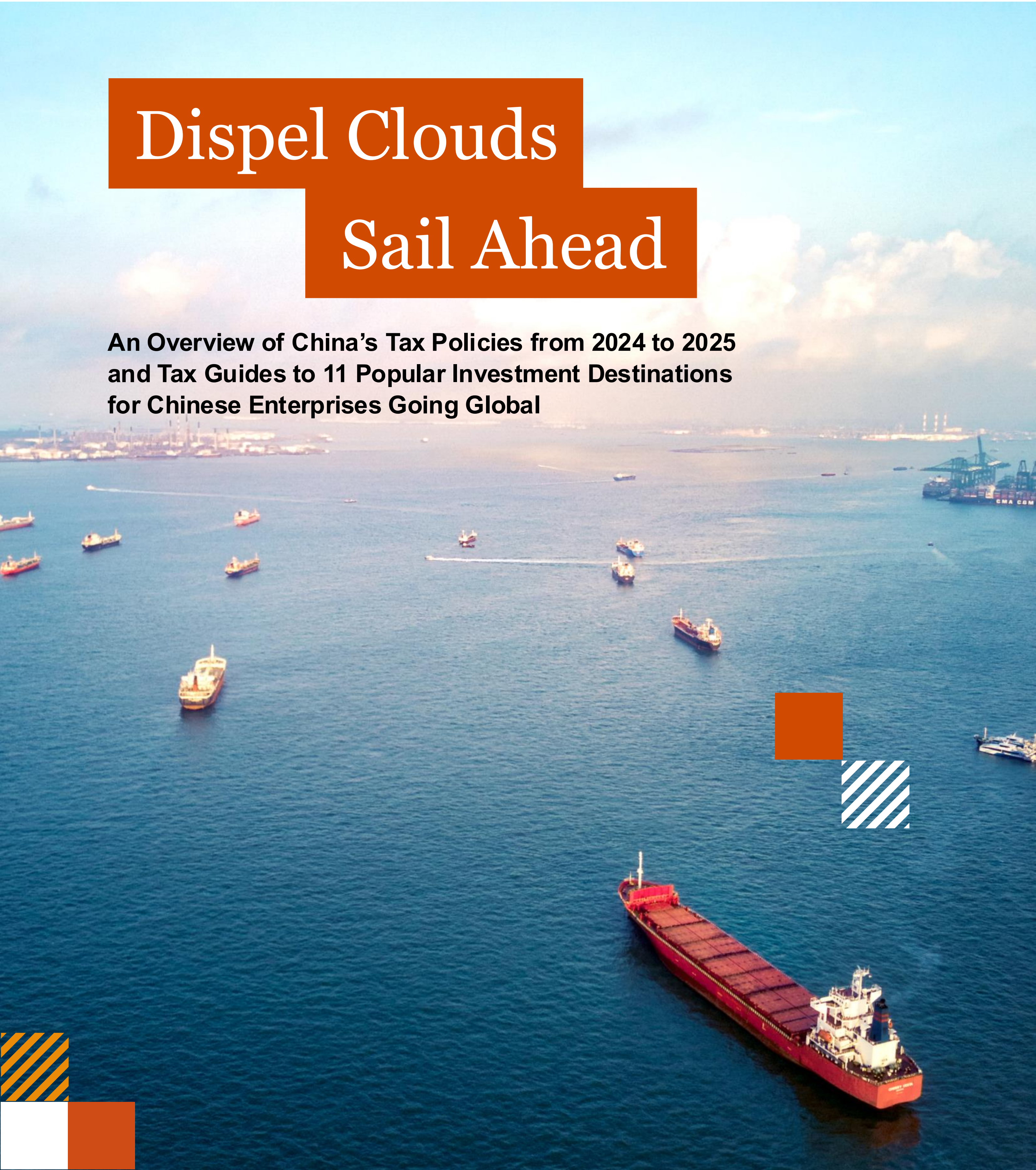
# Dispel Clouds Sail Ahead

**An Overview of China's Tax Policies from 2024 to 2025 and Tax Guides to 11 Popular Investment Destinations for Chinese Enterprises Going Global**



# Contents

# Foreword

In recent years, China's economy has entered a crucial phase of structural adjustment and transformation. As domestic market competition intensifies, Chinese enterprises urgently need to explore new growth pathways. The booming emergence of overseas markets and their vast consumption potential offer unprecedented opportunities for Chinese businesses. Leveraging this momentum, Chinese companies are accelerating their global presence with increasingly prominent international influence. According to the data released by the Ministry of Commerce on January 26, 2025, China's non - financial direct investment abroad in 2024 was $143.85 billion, marking a year-on-year increase of 10.5%—a clear indicator of Chinese enterprises' accelerating global expansion.

