CEE Traveler

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Table of Contents

In brief 2

CEE countries 2

- *Hungary* 2
- *Latvia* 3
- *Lithuania* 4
- *Poland* 4
- *Russia* 6
- *Ukraine* 7

European Union 9

- *Belgium* 9
- *Cyprus* 10
- *Germany* 10
- *Portugal* 11

Other countries 11

- *Brazil* 11
- *Canada* 11
- *Israel* 13
- *USA* 13

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In brief

Our quarterly review includes recent amendments to tax legislation in various CEE countries, selected EU members, Brazil, Canada, Israel and United States.

Current edition of CEE Traveler focus also on new system of certification of origin of goods in European Union, the Registered Exporters (REX) system, which replaced the previous system of origin certification. Based on a principle of promoting risk assessment and self-certification by economic operators, the REX system gives complete control over certification of origin to exporters. The REX system is expected to streamline trade with beneficiary countries and make it more transparent.

CEE countries

Hungary

Personal income tax

The amended legislation extends the scope of the five-year phased tax base reduction to include all types of real estate (currently this only applies to intangible asset rights related to residential property). This means that, from 1 January 2017, income from the sale of all types of real estate will be tax exempt from the fifth year following the year of acquisition.

Along with the reduction of the corporate tax rate, the rate of income tax payable by individual entrepreneurs has been reduced to 9%.

In accordance with the amended definition, the rules concerning controlled foreign companies are no longer included in the Personal

Income Tax Act. Consequently, dividend paid in 2017 by companies that no longer qualify as controlled foreign companies as of 2017, will be treated as dividend income (rather than as other income), which will result in a significantly reduced tax liability.

Social tax

Under the amended legislation, the social tax rate was reduced to 22% on 1 January 2017, and will be reduced to 20% a year later. In line with the above amendment, there are also several changes that affect the rate of social tax allowances. Instead of the allowances of 27%, 13.5% or 14.5% available previously, the rate of the social tax allowance will be equal to the tax rate or 50% thereof. This will reduce

employers' payroll expenses by 3.9%.

From 1 January 2017, no social tax liability will arise on remuneration paid to workers who are exempt from contribution liabilities in Hungary (whether under certain internal rules or international treaties) in respect of the exemption period, even if such remuneration is paid after the expiry of the exemption period.

Healthcare tax

The rate of healthcare tax (27%) was reduced to 22% on 1 January 2017, and will be reduced to 20% on 1 January 2018, in line with the reduction of the social tax rate. As a result, public dues payable for

business meals, corporate events and certain cafeteria benefits have been reduced from 49.98% to 43.66% in total.

Secondments of third-country nationals

Third-country nationals employed by a foreign employer and working in Hungary under a secondment arrangement will be exempt from the social security and social tax payment obligations if the duration of their secondment is less than two years.

The above rule will also apply to third-country nationals seconded to Hungary who are insured in their home country and whose country of nationality has a bilateral social security agreement with Hungary, as well as to EU nationals who are not covered by the relevant EU social security regulations and are insured in and seconded to Hungary from a third-country. These rules may be applied to secondments that commenced on or after 1 January 2016.

If the secondment is extended to more than two years, special rules will apply. In contrast with the previous rules, if the extension is due to unforeseen circumstances, and the employee concerned duly informs the tax authority of this, the social security and social tax payment obligations will arise from the end of the second year. This rule may be applied to secondments that commenced on or after 1 January 2016.

Extending the scope of the reduced VAT rate

According to the amended regulations, the scope of goods and services subject to the reduced VAT rate has been extended. On 1 January 2017, the VAT rate on poultry, eggs and fresh milk (except for breast milk, UHT and ESL milk) was reduced to 5%, and the 27% VAT rate on internet services was reduced to 18%.

The catering sector will also benefit from VAT rate cuts: on 1 January 2017, the 27% tax rate was reduced to 18%, and will be reduced once again from 1 January 2018 to 5%, on meals provided and certain non-alcoholic beverages prepared locally in bars and restaurants.

New corporate tax rate

On 1 January 2017, the corporate tax rate was reduced to 9%. As a result, progressive exemption will no longer be available. The introduction of a flat corporate tax rate will affect payable and deferred tax calculations.

