2016 December

PKF

PKF Worldwide Tax Update

Welcome

In this final quarter issue for 2016, PKF's Worldwide Tax Update again brings together noteworthy tax changes and amendments from around the world, with each followed by a PKF commentary providing further insight and information on the issues. PKF members are happy to assist with any tax, or tax related matter, and respective contact details can be found at the end of each article's commentary.

In this issue featured articles include discussions on:

- China's introduction of new transfer pricing reporting and documentation requirements;
- The impact of Brexit on UK taxation;
- The case of Apple vs the EU Commission where Apple has been found to be in receipt of illegal tax benefits;
- Singapore's framework for implementing BEPS measures; and,
- The amendment of the India - Mauritius Tax Treaty resulting in the taxation of gains on a source basis.

We hope that you will find this issue of PKF's Worldwide Tax Update both informative and interesting and please do contact the PKF expert directly should you wish any further advice or information or find any PKF firm (by country) at www.pkf.com/pkf-firms.

International Tax Meeting – Warsaw, Poland: 8-11 November 2016
PKF's 2016 International Tax Meeting will discuss the impact of the OECD's BEPS measures on PKF's four tax pillars and other key areas of interest including - increased reporting obligations for transfer pricing, the tax challenges of the digital economy, and the artificial avoidance of a permanent establishment (taxable presence), to name but a few. The meeting also brings together our global tax experts - building relationships and encouraging business opportunities. For further information please email Philip Bond at **philip.bond@pkf.com**

To register for the event please follow this link:
https://www.regonline.co.uk/Register/Checkin.aspx?EventID=1866649

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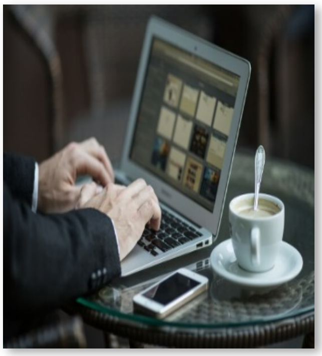
Chartered Accountants
& Business Advisers

Belgium

Introduction of mandatory transfer pricing documentation

Belgian tax law has recently introduced specific transfer pricing (TP) documentation requirements in line with the OECD's Base Erosion and Profit Shifting (BEPS) Action Plan. The specific TP documentation requirements are expected to have a significant impact on "large" companies which are active in Belgium and form part of a multinational group of companies (i.e. a group which is present in at least two or more countries).



Broadly, the new requirements apply to any Belgian tax resident affiliate of a multinational group which exceeds one of the following criteria in the financial year preceding its most recently closed financial year (according to its BE GAAP annual accounts on a non-consolidated basis):

- Gross operational and financial turnover (excluding one-off transactions) exceeding EUR 50 million;
- Balance Sheet total exceeding EUR 1 billion; or,
- Average personnel exceeding 100 full time equivalents.

If one of the above conditions are met, the Belgian affiliate has to file a "Group Master File" and a "Local File" with the Belgian tax authorities.

The "Group Master File" provides an overview of the multinational group including; the nature of its activities, the IP ownership, inter-company financial transactions, the consolidated financial and tax position of the group, the group's overall transfer pricing policy, and, its worldwide allocation of income and its economic situation. The "Local File" obligation consists of two forms:

a) A general form providing more information concerning the nature and activities of the Belgian affiliate including an overview of its intercompany transactions and the number of business units that exceed the intercompany transaction threshold of EUR 1 million;

b) An information form detailing all the intercompany transactions, and the corresponding transfer pricing analysis, is required to be completed where a business unit of a Belgian tax resident company (of a multinational Group) exceeds the threshold of EUR 1 million.

In addition to the above, if a multinational group has a consolidated gross turnover of more than EUR 750 million, a country-by-country ("CBC") report will have to be completed.

Broadly, the CBC report provides a general overview of a group's worldwide income, its economic activities, and in which countries the group pays its taxes. The report will, in principle, have to be filed by the parent company of a group in the country in which the parent is a tax resident and additionally in Belgium where there is a requirement to do so.

In any event, each Belgian tax resident company of a "large" multinational group will have to inform the Belgian tax authorities of the identity of the company that will file the CBC report.

