what constitutes "enactment" under US GAAP, it is commonly accepted that enactment takes place on the date the last step in the legislative process required to promulgate the law is complete (e.g. a law is published in an official gazette, signed by a president, or receives Royal Assent).

Enacted Tax Law Changes: January 1, 2021 to March 31, 2021

The following section includes a summary of major international income tax law changes enacted during the period January 1, 2021 to March 31, 2021.

Hong Kong

Legislation published on tax concession regime for insurance-related businesses

Date of Enactment: January 15, 2021
Effective Date: March 19, 2021

The Hong Kong government published two pieces of subsidiary legislation on January 15, 2021, relating to the tax concession regime for insurance-related businesses, which became effective as from March 19, 2021. The tax concession regime reduces the profits tax rate by half (i.e., 8.25%) for all general reinsurance business of direct insurers, selected general insurance business of direct insurers, and selected insurance brokerage business. The subsidiary legislation prescribes threshold requirements for determining whether the relevant activities of the specified insurance-related business are, or are arranged to be, conducted in Hong Kong, which is one of the conditions for qualifying for the tax concession.

See also tax@hand - January 26, 2021

Indonesia

Tax incentives granted in response to COVID-19 pandemic reintroduced

Date of Enactment: February 1, 2021
Effective Date: February 2, 2021

Indonesia's Ministry of Finance (MoF) on February 1, 2021 issued Regulation Number 9/PMK.03/2021 (PMK-9), reintroducing various tax incentives in response to the COVID-19 pandemic. PMK-9 came into effect as from February 2, 2021 and generally provides for the reliefs to apply as from fiscal period January 2021 through June 2021.

See also tax@hand - February 26, 2021

Japan

2021 tax reform enacted

Date of Enactment: March 26, 2021
Effective Date: Various Dates

On March 26, 2021, Japan's National Diet enacted the 2021 tax reform proposals. Among other changes, the tax reform includes the establishment of tax incentives for investments in digital and green technologies, temporary removal of limitations on NOL utilization, revision of R&D tax credits, earnings stripping rules, and tax administrative procedures, and the relaxation of requirements on deductibility of certain profit-linked director compensation to promote Japan as a financial hub.

See also tax@hand - January 5, 2021

Luxembourg

Deduction will be denied for certain related entity payments as from 1 March 2021

Date of Enactment: January 28, 2021
Effective Date: March 1, 2021

On January 28, 2021, the Luxembourg legislature adopted rules disallowing tax deductions for interest and royalties due to related entities established in a country or territory included in the EU list of non-cooperative jurisdictions for tax purposes (EU list). These rules are effective as from March 1, 2021.

See also tax@hand - January 29, 2021

Mexico

Clarification needed on deductibility of expenses relating to telework

Date of Enactment: January 11, 2021
Effective Date: January 12, 2021

On January 11, 2021, Mexico's executive branch published a new law on telework in the official gazette that is effective as of January 12, 2021 and that establishes the rights and obligations of employers and employees that choose to participate in this type of labor scheme, which is available as long as more than 40% of the employee's work is carried out in a different location from the employer's premises. The obligations for employers include a requirement to bear certain costs arising from an employee's telework; however, the tax authorities (SAT) have not yet issued general rules relating to the deductibility of such expenses for corporate income tax purposes, and certain clarifications are needed. In particular, clarifications related to the deductibility of costs associated with the investment in the equipment necessary for teleworking, as well as the maintenance expenses for the equipment and the costs arising from work under the telework scheme, including, where appropriate, the payment for telecommunication services and a portion of the employee's electricity.

See also tax@hand - February 19, 2021

United States

Biden signs American Rescue Plan into law

Date of Enactment: March 11, 2021
Effective Date: March 11, 2021

On March 11, 2021, US President Biden signed the American Rescue Plan into law, capping an eight-week sprint by congressional Democrats and the White House to enact the sweeping USD 1.9 trillion tax-and-spending package aimed at addressing the continuing economic and health impacts of the coronavirus pandemic. The new law, among other things, extends and enhances a number of current-law tax incentives for businesses, provides another round of direct economic impact payments for certain individuals, temporarily enhances several tax credits aimed at low- and middle-income workers and families, and provides funding relief for cash-strapped multiemployer and single-employer pension plans. It also includes a handful of revenue offsets that were added in large part to ensure the broader measure complied with budget reconciliation rules under which the bill was passed.

See also tax@hand - March 12, 2021

Enacted Tax Law Changes That Are Now Effective: January 1, 2021 to March 31, 2021

The following section includes a brief summary of major international income tax law changes enacted before January 1, 2021 but are first effective in the period January 1, 2021 to March 31, 2021.