Transitional provisions concerning the tax rate change

Due to the introduction of the new tax rate, transitional provisions will apply to calculating corporate tax advances payable in the first half of 2017, as well as from July 2017. Concerning the first half of the 2017 tax year, taxable persons that established their tax liabilities for 2015 using the 19% tax rate will have to pay a tax advance of 50% of the total of their tax established at a rate of 10/19% for 2015 and HUF 20 million, but not more than 50% of the tax paid for the 2015 tax year. Tax advances payable in the second half of 2017 and the first half of 2018 will have to be calculated at the 9% tax rate.

Changes affecting the special tax on financial institutions

From 1 January 2017, the special tax on credit institutions and financial enterprises must be calculated from the tax base for the second tax year preceding the current tax year, rather than from the 2009 tax base. For credit institutions, the tax rate has been reduced to 0.15% on the part of the tax base not exceeding HUF 50 billion, and to 0.21% on the part exceeding HUF 50 billion.

Latvia

Labour Code to be amended: big changes for employers

Announced at a meeting of state secretaries on 23 February 2017, proposals for amending the Labour Code relate to overtime pay, employee suspension, and termination of employment with disabled people, as well as introducing other changes affecting the relationship between employee and employer.

Reporting payments to non-residents

The taxpayer's obligation to track payments made to non-Latvian residents is no news. Recent changes aimed at improving cross-border administrative cooperation on tax matters have increased the amount of information the

taxpayer must report from 1 January 2017

Lithuania

The list of highly qualified employees has been expanded

By amendments to the Law on the Legal Status of Aliens, the employees, whose monthly salary is not less than 1.5 times of average gross monthly salary (EUR 1.190) shall be recognized as highly qualified employees.

As before, a decision by the Lithuanian Labour Exchange shall be taken in order to prove that a highly qualified employee meets the needs of the labour market of the Republic of Lithuania, except for cases where:

- a foreigner comes for the pursuit of a profession, included in the list of professions, and to which a higher professional qualification is necessary and there is a lack of employees in the Republic of Lithuania; or
- a salary paid for a highly qualified employee is not less than 3 amounts of average gross monthly salary (EUR 2.380); or
- a foreigner has been working for 2 years as a highly qualified employee.

Also, the higher professional qualification might be proven by the document, which equates professional experience of a highly qualified employee with a qualification of higher education.

On the basis of business, temporary residence permits shall be granted to shareholders and managers, who are participants of undertakings or their purpose is to work in the undertaking. The issuance of temporary residence permits on the basis of business will be withdrawn for foreigners, who are the members of the collegial management body or supervisory body or persons, who have the power of attorney from the undertaking to conclude transactions.

Tax exemptions for undertakings established in free economic zones

Amendment to the Law on the Fundamentals of Free Economic Zones concerning tax exemption came into force on 1 January 2017.

For 6 tax periods from the tax period in which capital investments have reached the sum of at least EUR 100 000 and the average number of company's employees in the tax year is not less than 20, the undertakings will be exempted from corporate income tax obligations. In other 10 tax periods, the undertakings will be subject to reduced corporate income tax by 50 percent.

The tax exemption shall be applied in cases when an undertaking has an auditor's report confirming the required amount of capital investment, and when at least 75 percent of the undertaking's income for the relevant tax period includes income derived from accounting, bookkeeping and consulting activities (with the exemption of audit, expertise of accounts and attestation of justice), administrative and support service activities, human resources activities, architecture and engineering and technical consulting activities (with the exception of control of construction works, taking photographs of the location) related to the latter.

New rules for private damages actions for competition law infringements came into force

Amendments to the Law on Competition establishing rules for compensation of damages by competition law infringements came into force on 1 February 2017. Injured parties who have suffered damages due to prohibited agreements or abuse of dominant positions, committed or on-going after 1 February 2017, shall have the right to claim for full compensation of damages.

In addition to amendments related to damages actions, undertakings are granted the right to settle with the Competition Council and receive lower fine upon written acknowledgment of the infringement and suggested fine.

Poland

National Tax Administration – acts coming into force.

On 1 December 2016 the President signed the Act of 16 November 2016 on the National Tax Administration as also the provisions introducing the Act on National Tax Administration. On 2 December 2016, both acts were published in the Journal of Laws of the Republic of Poland (item 1947 and item 1948). The most important

changes came into force on 1 March 2017.