The trend of enterprises going global is closely intertwined with the development of China's tax policies. China's tax policies provide support and safeguards for enterprises venturing overseas, and in turn, the overseas expansion of enterprises drives the continuous improvement of tax policies. On one hand, policies such as export tax rebates and foreign income tax credits assist enterprises in reducing costs and prevent them from being double-taxed. On the other hand, the growing scale and increasing complexity of enterprises' overseas operations require more robust frameworks to address cross-border tax disputes and eliminate international double taxation.

The year 2024 witnessed landmark legislative advancements in China's tax system: the introduction of advance tax ruling regulations across multiple regions and the legislative enactment of the Value-Added Tax Law have collectively forged a more equitable, transparent, and stable business tax environment for domestic enterprises. However, as businesses expand globally, they encounter vastly divergent tax landscapes. The tax systems and collection and administration rules vary greatly among different jurisdictions, bringing a lot of uncertainties to enterprises' overseas expansion. From Southeast Asian emerging markets to mature Western economies, variations in taxable categories, rates, incentives, and regulatory mandates demand tailored tax support mechanisms and sufficient preparations to ensure sustainable global growth.

Dispel Clouds, Sail Ahead: An Overview of China's Tax Policies from 2024 to 2025 and Tax Guides to 11 Popular Investment Destinations for Chinese Enterprises Going Global came into being precisely under this backdrop. This publication aims to review major annual tax policy changes in China, analyze policy development trends from a forward-looking perspective, summarize tax hot topics in 11 popular overseas-expansion destinations, and provide guidance for tax decision-making in the process of enterprises going global.

We anticipate that, through the analytical insights and strategic guidance in this publication, enterprises will well understand the evolving tax trends and confidently navigate the complex tax landscapes. Simultaneously, businesses will well perform in the global markets, charting transformative paths to amplify China's international economic influence through compliant and visionary cross-border expansion.

**Charles Lee**

**China Tax Leader**

# Chapter one:

# China 2024 Tax Policy Review and 2025 Outlook

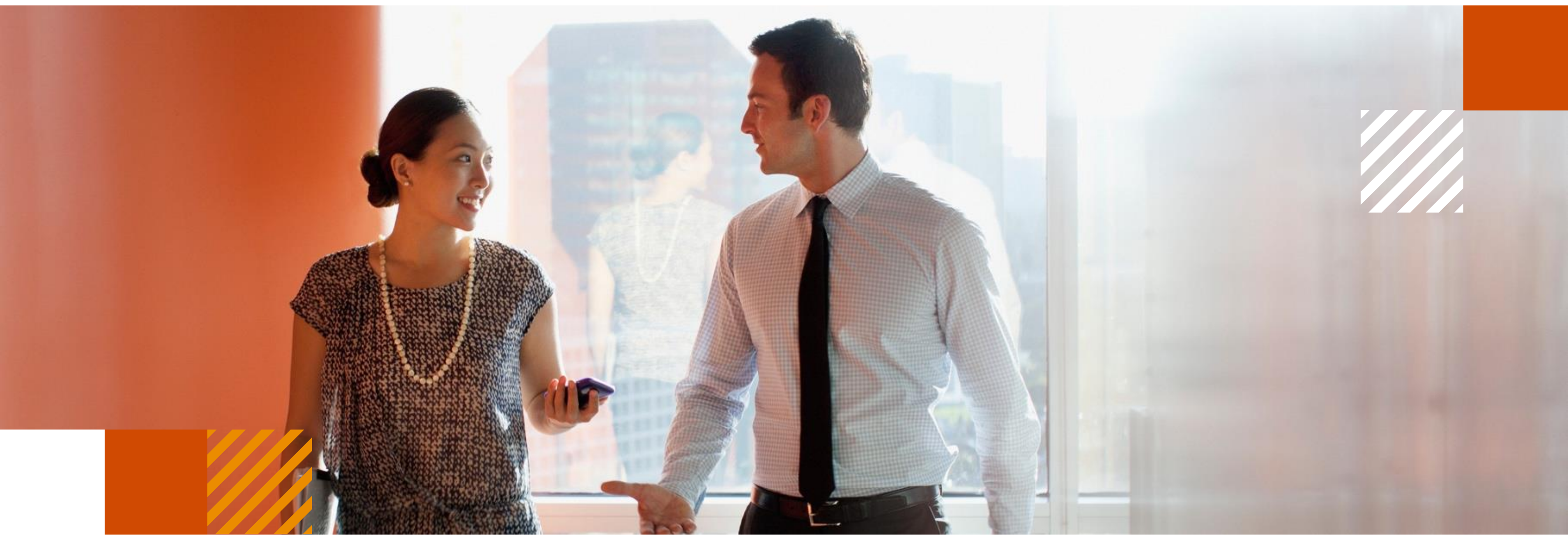
## Section 1: Advancing Tax Service – The Advance Tax Ruling