Albania

Overview of key tax changes as from 1 January 2021

Date of Enactment: Multiple Dates
Effective Date: January 1, 2021

On November and December 2020, legislation was published in Albania's official gazette that implements amendments to the simplified corporate income tax regime for small businesses, the national minimum monthly wage, and the application of the simplified fiscalization procedure effective as of January 1, 2021.

See also tax@hand – January 14, 2021

Italy

2021 budget law enacted, including tax incentives to encourage investment

Date of Enactment: December 20, 2020
Effective Date: January 1, 2021

Italy's 2021 budget law, published in the official gazette on December 30, 2020, includes a number of tax provisions that will affect both individuals and companies and that generally apply as from 1 January 2021, including measures to encourage investment in the country and stimulate the economy. Changes have been made to tax incentives, step-up regimes, and the taxation of distributions received and capital gains derived by EU/European Economic Area (EEA) collective investment funds (CIVs) from Italian investments, among other things.

See also tax@hand - January 5, 2021

Malaysia

Highlights of corporate tax measures in enacted Finance Act 2020

Date of Enactment: December 31, 2020
Effective Date: January 1, 2021

Malaysia's Finance Bill 2020 includes some tax measures from the 2021 budget and numerous additional measures and was gazetted on December 31, 2020 as the Finance Act 2020, which came into operation on January 1, 2021. There were no material changes between the version of the bill that was passed in the House of Representatives on November 16, 2020 and the enacted version of the corresponding act.

See also tax@hand - February 2, 2021

Mexico

Tax incentives granted in northern and southern border regions

Date of Enactment: December 30, 2020
Effective Date: January 1, 2021

On December 30, 2020, a presidential decree published in Mexico's government gazette that extended the validity of the income tax credit initially granted in 2019 for two years to certain taxpayers located in 43 municipalities in the northern border region. On the same date, another presidential decree was published granting a temporary income tax credit to certain taxpayers located in 23 municipalities in the southern border region. The first decree extended the incentives period by four years, i.e., from January 1, 2021 through December 31, 2024, and the second will apply from January 1, 2021 through December 31, 2024. The decrees allow certain taxpayers that derive income "exclusively" in the northern and southern border regions to claim a tax credit of up to one-third of their income tax liability against the tax reported in the annual tax return or in the estimated tax returns.

See also tax@hand - January 27, 2021

Netherlands

Conditional withholding tax on interest and royalties

Date of Enactment: December 18, 2019
Effective Date: January 1, 2021

As previously announced in this Global Tax Developments Quarterly summary, per January 1, 2021 the conditional withholding tax on interest and royalties under certain circumstances will come into effect.

See also tax@hand – September 18, 2019

Peru

New law introduces modified tax incentives for agricultural sector

Date of Enactment: December 31, 2020
Effective Date: January 1, 2021

On December 31, 2020, Law No. 31110 ("New Agricultural Law") was issued, establishing a new agricultural regime and incentives (including tax incentives) in Peru for the agricultural and irrigation, agro-export, and agro-industrial sectors. The New Agricultural Law, which is effective as of January 1, 2021, aims to promote and strengthen the development of the agricultural sector, as well as to guarantee employees' labor rights. The changes include a gradual increase in the corporate income tax rate for the sector to the rate that applies under the general corporate income tax regime.

See also tax@hand - January 11, 2021

On the Horizon

The following developments had not yet been enacted as of March 31, 2021, but may, in certain cases, be enacted and become effective in the near future. Please follow up with your U.S. or local country tax advisor for more information.

Brazil

On March 1, 2021, the Brazilian Government published rules (Provisional Measure (PM) 1,034) that increase the rates of the social contribution on net profits (CSLL) for financial institutions. The CSLL is levied on entities subject to the corporate income tax in Brazil to finance the federal social security system and is calculated on the pretax profits of legal entities. The rate for banks in general increases from 15% to 25% until December 31, 2021 and then decreases to 20% as of January 1, 2022. The rate for other financial institutions (broker dealers, insurance companies, etc.) increases from 15% to 20% until December 31, 2021, and then decreases to 15% rate as of January 1, 2022. The rate for credit cooperatives increases from 17% to 20% rate until December 31, 2021, and then decreases to 15% as of January 1, 2022.

The corporate income tax in Brazil is composed by two taxes, the social contribution on net profits (CSLL) and the corporate income tax (IRPJ). The proposed increase of the CSLL as mentioned above should then increase the statutory overall corporate income tax rate to financial institutions.