The National Tax Administration (Polish: Krajowa Administracja Skarbowa, hereinafter referred to as "KAS") is a specialized government administration that performs mainly tasks related to the realization of tax revenues, import and export duties, fees and non-tax receivable accounts. Moreover, the KAS also provides service and support for the taxpayers and payers in the proper compliance with tax obligations or their import and export duties. As a result of the changes, in the case of an inspection and subsequent proceeding there is no possibility of appealing to another authority, as it was previously.

Personal liability relating to new transfer pricing obligations.

On 1st January 2017 a scope of the obligations concerning transfer pricing documentation ('TP tax documentation') has been increased. These new responsibilities include (among others) the obligation to maintain TP tax documentation (starting from the documentation for 2016) and a declaration of fulfilment of the said obligation which shall be filed together with the annual CIT-8 return. As a result of the amendments in question, as well as increased pressure from the tax administration on transfer pricing issues, starting next year, risk for persons responsible for tax settlements of companies (including their Management Board members) to be exposed to personal liability, is increased.

According to amended Article 9a of the Corporate Income Tax Act, which came into force on 1st January 2017, taxpayers who conduct specific transactions with related entities will be obliged to prepare documentation for the previous and each subsequent fiscal year without being called upon to do so by the authorities

Irrespective of the above, the obligation to submit tax documentation within 7 days from the request of the tax or fiscal control authorities remains valid.

Moreover, the taxpayers obliged to prepare TP tax documentation will also need to file a confirmation of preparation of such documentation, together with the annual CIT-8 return.

In the case the fiscal year is the same as the calendar year, the first deadline for filing such declaration is 31 March 2018.

Due to the obligations (i) to maintain TP tax documentation without being called upon and (ii) to file a related declaration of fulfilment, as well as an increase in the number of penal fiscal proceedings being conducted, the risk of imposing personal liability (i.a. penal fiscal liability), will also increase.

Tax clarifications and settled interpretation practice – new opportunities for taxpayer protection

On 1 January 2017, the Law on changes of certain laws aimed at improving legal environment for entrepreneurs came into force. Its basic goal is to simplify and enhance conditions of conducting business activity. The said amendment introduces, inter alia, new institutions to the Tax Code which broaden the scope of protection resulting from the application of the position presented by the Treasury.

Provisions regarding taxpayer protection will be applicable to the fiscal periods starting from the date the new law entered into force.

Financial institutions and their customers – new requirements for the exchange of tax information.

On 10 February 2017, the Sejm approved the Act on the exchange of tax information with other states (also hereinafter referred to as the "Act") at the same time transferring it to the Senate. The Act provides for the fulfillment of obligations under the Multilateral International Agreement on the Automatic Transfer of Financial Information (also hereinafter referred to as the "Act"). Most likely, the Act will enter into force on 1 May 2017.

The Act implements new responsibilities for the identification of clients by financial institutions, extending the catalog of entities responsible for the identification and the range of clients who are being reported in comparison to the act referring to American US FATCA regulations.

Concerning the new accounts open after 1 January 2016, financial institutions will be required to complete the identification process by 31 July 2017. Data on selected entities and individuals from that period, identified as reporting entities, will be reported by 31 August 2017.

Once the new regulations enter into force, financial institutions will be obliged to fulfill their obligations resulted from the Act. In case of non-compliance, the institutions will be fined up to PLN 1 million (depending on the nature and extent of the breach, the entity's past activity and its financial capacity). On the other hand, individuals who fail to fulfill the obligations imposed by the Act may be held liable for fiscal penalties.

New obligations imposed on financial institutions – draft bill about the use of the financial sector in counteracting frauds.

On 20 March 2017 on the website of the Government Center of Legislation there was published a draft bill on amending some laws to counteract the use of the financial sector for treasury fraud. According to the information provided in the justification, the purpose of the Act is to prevent treasury fraud in the area of VAT by making use of financial sector entities, i.e. banks and credit unions (SKOK).

However, the published bill contains many interpretational doubts, in particular as regards in correlation with the Anti Money Laundering and Terrorist Financing Act of 16 November 2000. The resulting ambiguity implies the risk of abuse of power by the bodies mentioned in the law. At the same time, these provisions in the light presented in the project, fundamentally change the situation of both financial institutions and taxpayers in terms of financial transactions, operational risk issues, and data sharing and processing.