PKF Comment

The above TP documentation requirements will be relevant for financial years commencing 1 January 2016 and onwards.

*For more information or any advice with respect to the completion of transfer pricing documentation, or its submission, in Belgium, please contact Kurt De Haen at **kurt.dehaen@pkf-vmb.be** or call **+32 2 460 09 60**.*

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Bosnia and Herzegovina

Amendments to the Law on Profit Tax

The Profit Tax Law, which entered into force in 2016, has been amended recently with the following changes:

- An allowable tax deduction of 30% in the year of investment is available from 1 January 2016 on the cost of equipment used for production (with a value of up to 50% of the current profits);
- The tax deduction in respect of sponsorships has been increased from 2% to 3% of gross income;
- Interest paid to a related party is deductible up to four times the registered capital amount with any excess being treated as a dividend.

PKF Comment

*The changes are, in the main, welcomed although there has also been a clawing back of some tax incentives relating to exporters and the employment of disabled persons. For more information or any advice with respect to Bosnia and Herzegovina tax matters, please contact Petar Grubor at **petar.grubor@pkf.rs** or call **+381 11 30 18 445**.*

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Bulgaria

Cash payments subject to 10% withholding tax

In 2016, with the exception of income received from employment sources (and income regulated by the Personal Income Tax Act) cash (income) received will be subject to a 10% withholding tax when paid by companies or self-employed individuals.

The 10% tax will be withheld at source by the payer and remitted to the tax authority (State Budget) by the end of the month following the calendar quarter when the income was received.

Where however the 10% tax is withheld in the fourth quarter and the recipient has not declared the income, the withheld tax should be remitted to the State Budget by 31 January of the following year.

PKF Comment

The tax consultancy team of PKF Bulgaria, based on its specific knowledge and expertise, is in a position to provide assistance to both foreign and local individuals on Bulgarian tax planning matters and with compliance procedures. PKF in Bulgaria has successfully consulted with individuals (in various fields of business) on how to be compliant with the recent rapid changes in the tax legislation.

For up-to-date assistance with any Bulgarian tax consultancy, compliance or transaction matter, please contact Venzi Vassilev on ***venzi.vassilev@pkf.bg*** *or call* ***+359 2 439 4242****.*

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Chile

New regulations to simplify Chile's two tax systems

Regulations (Law 20.899) will become effective in 2017 that are intended to simplify Chile's 'attributed tax regime' and 'partially integrated regime', both of which were introduced by the Tax Reform Law that was passed on 29 September 2014. In anticipation of the new regulations, Circulars have been published by the "Servicio de Impuestos Internos" (the Chilean IRS) providing its interpretation of the new rules, which have been called the "reform to the reform".

The 'attributed tax regime':
Under the 'attributed tax regime' the taxable income of an enterprise is subject to 25% income tax each year. Whether or not an actual distribution is made, final taxpayers have to pay their income tax on the attributable taxable corporate income, and they can

claim the respective applicable corporative tax. This regime is only applicable to the following:

- Stock corporations (Sociedades Por Acciones) – on condition that the shareholders are all "final taxpayers"; and,
- Individuals, communities, non-residents that have any kind of permanent establishment in Chile, personal holding companies with limited liability, and limited liability companies (except for limited join-stock companies) that are owned by "final taxpayers" (either domiciled individuals or non-residents entities or individuals).

If somebody who is a non-final taxpayer acquires a share in a company subject to the attributed tax regime, the company will be taxable under the "partially integrated regime".

The 'partially integrated regime':
Under this regime, only the profits actually distributed are subject to final income tax. A company's taxable income will be subject to a corporative tax at a rate of 25.5% in 2017 (increasing to 27% in 2018). Under the new regulations, the 'partially integrated regime' applies to limited join-stock companies, corporations, and any other entity with at least one non-final taxpayer owner, or the companies that opt for this regime

Where a shareholder or partner is resident in a tax treaty country with Chile, they may claim the full imputation credit, that is, the full corporative income tax. If however the shareholder is not a resident of a tax treaty country with Chile, then a 65% of the corporative tax applies on the imputation credit amount (resulting in a 44.45% total effective tax rate as a maximum).

PKF Comment

The new regulations have detailed rules which must be navigated in order for the correct tax positions to be established.