The advance tax ruling is a critical initiative to optimize the tax business environment, exerting profound impacts on both enterprises and tax authorities. For businesses, the complexity of tax policies often creates ambiguity in determining applicable regulations. Through advance tax rulings, companies can proactively request tax authorities to assess potential tax implications before initiating significant transactions. This mechanism delivers definitive guidance on tax compliance, enabling enterprises to better evaluate costs and support business decision-making. For tax authorities, it facilitates early engagement in corporate decision-making processes, allowing deeper insights into business operations. This proactive approach enhances the precision of tax policy interpretation and streamlines subsequent administrative procedures, thereby reducing disputes arising from inconsistent legal interpretations. Moreover, the accumulation of ruling cases enables continuous refinement of tax management protocols and policy implementation, driving systemic improvements in the overall tax governance framework.

Advance tax ruling has long been established in many developed countries as a mature mechanism, while China has been actively exploring its localized implementation. The State Taxation Administration (STA) has repeatedly emphasized advancing this mechanism in policy documents. In 2020, the Guangzhou Nansha District Tax Administration, issued a local rule to implement advance tax ruling in the region. This was the first time at the district level that the application process for advance tax ruling was clearly and publicly stated in writing. After that, Nanjing, Shenzhen, Shanghai and other places have successively issued rules on advance tax ruling services for complex tax-related matters of (large) enterprises. Although some places have not publicly released the rules of advance tax ruling services, tax authorities are also actively exploring the advance tax ruling, have formulated internal protocols, and accumulated some successful cases. In addition, the Yangtze River Delta region, Guangzhou and Shenzhen have also carried out regional cooperation to explore the integrated operation of advance tax rulings for large enterprises across regions.

In 2024, tax authorities in Beijing, Maoming (Guangdong Province), Chongqing and other places issued measures for advance tax ruling to improve tax business environment and tax certainty. Based on existing measures of multiple places, the mechanisms of advance tax ruling are broadly aligned, though divergences may exist in specific details. Regarding eligibility criteria, the advance tax ruling service in Maoming prioritizes large-scale enterprises, while in Beijing, Shanghai and Chongqing, all taxpayers who are locally registered entities are eligible for the advance tax ruling. In terms of applicable scope, all the measures focus on prospective, complex transactions with ambiguous tax treatment under current laws, requiring reasonable commercial purpose. Situations such as having no implementation plan, not occurring in the short term, or having clear laws and regulations to follow are excluded to avoid waste of resources and abuse of rules.

Although tax advance rulings is not subject to administrative reconsideration or litigation, it builds a bridge of communication and trust between tax authorities and enterprises. Through advance rulings, both parties can engage in full pre-transaction communication and negotiation, reducing tax disputes and fostering a sound tax ecosystem.



## Section 2: China's Tax Legislation: Progress Achieved, Yet Journey Continues

With the deepening of legal system reforms, the principle of rule by law has become a cornerstone of governance. As a critical pillar of national governance, the tax regime must adhere to the principle of statutory taxation.

The principle of statutory taxation mandates that fundamental tax systems—including the establishment of tax categories, determination of tax rates, and tax collection procedures—must be governed by law. This principle ensures clarity and legal authority for tax elements through legislative processes, enabling businesses to accurately forecast tax liabilities and make financial plans under established legal norms. Meanwhile, tax authorities are empowered to enforce administration equitably and streamline tax administration, ensuring both operational efficiency and integrity of the tax system.

The Third Plenary Session of the 18th CPC Central Committee called for the "implementation of the principle of statutory taxation". To date, China has completed over 50% of its tax legislation roadmap. In the past 10 years, the Standing Committee of the National People's Congress enacted key tax laws including the Environmental Protection Tax Law, Vessel Tonnage Tax Law, and Deed Tax Law, while revising the Corporate Income Tax Law and Individual Income Tax Law. Building on this momentum, 2024 witnessed the adoption of the Customs Duty Law and the Value-Added Tax Law. As of 2025, 14 out of China's 18 statutory tax categories have been codified into law, with ongoing legislative efforts for categories like the Consumption Tax Law and the Land Appreciation Tax Law.