New reporting obligations regarding CbCR came into force.

On 4 April 2017 a new Act on the exchange of tax information with other states came into force. The Act includes provisions on the scope of data included in the information on the group of entities (CbCR) as well as puts Polish taxpayers, which belong to large international groups, under additional obligations (a) to report on entities which form part of a group, and (b) to indicate the entity responsible for preparing such information (within 10 months of the last day of the financial year commenced after 31 December 2015).

Information on the group of entities should, as a rule, be provided within 12 months from the end of a reporting year (i.e. for 2016 – by the end of 2017).

Entities which fail to meet the obligations imposed by the draft act will be subject to a fine of up to PLN 1 million (depending on the type and extent of the violation, an entity's operations to date and its financial capabilities), imposed by way of decision by the Chief of National Tax Administration (Krajowa Administracja Skarbowa).

In addition, Article 80d is added to the Penal and Fiscal Code, according to which "any taxpayer which provides false information about Group entities will be subject to a fine of up to 240 daily rates (i.e. of up to PLN 6.4 million in 2017)".

Russia

The bill on three-tier transfer pricing documentation and automatic exchange of information is amended

On 6 March 2017, the Russian Ministry of Finance (the "MinFin") published an amended bill adding new provisions to Part I of the Russian Tax Code (the "RTC") for implementing the international automatic exchange of financial account information and new standards of the transfer pricing documentation for multinational corporations ("MNCs"). The publication is available at the federal portal for bills and regulations.

The amended bill has not changed significantly from the previous version published in September 2016 for public discussion purposes. However, a number of amendments have been made so this version of the law, in particular, is better aligned with the OECD recommendations published as part of Base Erosion and Profit Shifting (BEPS) Action 13, as well as specifies some practical aspects of Country-by-Country (the "CbC") reporting, global and national transfer pricing documentation (together – "Country information").

Furthermore, the bill contains some minor changes to section VII-1 of the RTC, a new section that is intended to regulate matters related to the automatic exchange of financial account information with foreign countries for tax purposes, as well as to the automatic exchange of CbC reports.

The timeline for implementing the new notification and Country information requirements remains unchanged: the requirements will apply to financial years beginning from 2017, although they can be implemented earlier on a voluntary basis.

Currently, the bill is being assessed for its regulatory impact. It will then be submitted to the Russian Government for review.

Procedure for entering into advance pricing arrangement for a cross-border transaction

The Russian Ministry of Finance (the "MinFin") has posted a draft order on the procedure for entering into an advance pricing arrangement (the "APA") involving the competent authorities of foreign governments. The adoption of this procedure is prescribed by Article 105.20.2 of the Russian Tax Code (the "RTC").

To date, large taxpayers have been able to approach Russian Federal Tax Service (the "Russian FTS") for conclusion of APAs where the Russian FTS is a party (so called "domestic APA"). The procedure for entering into a similar arrangement with involvement of foreign competent authorities (so called bilateral or multilateral APA) has yet to be adopted, though the respective right of large taxpayers and general principles are stipulated in the RTC.

Russia has signed multilateral agreement to enable automatic exchange of country-by-country reports

On 26 January, Russian Federal Tax Service (FTS) signed the Multilateral Competent Authority Agreement on the Exchange of Country-by-Country Reports ("Agreement") that allows automatic exchange of country-by-country reports ("CbC reports" or "CbCR") among signatories.

This Agreement is a part of implementing Action 13 of the Base Erosion and Profits Shifting (BEPS) Action Plan – an initiative led by OECD and endorsed by the G20. Signing the agreement is a prerequisite step for Russia's joining the automatic exchange of CbC reports with other countries.

Since Russia has signed the Agreement, it now needs to include the respective amendments into the national Tax Code. The respective draft bill was prepared and released for public comment by the Russian Ministry of Finance back in September 2016..

Ukraine

Changes in the procedure of work permits issuance became effective

On January 18, 2017 the Cabinet of Ministers of Ukraine (the CMU) announced changes to the Procedure of issuance, extension and revocation of work permits for foreigners in Ukraine.

The changes came into effect on February 3, 2017.