For further information or advice concerning the new Chilean tax reform, please contact Antonio Melys at ***amelys@pkfchile.cl*** *or call* ***+56 2 2650 4300****.*

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China

New transfer pricing reporting and documentation requirements

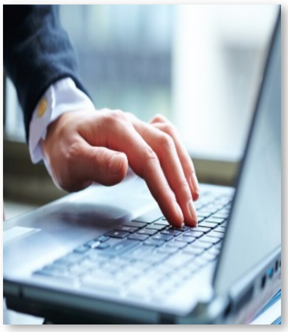
The State Administration of Taxation (SAT) issued Notice 42 *"Refining the Reporting of Related Party Transactions and Administration of Transfer Pricing Documentation"* on 29 June 2016, which substantially changed to the existing rules. Notice 42 marks the start of a new era for related party transactions disclosure and contemporaneous transfer pricing documentation in China. It marks an era of unprecedented requirements for transfer pricing information disclosure which is more comprehensive, more detailed and more thorough. The changes will have wide-ranging impact on taxpayers with respect to information collection, financial data conversion, group transfer pricing policy making, global supply chain analysis, and many other areas.

Notice 42 adopts a three-tiered approach for transfer pricing disclosure, including the completion of a master file, local file and special issue file. If a company meets either of the following criteria, a master file should be prepared:

- It has cross-border related party transactions and belongs to a group which has prepared the master file, or;
- The total amount of related party transactions exceeds RMB 1 billion.

A local file should be prepared according to the amount of different types transactions, as follows:

- Exceeding RMB 200 million for tangible assets transfer;
- Exceeding RMB 100 million for financial assets transfer;
- Exceeding RMB 100 million for intangible assets transfer;
- Exceeding RMB 40 million for other related party transactions in total;



There is no specific threshold criterion for the special issue file. Notice 42 stipulates the deadline for the master file is twelve months after the close of the financial year of the ultimate parent company, while the deadline for the local file and any special issue file is 30 June of the year following the close of the taxpayer's year.

PKF Comment

All Companies, especially multinational companies, should ensure they are prepared for the more stringent requirements imposed by Notice 42 before the next year's contemporaneous documentation preparation deadline, as Chinese tax authorities are paying more and more attention to transfer pricing.

For further information or advice concerning PRC tax, please contact Jason Li at ***jason@pkfchina.com*** *or Josephine Yang at* ***josephine@pkfchina.com*** *or call* ***+86 21 6253 1800*** *to speak with either Jason or Josephine.*

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Ecuador

New tax ruling to increase public finances and the introduction of 'electronic money'

In April 2016, the Ecuadorian president approved new taxes for mobile telephone services and a tax increase

for soft drinks, commercial beer and cigarettes. The government is also actively promoting the use of electronic money such as credit and debit cards issued by private banks, as well as the new digital cash system sponsored by the government-controlled Central Bank – notably, incentives have been created such as the reimbursement of 1% and 2% on VAT paid for transactions using these methods.

On 16 April 2016, Ecuador suffered an earthquake which principally affected the provinces of Manabí and Esmeraldas, located in the Pacific coast of the country. Consequently, in May 2016, the President approved the creation of 'contributions' from salaries, equity, and earnings (from individuals and companies domiciled in Ecuador) in addition to property and shares in Ecuador (from entities domiciled in tax havens or other overseas jurisdictions). The 'contributions' apply for one year and aim to raise money for the planning, construction and reconstruction of public and private infrastructure. They will also be applied for the productive reactivation of zones affected by the earthquake. Individuals and companies resident and domiciled in these affected areas are also subject to new taxes.

PKF Comment

The government is promoting the use of electronic money as an alternative to cash to strengthen public finances, which have been affected due to the decline in oil prices, the excessive expenditure of the public sector, and by fiscal budgetary shortfalls.

On the other hand, multiple sectors are still discussing the real objective of the imposition of contributions, and relate it to the necessity of the government to obtain more economic resources. There is a concern however that the government will increase its access to the sensitive information of individuals, such as equity and properties, and utilise this to increase tax collections.