Although the Provisional Measure is effective as from July 1, 2021, the House of Representatives and Senate still must vote on the PM, and this must take place within four months from the date the PM was published. The PM will expire automatically if the House and Senate do not vote on the PM within the four-month period. The Brazilian Congress may approve, amend or reject the terms of PM 1,034/2021.

Official publication of the measure by the government (in Portuguese), can be read here

Yet to be published in tax@hand, but please check again later for updates

Costa Rica

Executive branch files bill with Congress to introduce taxation of global income

On January 22, 2021, the Costa Rican executive branch announced a technical agreement with the International Monetary Fund to obtain financing of USD 1.75 billion to help the country respond to the economic impact of the coronavirus (COVID-19). To comply with the conditions of the agreement, on February 12, 2021, the government filed a bill that would migrate the current territorial tax system to a dual income tax system, which has characteristics shared between a schedular system and a global one, in which the income of the natural person with lucrative activity is integrated with the income of the natural person under an employment contract, granting them the same global treatment, adding the income, applying the deductions and arriving at a taxable base to which the progressive rates apply; while capital income is generally taxed at source, with a single rate. This bill is in the Legislative Assembly to be voted on soon.

See also tax@hand - January 29, 2021

Germany

Draft law approved by government would not mitigate extraterritorial taxation issues

The German Ministry of Finance (MOF) published a decree on February 11, 2021 regarding the tax compliance obligations of nonresident taxpayers that are subject to German extraterritorial taxation on royalties and/or transfers of certain intellectual property (IP). The decree provides some procedural relief relating to royalty withholding tax (WHT) filings and payments in relation to certain nonresidents that qualify for benefits under an applicable tax treaty with Germany; the relief is available for 2013 and subsequent years. However, the decree also provides that where there is a transfer of German-registered IP, a nonresident is required to file a German tax return even in a case where the transfer is not taxable in Germany based on the provisions of an applicable tax treaty (which would be a “nil return” in this case).

See also tax@hand - January 20, 2021 and tax@hand - February 12, 2021

MOF publishes draft law proposing to modernize corporate income tax rules

On March 19, 2021, the German Ministry of Finance (MOF) published the draft version of an “Act to modernize the corporate income tax law”. The draft law proposal, which has not yet been approved by the government, contains some measures that would provide additional flexibility to taxpayers, including an option for partnerships to be taxed as corporate entities. On March 24, 2021, the German government approved the proposal and introduced the draft law into the formal legislative process.

See also tax@hand - March 23, 2021

MOF publishes updated draft law to implement EU anti-tax avoidance directive

On 24 March 2021, the German government published an updated version of the draft “ATAD implementation law” regarding the implementation of the EU anti-tax avoidance directive (including provisions of ATAD I and ATAD II) into domestic German tax law. Based on the updated draft law proposal, which reflects only minor changes from the previous version of the draft law, the German anti-hybrid rules would be implemented with retroactive effect for expenses incurred on or after January 1, 2020. The updated proposal also includes provisions relating to the exit tax rules for individuals, the definition of a related person, and the controlled foreign company (CFC) rules (which do not include a reduction of the low-taxation threshold for purposes of the CFC rules).

See also tax@hand - March 24, 2021

Hong Kong

Proposed tax measures published following 2021-22 budget speech

Pursuant to the 2021-22 budget speech delivered by the Financial Secretary of the Hong Kong Special Administrative Region, on March 5, 2021, a bill that proposes a 100% profits tax reduction, subject to a cap of HKD 10,000, was gazetted on March 17, 2021.

See also tax@hand - March 10, 2021

Government publishes bill amending Inland Revenue Ordinance

On March 19, 2021, Hong Kong’s Inland Revenue (Amendment) (Miscellaneous Provisions) Bill 2021 that seeks to implement various amendments to the Inland Revenue Ordinance (IRO) was gazetted .The bill proposes changes to the foreign tax deduction rules, legislation for the tax treatment of court-free amalgamations, and a statutory framework for the filing of tax returns electronically.

See also tax@hand - March 23, 2021

Korea

Pre-announced tax law amendments include important corporate income tax changes

Several tax reform proposals will be effective in Korea as from mid-March 2021 following a pre-announcement of the new legislation, an interdepartmental consultation, and an evaluation by the Ministry of Government Legislation. Some of the major regulatory changes affecting corporations relate to R&D expenses related to foreign-source income included in calculation of foreign tax credit limitation, foreign bad debts deductible under certain conditions, and possible taxable income exemption from adjustments when service transactions occur among entities in a consolidated group. Certain changes may apply starting on or after January 1, 2021.