Key changes are the following:

• employers are now able to have foreigners employed on several positions simultaneously;

• an employer is now obliged to sign an employment agreement (contract) with a foreign employee within 90 calendar days from the date when the respective work permit was issued;

• rules and procedure for administrative appeal of refusal to issue or extend a work permit were established.

It is expected that the introduced changes will improve the investment climate and simplify doing business in Ukraine.

National Bank of Ukraine eases currency control restrictions

The National Bank of Ukraine ("NBU") continues to ease its currency control restrictions. In particular, it has recently introduced the following changes:

- From now on, individuals are permitted to make investments and/or deposit and keep funds on bank accounts abroad without obtaining individual licenses from the NBU if such investment/placement is made using funds originating from outside Ukraine (e.g. salaries, dividend payments received from foreign companies, etc.). Transfer of funds out

of Ukraine still requires individual licenses from the NBU.

- Business entities, private entrepreneurs and representative offices registered in Ukraine, may purchase foreign currency if they have less than USD 100,000 (or its equivalent) on their current and/or deposit accounts in all banks (previously the threshold amount was set at USD 25,000).

Parliament adopts Law ratifying Ukraine-Luxembourg Double Tax Treaty

On 14 March 2017 the Ukrainian Parliament passed a law ratifying the Double Tax Treaty between the Government of Ukraine and the Government of the Grand Duchy of Luxembourg (further – "DTT").

For the DTT to enter into force the President of Ukraine has to sign it and Ukraine and Luxembourg exchange the ratification letters. Luxembourg has already ratified the DTT. If the DTT enters into force before 31 December 2017, taxpayers engaged in transactions with residents of Luxembourg will be able to apply reduced withholding tax (further – "WHT") rates and enjoy other benefits of the DTT starting from 1 January 2018.

Specifically, the DTT introduces the following reduced WHT rates:

Type of income	Tax rate
Dividends	• 5%, if the 20% ownership threshold is met; • 15% in all other cases.
Interest	• 5%, if interest is paid on loans granted by a bank or any other financial institution; • 10% in all other cases.
Royalties	• 5%, if royalties are paid for the use of, or the right to use any patent, trade mark, design or model, plan, secret, formula or process, or for information (know-how) concerning industrial, commercial or scientific experience; • 10%, if royalties are paid for the use of, or the right to use any copyright of literary, artistic or scientific work.

Rules on issuance of visas for entry to Ukraine and transit through its territory were simplified

Recently the Cabinet of Ministers of Ukraine (the "CMU") approved new rules on issuance of visas for entry to Ukraine and transit through its territory.

The new rules were officially published on 17 March 2017 and became effective in 30 days after the publication date.

Key novelties are the following:

- It is possible to submit visa application online and conduct interviews with applicants via video conference.
- The list of countries whose citizens are eligible to obtain visas at checkpoints at the state border of Ukraine is expanded.
- The term for visa issuance and fees for its issuance were reduced.
- A type D visa is issued as a multiple entry visa and its term of validity will be 90 days (instead single-entry visa with 45 days term of validity).
- It is no longer necessary to provide standard invitations issued by the State Migration Service of Ukraine in order to obtain a short term type C visa.

It is expected that these changes will simplify and

improve the procedure of issuance of Ukrainian visas.

European Union

Simplified origin certification for goods imported from GSP beneficiary countries

From 1 January 2017, a new system of certification of origin of goods, the Registered Exporters (REX) system replaced the previous system of origin certification. Based on a principle of promoting risk assessment and self-certification by economic operators, the REX system gives complete control over certification of origin to exporters. Depending on their respective stages of preparation, Generalised Scheme of Preferences (GSP) beneficiary countries are expected to apply the REX system from one of the following three dates: 1 January 2017, 1 January 2018 or 1 January 2019. However, it is important to note that after the transition period, which will last until 30 June 2020 at the latest, all GSP beneficiary countries will have to apply the REX system.

The REX system is expected to streamline trade with beneficiary countries and make it more transparent. EU economic operators should feel more confident when doing business with a partner established in a beneficiary country because they can query the registered exporter status of their business partner from the REX database. Moreover, registered exporters will no longer have to obtain a Form A from the competent authorities.

The REX system currently only affects trade between the European Union and GSP beneficiary countries; however, it is conceivable that the system will be extended in respect of other countries and trade arrangements.