For further information or advice concerning Ecuador tax ruling decisions or any advice with respect to Ecuador taxation, please contact either Edgar Naranjo at ***enaranjo@pkfecuador.com*** *or Manuel Garcia at* ***mgarcia@pkfecuador.com*** *or call either Edgar or Manuel on* ***+593 4 236 7833****.*

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European Union

Apple versus the EU Commission

On Tuesday 30 August Margrethe Vestager, the head of the EU Commission's competition policy, announced that after a three year investigation it had concluded that a tax agreement between Apple and the Irish government had gone beyond a legally permitted tax incentive under EU rules – and thus, the 'state aid' provided to Apple was deemed illegal. As a result, unpaid taxes will be pursued from Apple for the years 2003 to 2014 of up to €13 billion, plus interest.

The Commission said Ireland enabled the company to pay substantially less than other businesses, in effect paying a corporate tax rate of no more than 1%. Ireland and Apple both said they disagreed with the record penalty and would appeal against it and even the US Treasury has warned the EU about its actions and described events as 'deeply troubling' (reminding us that the different authorities take very differing views of where profit is created).

Ms Vestager said the Irish tax system "allowed profits to be attributed to a head office that only existed on paper." The EU Commission press release continued 'The rulings endorsed a way to establish the taxable profits for two Irish incorporated companies of the Apple group (Apple Sales International and Apple Operations Europe), which did not correspond to economic reality: almost all sales profits recorded by the two companies were internally attributed to a "head office".

The Commission's assessment showed that these "head offices" existed only on paper and could not have generated such profits.'

PKF Comment

Whilst the eventual outcome of this case is still far from clear, it does convey a strong underlying message, which is supported by the commentary coming from the EU Commission; that where there is a perceived lack of genuine economic substance in a structure – it will be subject to scrutiny and possible challenge.

We continue to see corporate cross border structures, existing and proposed, which have very little substance to them – the 'Apple' investigation and conclusion sends a very clear message to multinational groups that any similar arrangements could be subject to investigation by the EU Commission going forward.

National tax authorities, including the UK's HMRC, will be looking at the EU Commission's announcement and this will undoubtedly frame and shape their own thinking going forward when dealing with multinational enterprises and how they approach lower level cases. Multinational businesses conducting such cross-border transactions will need to be mindful of this and consider whether the EU Commission's announcement impacts them.

For further advice and information, please contact Stuart Rogers at ***stuart.rogers@pkf-francisclark.co.uk*** *or call* ***+44 1823 275925****.*

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Greece

Further tax increases introduced by the Greek State

The Greek State has further increased various tax rates as follows:

1. The income of individuals will be taxed at the following progressive scale:
    - EUR 0 to EUR 20,000 at 22%;
    - EUR 20,001 to EUR 30,000 at 29%;
    - EUR 30,001 to EUR 40,000 at 37%;
    - Over EUR 40,001 at 45%.

   In addition to these changes, individuals will pay a solidarity tax of between 2.2% and 10%. In the latter case, the total income tax will amount to more than 50% for incomes above EUR 40,000.

2. Taxation on dividends has been increased from 10% to 15%.

3. Minor changes have also been made to increase other taxes.

PKF Comment

The increase in tax rates has occurred in parallel with a sharp increase in social security contributions. Greeks with an income of over EUR 30,000 are left with a substantially lower net income. If you would like further information on the Greek tax changes, please do not hesitate to contact Alexandros Sfarnas at ***sfarnas@hol.gr*** *or call* ***+30 210 64 27 623****.*

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Hungary

Stricter rules for internet based advertisements

To ensure that publishers of adverts who are not established in Hungary meet their Hungarian tax obligations, changes to the Act on Advertising Tax will be effective from 1 January 2017 with the following sanctions introduced:

- If the publisher of an advert fails to provide a declaration to its customer and cannot be found in the records of the National Tax Authority (detailing Advertising Tax compliant companies), it will be requested to fulfil the declaration obligation for the National Tax Authority within eight days from 1 January 2017. If the publisher fails to fulfil this obligation within the prescribed deadline a default penalty will apply of HUF 500,000. A repeated failure by the same customer to provide a declaration will result in a HUF 10 million penalty.