See also tax@hand - March 9, 2021

Netherlands

Consultations launched on reverse hybrid entities and transfer pricing mismatches

On March 4, 2021, the Dutch State Secretary of Finance published two consultation documents with law proposals to regulate reverse hybrid entities for Dutch tax purposes and to combat transfer pricing mismatches. It is intended that the proposals will enter into effect for financial years starting as of January 1, 2022. Please note that these proposals are still under consultation, and thus do not entail a formal legislative proposal. That said, it seems likely that this consultation draft will form the basis for a formal legislative proposal later this year.

See also tax@hand - March 5, 2021

Consultation on changes to the entity qualification rules for Dutch tax purposes

On March 29, 2021, the Dutch government published an internet consultation on the Dutch tax qualification rules relevant for certain (Dutch and foreign) incorporated entities. Stakeholders are invited to submit their comments to the consultation on the draft proposal ultimately by April 26, 2021. The proposal is expected to be published on Budget Day, in September of this year. The proposal is aimed to enter into force on January 1, 2022.

See also Netherlands Tax Alert - March 30, 2021

Proposed withholding tax on dividends paid to related low taxed entities

On March 25, 2021, the Netherlands Ministry of Finance published a legislative proposal that details proposed changes to the Dutch Conditional Interest and Royalty Withholding Tax Act 2021 (DCWHTA), following a public consultation launched in September 2020. In line with earlier announcements, the bill proposes a new withholding tax, at a rate of 25% (equal to the headline corporate income tax rate), on dividend payments to related entities in specified low tax jurisdictions, applicable as from January 1, 2024. The new withholding tax would be levied alongside the standard 15% dividend withholding tax, with an anti-cumulation provision in place to limit the total withholding taxes on such dividends to 25%. By issuing this new proposal, the government aims to improve the existing measures against tax avoidance.

See also tax@hand - March 31, 2021

Singapore

Tax highlights of Budget 2021 for companies

Budget 2021 puts greater focus on Singapore's longer-term priorities, as evidenced by a range of initiatives designed to promote innovation, global partnerships, and digital transformation among businesses, and to reinforce Singapore's role as a global Asia node. One of the key tax highlights of the budget for companies is that the corporate income tax rate remains at 17% with a partial tax exemption on the first SGD 200,000 of a company's normal chargeable income. The 2021 budget also includes extension of various COVID-19 support measures announced in the 2020 budgets.

See also tax@hand - March 8, 2021

United Kingdom

Key measures from Spring Budget 2021 for non-UK owned groups

The UK Chancellor of the Exchequer, Rishi Sunak, delivered the first budget since Britain's exit from the EU on March 3, 2021, amid the challenging global economic landscape caused by the COVID-19 pandemic. The headline measure is that the UK corporation tax rate will increase to 25% for companies with profits over GBP 250,000 from April 1, 2023. The chancellor noted that even with this increase, the UK will still have the lowest corporation tax rate in the G7 according to the OECD (once state taxes have been taken into account in the US). Meanwhile, companies with profits of GBP 50,000 or less will be eligible for a new small profits rate and will continue to pay corporation tax at 19%. For companies with profits between GBP 50,000 and GBP 250,000, corporation tax rates will be tapered until they reach the main rate of 25%.

For accounting periods ending between April 1, 2020 and March 31, 2022, the period for which trading losses can be carried back has been extended from one to three years. The rules introduce a cap of £2m for the maximum loss that can be carried back from each of the two years.

On March 3, 2021, the UK Government announced increased tax relief on investment in new plant and machinery. This included a new super-deduction of 130% in the year of acquisition, for the cost of most new plant and machinery investments that would previously have only qualified for an 18% allowance per annum on a reducing balance basis. This rule applies to qualifying expenditure incurred between April 1, 2021 and March 31, 2023.

Neither substantive enactment nor enactment has yet taken place in respect of the above tax rate changes.

See also tax@hand - March 3, 2021

Further tax policy announcements made and new consultations issued on "Tax Day"

On March ,23 2021 ("Tax Day"), the UK Treasury and HM Revenue & Customs (HMRC) published Tax policies and consultations Spring 2021, providing a useful roadmap of future UK tax changes that may be expected. Although mainly a "spring clean" exercise to conclude or continue existing consultations, there were a number of new proposals as well as announcements of further consultations on tackling tax avoidance.

The government's command paper summarizing the announcements, can be read here.

See also tax@hand - March 25, 2021

Did you know

The following section contains information that may be relevant at the date of publication.