Belgium

Update on list of non-compliant countries - Circular letter published

A circular letter on January 26, 2017, was published with respect to the updated list of non-compliant countries in light of international standards regarding transparency and exchange of information.

Five new jurisdictions - Guatemala, Marshall Islands, (the Federal States of) Micronesia, Panama, and Trinidad & Tobago have been added to the list of non-compliant countries after the Global Forum meeting on November 4, 2016 in Georgia. Hence, the abovementioned jurisdictions are considered as not (or not sufficiently) compliant to the international standard with regard to the exchange of information. This outcome has direct consequences on the Belgian reporting obligation for payments as included in article 307, §1 of the Belgian Income Tax Code (BITC) from November 4, 2016, which obliges companies that make direct or indirect payments to recipients established in tax havens, to declare payments in their tax return exceeding EUR 100,000 during the taxable period.

Belgium gazettes bill to implement changes to the Parent-Subsidiary Directive and amend exit tax provision

Belgium on December 8, 2016, published in the Belgian Official Gazette an act containing the following two measures:

Implementation of the amendments to the Parent-Subsidiary Directive

The act implements two amendments to the European Union Parent-Subsidiary Directive (EU PSD) legislation: (i) a so-called anti-hybrid measure and (ii) the introduction of a general anti-abuse rule (GAAR), which would apply to income granted or made payable as from January 1, 2016.

Amendments to the exit tax regime

In view of bringing the Belgian tax law in line with the freedom of establishment, the second tax measure implements - in an EU/European Economic Area (EEA) context and for specifically defined transactions - the option to pay exit taxation either as a direct payment or spread over five years in equal instalments. A taxpayer would be allowed to explicitly opt to spread payment of the exit taxation provided that the assets are maintained within a company or a foreign establishment located in another EU or EEA Member State.

Cyprus

Cyprus introduces rules to implement country-by-country reporting requirements

The Cyprus Minister of Finance (MoF) on December 30, 2016, issued a decree that introduces a mandatory country-by-country reporting ((CbCr) requirement for multinational enterprise (MNE) groups generating consolidated annual turnover exceeding EUR 750 million. The decree is in line with European Union (EU) Directive 2016/881 amending Directive 2011/16 regarding the mandatory automatic exchange of information (EoI) in the field of taxation and the Organisation for Economic Co-operations and Development (OECD) Base Erosion and Profit Shifting (BEPS) Action 13 report on transfer pricing documentation and CbCr.

CbC report filing obligation

MNE Groups with an ultimate Cyprus tax resident parent are required to file electronically with the Cyprus tax authorities (CTA) on an annual basis a CbC report that includes specific financial data covering income, taxes, and other key measures of economic activity by territory. Under certain conditions, a CbC reporting requirement may also apply to Cyprus tax resident entities included in an MNE Group that has a non-Cyprus tax resident ultimate parent. The format of the CbC report is consistent with the template published by the OECD as part of the BEPS project (Action 13) and the EU Directive 2016/881. The first CbC report should be prepared for the MNE Group's tax year beginning on or after January 1, 2016.

CbC reporting notifications

Per the decree, Cyprus tax resident constituent entities of an MNE Group should notify the CTA as to whether they are the reporting entity and if they are not, the details of the MNE Group's reporting entity. The first notifications should be made by October 20, 2017.

Exchange of CbC reports

In line with the relevant EU Directive and the OECD's Multilateral Competent Authority Agreement on the Exchange of CbC Reports (MCAA), the CTA will apply the automatic EoI mechanism to exchange CbC reports filed by MNE Groups in Cyprus. The reports will be exchanged with the tax authorities of the other EU Member States in which the MNE Group operates and all other jurisdictions that have signed the MCAA.

Russia-Cyprus: Postponement of the application of the provisions of the protocol amending Article 13 Capital Gains of the DTT

The Cyprus Ministry of Finance (MoF) announced on December 29, 2016, that the relevant authorities in Russia and Cyrpus have reached an agreement for postponing the application of amendments to Article 13 (Gains from Alienation of Property) of the1998 Cyprus-Russia double tax treaty (DTT) that were contained in a 2010 amending protocol to the DTT.