Continued non-compliance will result in a fine equal to three times the previous fine;

- Failure to comply with the Advertisement Tax registration obligation will result in a HUF 10 million default penalty on the first occasion (provided there is no other tax registration in Hungary). Continued non-compliance will result in a fine equalling triple the previous fine. If the publisher fulfils its registration obligations immediately after the first notification the fine can be mitigated. Registration non-compliance is determined on a daily basis by the National Tax Authority;

- The above mentioned default fines shall not exceed HUF 1 billion in respect of the same taxpayer;

- From 2017, the National Tax Authority will levy a deemed tax of HUF 3 billion on those taxpayers which fail to submit their tax returns (which may be challenged by the taxpayer within a limited period of 30 days by submitting contrary evidence).

PKF Comment

The modified Advertising Tax rules prescribe a strict penalty regime with the aim of increasing the tax compliance obligations of publishers of internet based advertisements which are not based in Hungary.

*For further information or advice concerning the stricter advertising rules, or any advice concerning Hungarian taxation, please email Krisztián Vadkerti at **vadkerti.krisztian@pkf.hu** or call **+36 1 391 4220**.*

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India

Amendment of the India - Mauritius Tax Treaty

On 10 May 2016, India signed a protocol for amendments to its tax treaty with Mauritius with the purpose of taxing gains on a source basis.

The main highlights of the amendment are as follows:

- Source-based taxation for capital gains on the transfer of shares of Indian companies acquired on or after 1 April, 2017.

- Source-based taxation of interest income of Mauritian resident banks.

- The taxation of fees for technical services is aligned with other treaties.

Specifically, interest arising in India to Mauritius resident banks will be subject to withholding tax in India at the rate of 7.5% on the gross amount in respect of loans made after 31 March 2017. However, interest income of Mauritius resident banks in respect of loans existing on or before 31 March 2017 shall be exempt from tax in India.

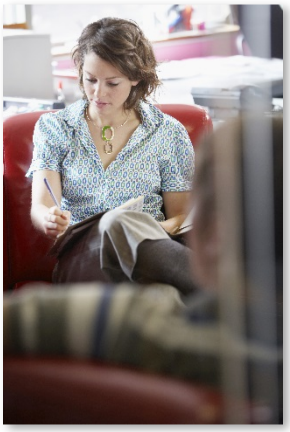
In addition, the Protocol has introduced a provision relating to the taxation of fees for technical services, on similar lines to that included in various other treaties entered by India. Going forward, fees for technical services arising in India earned by a Mauritius resident will be taxable in India at a rate not exceeding 10%.

PKF Comment

There is no capital gains tax at all on the sale of shares of a company resident in India by a Mauritius resident. Since all investments up to 31 March 2017 have been grandfathered, there is a window available until 31 March 2017 during which investments entitled to capital gains tax exemption could be made. Hence, proposals in the pipeline would also have the benefit of capital gains tax exemption.

Investments for the period 1 April 2017 to 31 March 2019 will be entitled to a concessional rate of half the

applicable rate of capital gains tax as per the limitation of benefits ("LoB") clause. The current Indian tax rate on long term capital gains of unlisted equity shares is 10.82% and that for short term capital gains is 43.26%. Subject to the fulfilment of the LoB clause, the rate of taxation would reduce to 5.41% and 21.63% respectively. The LoB clause will prevent pure shell companies, i.e., Mauritian companies with a total operational expenditure of less than INR 2,700,000 (USD 40,000) in the immediately preceding 12 months, from availing the concessional tax rate. It is interesting to note that the General Anti-Avoidance Rules (GAAR) will be applicable from 1 April 2017. These rules provide the tax authorities with the right to deny treaty benefits if the predominant purpose of the transaction is the avoidance of tax. Whether GAAR would even override the provisions of DTAA as amended is matter for future discussion. This move is in line with OECD BEPS initiative.



Please feel free to contact Hariharan S in India if you would like to know more about the amendments to the India – Mauritius tax treaty at ***hari@pkfindia.in*** *or call him on* ***+91 44 28 11 29 85****.*

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Italy

The 2016 Annual VAT return – new form published

The 2016 VAT return form was published by the Italian Tax Authorities (ITA) on 14 March 2016 and contains related instructions in English. Broadly, resident and non-resident VAT registered tax payers are required to file their 2016 VAT return electronically by 30 September 2016 (for the 2015 tax period), in accordance with Article 8 of Presidential Decree No. 322 of 22 July 1998. As from 2017, annual VAT returns will have to be filed by the end of February.