Australia

Cambodia

Costa Rica

Czech Republic

France

India

New Zealand

Sweden

Thailand

United States

Australia

ATO clarifies tax treatment of JobKeeper voluntary repayments

On February 15, 2021, the Australian Taxation Office (ATO) published updated guidance about the income tax and goods and services tax (GST) implications of a wide range of COVID-19 financial support measures provided by the commonwealth, state/territory, and local governments during the pandemic.

See also tax@hand - February 18, 2021 and tax@hand - March 11, 2021

Cambodia

Additional tax relief granted to businesses affected by COVID-19

On March 25, 2021, the Royal Government of Cambodia issued an instruction on additional measures to continue supporting businesses affected by COVID-19. For instance, exemption of all monthly taxes from April 2021 to June 2021 is granted to hotels, guest houses, restaurants, and tour agent companies that are registered with the General Department of Taxation (GDT) and operate business activities in Phnom Penh, Siem Reap, Sihanoukville, Kep, Kompot, Bavet, and Poi Pet. Minimum Tax (MT) exemption from April 2021 to June 2021 only applies to airlines registered in Cambodia. But these taxpayers are still required to file their monthly and annual tax returns and pay relevant taxes (if any) to the (GDT) by the deadlines.

See also tax@hand - January 5,2021

Costa Rica

Tax treatment clarified for gains and losses relating to exchange rate differences

Costa Rica's Finance Ministry issued a resolution (No. DGT-CI-04-2020) that is effective as from January 7, 2021 and that updates the tax treatment of gains and losses derived from exchange rate differences, which may be subject to capital gains tax or income tax, depending on the circumstances. In summary, the resolution: (1) Confirms the realization requirement for exchange rate differences for purposes of determining the income subject to the capital gains tax, which reiterates regulatory treatment that already was clear; (2) Provides that the realization requirement must apply for purposes of determining the taxable income for taxpayers that are required to treat income that otherwise would be subject to the capital gains tax as subject to the income tax (profit tax), as is the case for entities from the regulated financial sector; and (3) Provides that only exchange rate differences that are effectively realized will be taxable or deductible from gross income for income tax purposes, thus excluding exchange rate differences resulting from the valuation of assets or liabilities from taxable income.

See also tax@hand - January 7, 2021

Czech Republic

Overview of corporate income tax changes after Brexit

The EU and the UK agreed on the terms of a trade agreement in late December 2020 and succeeded in arranging rules for mutual relations in various areas. However, when it comes to corporate income tax, it is necessary to bear in mind that the UK is no longer considered a member state of the EU or the European Economic Area (EEA) after the 31 December 2020 end of the transition period following the UK's departure from the EU. Various transactions (mergers, spin-offs, investments) may be limited; more precisely, the ability to transfer tax losses and other tax-relevant items may be limited if any of the participating parties is from the UK. Intercompany reorganizations with respect to Brexit (or otherwise) also must be properly assessed in terms of possible changes in functions and risks, so that the intercompany flows remain in line with the arm's length principle. It is possible that the renegotiation or termination of contracts or activities in connection with Brexit may have significant tax implications that need to be properly assessed.

See also tax@hand - January 19, 2021

France

CJEU upholds French tax credit calculation

In the Société Générale judgment (C-403/19) of February 25, 2021, the Court of Justice of the European Union (CJEU) held that the French method of calculating tax credits for foreign dividends to offset the double taxation of dividends received by a company subject to French corporate income tax is not contrary to the free movement of capital under Article 63 TFEU. The CJEU observed that each member state is free to define, in compliance with EU law, the tax base that applies to shareholdings receiving dividends. Therefore, in the absence of a discriminatory exercise by France of its tax jurisdiction, a disadvantage resulting from the double taxation of foreign-source dividends cannot be regarded as a restriction on the free movement of capital prohibited under Article 63 TFEU.

See also tax@hand - March 3, 2021

COVID-19 relief: Flexible corporate income tax installments, early tax credit refunds

On March 2, 2021, the French Ministry of Economy and Finance announced new tax measures to support companies during the ongoing COVID-19 situation. Including adjustments to corporate income tax installments and early refunds of tax credits.

See also tax@hand - March 15, 2021

India

ITAT rules expenditure on third party infrastructure development is a revenue expense

The Mumbai Bench of India's Income-tax Appellate Tribunal (ITAT), in a decision issued on September 7, 2020, held that expenditure incurred on the development and provision of infrastructure facilities not owned by the taxpayer is an allowable revenue expense where incurred for business purposes.