Regarding Article 13 of the DTT, the 2010 amending protocol provides for the source State to have taxing rights on gains derived from the disposal of shares or similar rights deriving more than 50% of their value from immovable property situated in the source State, whereas the 1998 DTT provides for taxing rights in such cases only in the State of the seller.

The announcement notes that another protocol to the 1998 DTT is being finalised, which intends to provide for the postponement of the 2010 Protocol Article 13 amendments until such time that similar provisions are introduced in other bilateral agreements for the avoidance of double taxation between the Russian Federation and other European countries.

Germany

Federal cabinet approves new rules as part of the fight against money laundering and financing of terrorism

On 22 February 2017 the federal government approved a draft bill to implement both the fourth EU money laundering directive and the EU regulation on the transfer of funds as well as to reorganise the Central Financial Transactions Investigation Agency. The intention is to up-date and strengthen measures developed to prevent money laundering and the financing of terrorism.

Penalties for serious, repeated and systematic offending are to be significantly increased to secure compliance with the

money laundering regulations. Furthermore, in future the authorities will publish all penalty notices, which can no longer be disputed, on their website.

Portugal

2017 State Budget Law

The 2017 State Budget Law was published in the Official Gazette of December 28, 2016. It generally applies beginning on January 1, 2017. PwC Portugal highlights the following amendments to the tax law:

- Use of carryforward tax losses: the first in first out (FIFO) rule was eliminated, thus allowing a better management of carryforward tax losses in view of the different periods established for different tax years.
- Tax benefits to the increase of equity: now applicable to both cash contributions and conversion of shareholders loans into share capital (including at incorporation), while formerly it only applied to cash contributions; the corporation income tax (CIT) deduction to the taxable profit was increased from 5% to 7% of the contributions made and amounting up to EUR 2 million; all entities (formerly only micro, small, and medium sized companies were eligible) and type of shareholders (formerly only individuals) are eligible; and the tax benefit is no longer limited under European Union (EU) State aid rules.
- Reduced CIT rate: a 12.5% CIT rate applies to small and medium sized companies located in inland regions; the reduced rate applies to the first EUR 15,000 of taxable profit.
- Tax regime for investment support: increase from EUR 5 million to EUR 10 million of the eligible investment that allows a CIT deduction of 25% of the taxable profit.
- Additions to the real estate property tax: it applies to corporate entities that are the owners, usufructuaries or have the right of surface of urban property for residential purposes and land for construction located in Portugal; the tax is due at the rate of 0.4% on the sum of the tax registered value of the relevant property (with reference to January 1 each year); the rate is 7.5% in case of entities that are residents in blacklisted jurisdictions; and the tax paid can be deducted against the fraction of CIT corresponding to income generated by the relevant properties (leasing or lodging), in which case the tax is disallowed as a tax deductible expense.

Other countries

Brazil

Brazil updates list of privileged tax regimes to apply to the concept of ‘significant economic activities’ to Austrian holding regimes

The Brazilian tax authorities (RFB) on December 30, 2016, published Normative Instruction (NI) 1.683/2016, limiting the situations in which the regime applicable to Austrian holding companies may be regarded as a privileged tax regime. The RFB on June 4, 2010, issued NI 1,037/2010, updating the list of countries considered tax havens (black list) and adding regimes to the list of privileged tax regimes (grey list).

NI 1.683/2016, which updates the grey list, establishes that the regime applicable to Austrian holding companies should be regarded as a privileged tax regime when no significant economic activities are carried out by the entity.

According to NI 1,658, a foreign holding company is deemed to carry out significant economic activities if it has, in its country of domicile, operating capacity to manage and take decisions regarding (i) activities with the purpose of generating income from its assets or (ii) management of equity interests with the purpose of generating income in the form of profit distributions and capital gains.

Operating capacity would be measured by (i) the existence of physical facilities and (ii) qualified employees to manage and make decisions according to the complexity of the tasks to be performed.

Canada

British Columbia provides some foreign buyers relief from 15% property transfer tax

Foreign purchasers of residential property in the Greater Vancouver Regional District are liable for a 15% property transfer tax on transfers registered after August 1, 2016.

The tax applies when the purchaser or transferee is a foreign national, a foreign Corporation or a taxable trustee.

A "foreign national" is a person who is not a Canadian citizen or permanent resident.