PKF Comment

For information or advice with respect to Italian VAT compliance obligations, or advice on any Italian tax matter, please contact Guido Pignanelli at ***gpignanelli@mgpstudio.it*** *or call* ***+390 2 4398 1751****.*

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Romania

The Giving-In-Payment Law

In May 2015 Romania adopted a Giving-In-Payment Law enabling a debtor with a mortgage loan to exit a loan agreement by transferring collateral to the creditor and not paying any other potential difference in cash. The Giving-In-Payment or 'Datio In Solutum' Law applies to EUR 250,000 loans or less and extinguishes obligations from mortgage loans regarding immovable properties. It applies to loans taken out by a consumer to purchase, build, expand, modernize, improve, or rehabilitate an immovable property with the destination of a home, or if for another purpose, it is guaranteed with at least one immovable property which is designated as a home.

From July 2016, in connection with this law, income from the transfer of ownership of immovable property which is designated as a home is exempt from income tax. The exemption is claimed by submitting a written request to the tax authorities.

Moreover, the Ministry of Justice has published an Order by which notary fees relating to Giving-In-Payment Law cases are to be reduced by 50%.

PKF Comment

The Law of Giving-In-Payment is welcomed by debtors, but there are risks as its application is unclear due to the terminology used, a mismatch with the current regulations and the creation of inequitable situations amongst the beneficiaries of the law.

A major effect of this law is the reaction of the banks who are likely to tighten lending conditions as a measure to protect against risk. There will also be an effect on existing customers who may also decide to take advantage of the provisions of the Giving-In-Payment Law which may bring more pressure on the banks with the decreasing demand for their products.

For further information or advice concerning the provisions of the Giving-In-Payment Law or any advice with respect to Romanian taxation, please contact Alina David at ***alina.david@pkffinconta.ro*** *or Gabriela Popescu at* ***gabriela.popescu@pkffinconta.ro*** *or call* ***+40 21 317 3190****.*

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New regulations and the assessment of residency in Romania for individuals

From July 2016 new tax residency regulations came into operation in Romania for individuals and new forms were introduced.

The changes also included:

a) Submission of questionnaires for assessing an individuals' tax residency status upon leaving or entering Romania by electronic means;

b) Following the submission of a questionnaire (assessing an individual's tax residency status upon departure from Romania), the tax authority will now issue a notification on whether the individual's records will be removed or maintained by them;

c) If the tax residency status of an individual is cancelled during a calendar year, he or she will have a full tax liability in Romania only for the period of the fiscal year when they were considered Romanian tax residents;

d) Individuals who arrived in Romania before 1 January 2014, and required a tax residency certificate, must submit proof of paying tax on any derived income for the period when they would have been considered Romanian tax residents and complete the questionnaire.

PKF Comment

The aim of this law is to simplify the procedures with respect to establishing the status of an individual's tax residency in Romania.

For further information or advice concerning Romanian tax residency or any advice with respect to Romanian taxation, please contact Alina David at ***alina.david@pkffinconta.ro*** *or Gabriela Popescu at* ***gabriela.popescu@pkffinconta.ro*** *or call* ***+40 21 317 3190****.*

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Salary tax exemption – research and development projects

The fiscal legislation has been amended to provide income tax exemptions relating to salaries and other assimilated forms of salary where individuals are involved in certain activities.

Individuals can benefit from the exemptions if they carry out research and development ('R&D') activities and/or technological development activities (as specified by the legislation) in an R&D project.

The exemptions can be claimed even where the R&D project does not achieve its objectives. The income tax exemption is conditional on the employer and employee meeting certain conditions.

PKF Comment

The intention of the amendments is to attract and retain individuals who work in the R&D / technological development field. These measures will increase competitiveness, and develop and strengthen these industries in Romania.

For further information concerning the exemption from tax of certain salaries or any advice with respect to Romanian taxation, please contact either Alina David at ***alina.david@pkffinconta.ro*** *or Gabriela Popescu at* ***gabriela.popescu@pkffinconta.ro*** *or call* ***+40 21 317 3190****.*

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Singapore

Framework for implementing BEPS measures

On 16 June 2016, the Inland Revenue Authority of Singapore (IRAS) announced that Singapore will join the inclusive framework for the global implementation of the Base Erosion and Profit Shifting (BEPS) Project.