See also tax@hand - January 04, 2021

Disallowance of expenses for failure to withhold tax does not apply to depreciation

The Karnataka High Court gave its decision on December 16, 2020 that provisions of Indian domestic legislation disallowing a deduction for expenses when calculating taxable income for a failure to deduct tax at source do not apply to depreciation, since depreciation is a statutory deduction and not an expense. During the audit proceedings, the Assessing Officer (AO) was of the view that the payments made to purchase the IPR were in the nature of royalties in accordance with explanation 2 to section 9(1)(i) of the Income-tax Act, 1961 (ITA). Consequently, the AO, under section 40(a)(i) of the ITA, disallowed the depreciation claim for failure to withhold tax on the payment. This ruling establishes the important principle that depreciation is a statutory deduction and not an outgoing expense and, therefore, the provisions of section 40(a)(i) do not apply in respect of a claim for depreciation.

See also tax@hand - January 14, 2021

ITAT reaffirms eligibility for foreign tax credit under a tax treaty or domestic law

The Bangalore Bench of India's Income-tax Appellate Tribunal (ITAT) in a decision issued on January 13, 2021 addressed a taxpayer's eligibility for a foreign tax credit (FTC) for taxes paid in various foreign countries. The ITAT concluded that FTC was available either in accordance with the terms of a relevant tax treaty or, in the absence of a treaty, under the Income-tax Act, 1961 (ITA).

See also tax@hand - February 13, 2021

Supreme Court rules payments to nonresidents for imported software are not royalties

On March 2, 2021, the Indian Supreme Court issued its judgement that payments by resident Indian end users and distributors to nonresident computer software manufacturers and suppliers, as consideration for the resale or use of computer software, cannot be characterized as "royalty" (i.e., use of copyright in the computer software) under the provisions of India's tax treaties. The payments relate to the purchase of goods and do not give rise to any income taxable in India; hence, no liability arises to deduct tax at source (TDS) from the payments.

See also tax@hand - March 23, 2021

New Zealand

COVID-19 government support: Tax obligations and new support available

Businesses around the country have been in receipt of a range of different support packages from the New Zealand government over the last year. Almost 760,000 businesses and sole traders have claimed wage subsidies or claimed under the leave support scheme; 18,225 have since made repayments of the wage subsidy. The week of February 23, 2021, applications have opened for the new "Resurgence Support Payment." While many businesses are focused on survival, it's important that businesses that have claimed support understand the obligations on them in relation to income tax; to ensure they're not under-paying or over-paying tax by taking an incorrect position in an income tax.

See also tax@hand - February 22, 2021

Sweden

CJEU rules that Swedish interest deduction limitation rule is contrary to EU law

In the Lexel judgement (C-484/19) of January 20, 2021, the Court of Justice of the European Union (CJEU) decided that a Swedish anti-abuse rule that limits the deduction of interest paid to a related nonresident group company is contrary to the freedom of establishment principle in the Treaty on the Functioning of the European Union (TFEU). The court concluded that the measure creates a difference in treatment between domestic and cross-border situations that cannot be justified. The Swedish Supreme Administrative Court subsequently confirmed the deductibility of the interest expenses in line with the ruling of the CJEU. (Currently, there is no link to decision of Supreme Administrative Court.)

See also tax@hand - January 26, 2021.

Thailand

Increase of thresholds for conditions to write off bad debts proposed

On January 19, 2021, the Thai Cabinet approved a draft ministerial regulation to modify the tax rules and conditions regarding write-offs of bad debt, including an increase in certain thresholds to better reflect the current economic environment. The new regulation would apply retroactively to bad debts written off as from accounting periods beginning on or after January 1, 2020, and includes the particulars summarized below.

See also tax@hand - February 15, 2021

United States

Highlights of international tax provisions of final 163(j) regulations

On January 5, 2021, the US Treasury Department and the Internal Revenue Service released final regulations (T.D. 9943) under section 163(j) of the Internal Revenue Code (IRC) (2021 final regulations) providing guidance on the limitation on the deductibility of business interest expense (BIE). The regulations generally finalize proposed regulations promulgated on 28 July 2020 (2020 proposed regulations), although they make some modifications and reserve on certain issues. Below is a high-level summary of the changes in the new guidance, which generally relates to the application of IRC section 163(j) to controlled foreign corporations (CFCs).