On March 17, 2017, British Columbia announced relief from its 15% foreign buyers' property transfer tax for:

- foreigners who become Canadian citizens or permanent residents within one year of purchasing a principal residence;
- foreign workers coming to BC under BC Provincial Nominee Program who purchase a principal residence.

Canada issues final legislation on country-by-country reporting

On December 15, 2016, the House of Commons of Canada passed Bill C-29, which provides the final legislation to implement county-by-country (CbC) reporting in Canada.

The final legislation formalizes the introduction of section 233.8 to Canada's Income Tax Act (the Act), which sets out the requirements for CbC reporting. It also formalizes amended paragraph 162(10)(a) of the Act, which provides administrative penalties for gross negligence or failure to file the CbC reporting form.

The final legislation did not change from the draft legislative proposals released by Canada's Department of Finance on July 29, 2016. It maintains the 750 million euro (EUR) Consolidated revenue threshold recommended by the Organisation for Economic Co-operation and Development (OECD) and does not include a notification requirement identifying the entity responsible for filing the CbC report.

Quebec provides tax relief in three ways

Quebec Information Bulletin 2017-3, released on February 21, 2017, provides tax relief in three ways:

1. the tax relief available on the transfer of shares of a family business Corporation in the primary or manufacturing sector is extended to all sectors, retroactive to share dispositions after March 17, 2016

2. the tax arising on certain deemed dispositions of shares in public corporations can be deferred, for deemed dispositions after February 21, 2017

3. the employee stock option deduction will increase from 25% to 50% for options in shares of public corporations that have a significant presence in Quebec, for options granted after February 21, 2017

These measures are also proposed in the February 21, 2017 report "A Plan to Strengthen the Quebec Economy as an Executive-Driven Economy." They aim to improve Quebec's economy by encouraging the head office presence and the control of business, in Quebec.

When these measures are tabled in a bill (expected this fall), further details will be known and changes may be reflected.

Government commits to aggressive timelines for recommendations on tax avoidance and tax evasion

On February 22, 2017, the Minister of National Revenue (Minister) responded to the 14 recommendations in the House of Commons Standing Committee on Finance report "The Canada Revenue Agency, Tax Avoidance and Tax Evasion: Recommended Actions," dated October 26, 2016.

The Minister accepted all the recommendations and states that its response "demonstrates the Government's commitment to crack down on aggressive tax avoidance and tax evasion."

Taxpayers should remain apprised of the potential changes. As mentioned, the Minister has agreed to adopt all 14 recommendations - with short timelines for many.

If enacted, the recommendations to improve the ruling process, increase CRA's technical capabilities and improve CRA and DOJ communications should make Canada's tax system more efficient.

When implementing each recommendation, the Minister will have to strike the appropriate balance between increasing tax revenue and increasing the cost of tax

compliance for business and investment in Canada.

Israel

Israeli budget reduces corporate income tax rates, expands corporate tax incentives

The Israeli Parliament on December 22, 2016, approved the Israeli Budgetary Law for 2017 and 2018 (Budget Law), which, among other changes, reduces the regular corporate tax rate under the Israeli Income Tax Ordinance and expands corporate income tax (CIT) incentives for companies with qualifying operations under the Encouragement of Capital Investments Law, 1959 (Encouragement Law).

The Budget Law reduces the regular CIT rate from 25% to 24% in 2017 and 23% in 2018. The Budget Law also introduces two new tax incentive regimes in addition to several changes to the current tax incentive regimes. The following provides an overview of key tax rate changes and the detailed qualifying rules.

USA

IRS will soon enforce a new law that requires the denial or revocation of passports if certain taxes are unpaid

The Internal Revenue Service (IRS) website states that it will begin enforcing a new law in early 2017 that could result in the US State Department revoking, limiting, or refusing to renew a US passport for travelers with ‘seriously delinquent tax debt.’ The IRS will make the determination of whether a person has such federal tax debt and then send a certification to the State Department. The threshold for when a person has seriously delinquent tax debt is relatively high – in general, when the government has issued either a notice of federal lien or a levy and the amount owed is more than $50,000.

Mobility professionals should await an official notification from the IRS as to when they have processes in place and will be enforcing this new law. In the meantime, they may consider reviewing or developing procedures to review their mobile populations that include US citizens to determine whether any employees could be potentially subject to this new process.

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