The BEPS Project was proposed by the OECD and was endorsed by the G20 in February 2016. By joining this framework, Singapore will work with other participating jurisdictions to ensure the consistent implementation of measures under the BEPS Project, and a level playing field across jurisdictions.

PKF Comment

While implementation details are still evolving, the IRAS has announced that Singapore will be committed to implementing the four minimum standards under the BEPS project, namely:

- *Countering harmful tax practices;*
- *Preventing treaty abuse;*
- *Transfer pricing documentation; and,*
- *Enhancing dispute resolution.*

Of particular note is the Country-by-Country reporting for the financial years beginning on or after 1 January 2017 for groups with a turnover in excess of SGD1.125 million and whose ultimate parent entities are in Singapore. Further details are to be released by September 2016.

For further information or advice on BEPS, or advice on any Singapore tax matter, please contact Bun Hiong Goh at ***bunhiong@pkf.com*** *or call* ***+65 6500 9359****.*

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United Kingdom

Introduction of the Fixed Ratio Rule and deductibility of corporate interest

Under current UK tax legislation, tax relief for interest is restricted to an arm's length amount with a number of targeted rules to supplement the arm's length test. The UK government is committed to implementing the recommendations set out in Action 4 of the OECD BEPS project and earlier this year announced proposed changes to the tax deductibility of corporate interest which are set to take effect from 1 April 2017.

The headline change is that the UK will introduce a Fixed Ratio Rule limiting a group's UK tax deductions for interest and associated finance costs to 30% of earnings before interest, depreciation and amortisation (EBITDA). This will apply to both third party and related party debt on a UK group basis rather than on a company basis. A further group ratio rule, based on the 'net qualifying interest to accounting EBITDA' ratio for the worldwide group, is also to be implemented.

Exemptions may apply where the total UK interest expense is less than GBP 2 million per annum.

On 12 May 2016 the UK government published its second consultation detailing the design of the new rules and proposed implementation. The consultation closed on 4 August 2016 and further announcements are expected to follow.

PKF Comment

UK companies, particularly those who are members of multinational groups, or with a high level of debt, should be aware of the potential implications of the new rules to limit tax relief for interest and associated finance costs. The second consultation released in May 2016 contains almost 100 pages of detail and it is apparent that the new rules will be complex. The application of the GBP 2 million de-minimis limit will *take a number of companies outside the scope of the new rules.*

If you would like further advice or information regarding how these rules may affect your business, or any advice on UK tax, please contact Stephen Bryan at ***stephenb@pkfcooperparry.com*** *or call* ***+44 1332 411163****.*

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Brexit and its impact on UK taxation

The dust is settling after the UK EU referendum of 23 June 2016 and speculations are starting to emerge on the future impact the vote to leave will have on the UK tax system. Harmonisation of tax legislation across the EU member states has been a forty year evolution and EU driven tax measures now form part of the UK's tax legislation.

The greatest impact is expected to be on indirect taxes. Customs Duty is almost entirely governed by EU law and the UK will need to introduce UK domestic law to replace it.

The UK already has VAT legislation which incorporates EU VAT law. Brexit won't cause the UK legislation implementing the VAT Directives to automatically fall away but may free the UK from the requirement to comply with the VAT Directives and VAT decisions made by the EU Courts.

Direct tax is less likely to be affected although the ongoing benefit of important EU Directives may have implications for some taxpayers. These include the Parent-Subsidiary Directive (elimination of withholding tax on dividends between member states) and the EU Interest and Royalties Directive (elimination of withholding tax on such payments).

PKF Comment

The UK is entering a period of significant change as a result of both Brexit and a change in Prime Minster.

The UK government is committed to maintain good relationships with its EU neighbours, whilst remaining attractive to businesses. We expect future tax policy to be shaped by the UK Government's desire to remain competitive and expect boosts such as the proposed reduction of the corporation tax rate from 20% to 15%.

If you would like further information or advice on how Brexit may affect your business, please contact Suki Kaur at ***sukik@pkfcooperparry.com*** *or call* ***+44 7973 657815****.*

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