See also tax@hand - January 7, 2021 and tax@hand - January 12, 2021 and tax@hand - January 25, 2021

New guidance addresses PPP expenses, TCJA provisions, carbon capture credit

The US Treasury Department and Internal Revenue Service (IRS) wrapped up 2020 and kicked off 2021 with the release of new guidance on the deductibility of certain business expenses paid with proceeds from forgiven Paycheck Protection Program loans, new regulations implementing various provisions from the 2017 tax code overhaul, and new regulations to guide businesses in claiming the carbon capture credit. On January 5, 2021, the US Treasury Department and the Internal Revenue Service released final regulations (T.D. 9943) under section 163(j) of the Internal Revenue Code (IRC) (2021 final regulations) providing guidance on the limitation on the deductibility of business interest expense (BIE). The regulations generally finalize proposed regulations promulgated on 28 July 2020 (2020 proposed regulations), although they make some modifications and reserve on certain issues. Below is a high-level summary of the changes in the new guidance, which generally relates to the application of IRC section 163(j) to controlled foreign corporations (CFCs).

See also tax@hand - January 8, 2021

JCT releases list of expiring tax provisions for 2021-2029

On January 27, 2021 The US Joint Committee on Taxation (JCT) staff released a list of temporary federal tax provisions that are currently scheduled to expire between 2021 and 2029.

See also tax@hand - January 29, 2021

“American Jobs Plan” includes significant corporate tax hikes

US President Biden is expected to call for an increase in the corporate tax rate along with other corporate-focused tax increases to help offset the cost of his proposed USD 2 trillion dollar initiative known as the “American Jobs Plan.”

See also tax@hand - March 31, 2021

Example Disclosures

The following section contains example financial statement disclosures that may be considered relevant, in part or in whole, at the date of publication.

FASB Accounting Standards Codification (ASC or the "Codification") Topic 740, Income Taxes states that deferred tax liabilities and assets should be adjusted for the effect of changes in tax laws or rates in the period that includes the enactment date. Before enactment, financial statement preparers should consider whether potential changes represent an uncertainty that management reasonably expects will have a material effect on the results of operations, liquidity or capital resources. If so, financial statement preparers should consider disclosing information about the scope and nature of any potential material effects of the changes. After enactment, when material, financial statement preparers should consider disclosing in Management's Discussion & Analysis (MD&A) the anticipated current and future impact on their results of operations, liquidity, and capital resources. In addition, financial statement preparers should consider disclosures in the critical accounting estimates section of MD&A, the footnotes to the financial statements, or both, to the extent that the changes could materially impact existing assumptions used in making estimates of tax-related balances.

Certain legislation that has been discussed in other sections of this document may lead to an adjustment to the deferred tax balances and current taxes payable recorded on an entity's books and, if material, may need to be disclosed in the company's financial statements. In addition, proposals to change tax laws, rules, regulations, and interpretations could impact an entity's accounting for income taxes in the future. In preparation for possible impacts of the changes in tax laws, companies should consider including disclosure of the impacts of these proposed changes in their financial statements or in MD&A.

The link below provides sample disclosures with respect to issues including but not limited to the US tax reform, indefinite reinvestment, and intra-entity transfers.

See Roadmap to Accounting for Income Tax and Deloitte Financial Reporting Alerts

Quick Reference Guide for Income Tax Rates

The following section includes a summary of combined tax rates applicable in jurisdictions with rate changes in 2021, the related dates of enactment, for US GAAP purposes, of certain income tax rate changes, and supplemental information with respect to certain jurisdictions.

For other jurisdictions see 2021 Global Tax Rates as well as a comparative table of 2017 – 2021 Global Tax Rates

Jurisdiction	Combined national/ local rate (incl. surcharges, etc.)		Date the combined national/ local rate enacted	Notes
	2020	2021	National and Local	
Argentina	30%	25%	Dec 23, 2019	A law enacted on December 23, 2019 and Decree 99/2019 issued by the Executive Power on December 28 postpone the planned reduction in the corporate tax rate from 30% to 25% that was scheduled to apply for fiscal years starting on or after January 1, 2020. The rate reduction now will apply for fiscal years starting after January 1, 2021.
Colombia	32%	31%	Dec 28, 2018	A law enacted on December 28, 2018 introduced a progressive reduction of the corporate income tax rate from 33% for taxable year 2019, to 32% for 2020, 31% for 2021, and 30% for taxable year 2022 and thereafter. A reduced rate of 20% applies to companies located in free trade zones. The 4% surcharge, which was abolished for 2019, was applicable when the taxpayer's income was equal to or exceeded COP 800 million (approximately USD 266,000).
France	28% -28.92% with surtax 31% (28% on the first € 500K of taxable income)	26.5% (revenue below € 250M) 27.5% (revenue above € 250M) + surtax 3.3%	Dec 30, 2018 (See Note 1 for reduced rate for SMEs and Note 2 for the rates applicable for FYs opened as of Jan 1, 2021).	28% - 28.92% with surtax for FY 2020 for companies with revenue below € 250M. 31% for companies with revenue above € 250M (28% on the first € 500K of taxable income) For 2021, 26.5% (revenue below € 250M) and 27.5% (revenue above € 250M) + surtax of 3.3% These rates do not include the impact of the CVAE, an annual local business tax that is considered an income tax under US GAAP.

Note 1:

A reduced rate of 15% applies to SMEs (i.e., micro, small, and medium-sized companies held directly or indirectly, at least 75% by individuals and with revenue below EUR 7.63 million) on the first EUR 38,120 of taxable income.

For FY 2019, a 28% rate applied to the portion of income under EUR 500,000, and the 31% rate applied to taxable income exceeding this threshold for companies with a revenue below EUR 250 million (33.33% for companies with revenue of EUR 250 million or more).

As from January 1, 2020, the rate is 15% where taxable income is under EUR 38,120.

The ordinary corporate rate applies for taxable income exceeding that threshold, are as follows:

- 28% in 2020, 26.5% in 2021, and 25% in 2022 for companies with revenue of less than EUR 250 million;
- 31% (or 28% for the first EUR 500,000 of taxable income) in 2020, 27.5% in 2021, and 25% in 2022 for companies with revenue of EUR 250 million or more.

A 3.3% surtax computed on the standard corporate income tax charge (after the deduction of a lump-sum amount of EUR 763,000) applies. Accordingly, the maximum aggregated corporate income tax rates reflecting the surtax should be as follows: 31% => 32.02%; 28% => 28.92%; 26.50% => 27.37%; 27.50% => 28.41%; and 25% =>25.83%.

Note 2:

The Finance law for 2018, enacted on December 29, 2017, provided for a progressive reduction of the corporate tax rate based on the following timetable:

- FYs opened as of January 1, 2018: The 28% rate applies to the first EUR 500,000 of taxable income for all companies, and 33.3% for income exceeding threshold (the maximum ETR, including the 3.3% surtax, is 34.43%);
- FYs opened as of January 1, 2019: The standard corporate tax rate is 31% for all companies (the 28% rate will continue to apply to the first EUR 500,000 of taxable income for all companies) (the maximum ETR, including the 3.3% surtax, is 32%);
- FYs opened as of January 1, 2020: The standard corporate tax rate is 28% for all companies (the maximum ETR, including the 3.3% surtax, is 28.9%);
- FYs opened as of January 1, 2021: The standard corporate tax rate is 26.5% for all companies (the maximum ETR, including the 3.3% surtax, is 27.4%); and
- FYs opened as of January 1, 2022: The standard corporate tax rate is 25% for all companies (the maximum ETR, including the 3.3% surtax, is 25.8%).

Additional Resources

A Roadmap to Accounting for Income Taxes—This Roadmap includes all of Deloitte's interpretive guidance on the accounting for income taxes, combining the income tax accounting rules and implementation guidance from ASC 740 with Deloitte's interpretations.

Accounting for Income Taxes—Global Tax Developments archive

Accounting for Income Taxes Hot Topics archive—A quarterly publication that highlights certain recent tax and accounting developments that may have accounting for income taxes (ASC 740) implications.

Click to subscribe to receive Accounting for Income Taxes Hot Topics directly via email.

Deloitte tax@hand—An app that delivers focused news and tax information.

Download Deloitte Tax@hand for iOS (App Store), Android (Google play) or BlackBerry (BlackBerry World) or visit the Tax@hand website, www.taxathand.

World Tax Advisor—Biweekly bulletin of international tax developments written by professionals of the member firms of Deloitte. The newsletter focuses on analysis of cross-border tax developments that reflect the dynamic business environment faced by multinationals.

Click to subscribe to receive *World Tax Advisor* directly via email.

Transfer Pricing Alerts — The latest updates in transfer pricing from around the world.

Click to subscribe to receive an email when a new Transfer Pricing Alert is issued.

Deloitte International Tax Source (DITS)—An online database featuring corporate, withholding and tax treaty rates and information for 66 jurisdictions worldwide.

Tax Accounting & Provisions Dbriefs Webcasts—A collection of live and archived Dbrief webcasts that give you valuable insights on important developments impacting financial reporting for taxes.

Tax Publications—Various tax publications issued by Deloitte to help clients stay informed on tax legislation and regulations and the potential impact on their businesses.

Deloitte COVID-19 hub – A collection of all the latest Deloitte content in relation to COVID-19.

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