### Customs Duty Law

In April 2024, the Ninth Session of the Standing Committee of the National People's Congress reviewed and approved the Customs Duty Law, which came into effect on December 1, 2024. The promulgation of this law marks a pivotal step in advancing foreign trade, expanding institutional opening-up, and driving high-quality development, while also fulfilling a core objective of China's tax legislation reform.

The Customs Duty Law maintains the fundamental stability of the current customs duty system, ensuring that overall customs duty burdens remain unchanged. Additionally, the law clarifies the authority to adjust tax items and rates, defines tax obligations for new business forms and trade practices, actively integrates with international high-standard economic and trade rules, enhances customs duty administration by codifying proven practices developed in response to global trade evolution, and resolves controversial ambiguities while enhancing consistency with other tax administration regulations.

It is observed that, compared to the Customs Law and the Regulations on Customs Duties, the Customs Duty Law de-emphasizes stipulations related to customs audits and reviews in its tax collection provisions. This aligns with the modern management philosophy of "self-assessment and self-payment" for import and export goods and places greater demands on taxpayer declarations. Furthermore, the Customs Duty Law explicitly establishes "promoting foreign trade, advancing high-standard opening-up, and driving high-quality development" as one of its legislative objectives. During the legislative process, the law thoroughly integrated emerging models in customs tax administration. Such forward-looking legislative practices will undoubtedly incentivize customs and related authorities to better adapt to innovative models and emerging trade practices, enabling more profound and effective reforms of revenue collection mechanisms.

## Value-Added Tax Law

After three rounds of deliberation, the Standing Committee of the National People's Congress approved the Value-Added Tax Law in December 2024. China's first Value-Added Tax Law will officially take effect on January 1, 2026, replacing the Provisional Regulations on Value Added Tax that have been in force for 31 years.

The enactment of the Value-Added Tax Law is of historic significance, marking a milestone in China's tax legislation. As the largest tax category in China, elevating value-added tax to statutory law has consolidated the achievements of value-added tax reforms since 1994, enhanced the certainty and stability of value-added tax policies, and established a legally robust framework for the value-added tax regime. This represents a pivotal step in implementing the "principle of statutory taxation".

The Value-Added Tax Law explicitly states in its legislative purpose the imperative to refine a value-added tax system conducive to high-quality development, regulate collection and payment, and protect the legitimate rights and interests of taxpayers. The inclusion of "protecting taxpayers' rights and interests" in the legislative purpose embodies respect for the principal status of taxpayers. When complex economic activities occur, in scenarios where certain legal and regulatory provisions are subject to ambiguous interpretation or lack explicit stipulations, the legislative purpose oriented toward protecting taxpayers' rights and interests can provide guidance for tax treatment. This ensures that taxpayers, while fulfilling tax obligations in accordance with the law, receive comprehensive safeguarding of their rights and interests.

The Value-Added Tax Law integrates "taxable transactions" and imported goods into the taxable scope, and clarifies specific scenarios of taxable transactions occurring within the territory, defining the scope of taxable transactions more clearly. Simultaneously, the situations of deemed sales are reduced to minimize tax disputes. In terms of tax rates, the Value-Added Tax Law maintains VAT rates of 13%, 9%, and 6%, as well as a zero tax rate. The levy rate of the simplified tax calculation method is clearly set at 3%, and the 5% levy rate is not mentioned. Whether the 5% levy rate currently applicable to real estate sales and other items will be retained remains to be further clarified. For tax incentives, the Value-Added Tax Law authorizes the State Council to establish specific criteria and formulate specialized preferential policies. It also incorporates provisions for the State Council to conduct timely evaluations and adjustments of value-added tax preferential policies, making the tax incentive policies more systematic and flexible. Regarding collection and administration, the Value-Added Tax Law adopts "data-driven tax governance" as the overarching direction, promotes the use of electronic invoices, implements data sharing and digitalization, and establishes third-party administrative collaboration and information sharing systems to enhance the efficiency and accuracy.

The Value-Added Tax Law will take effect on January 1, 2026, providing transitional period for businesses to assess impacts, make plans, and for the government to formulate implementation rules. Additional interpretations and transitional guidelines are anticipated to be issued throughout 2025.

## Roll-out of Water Resource Fee-to-Tax Transition

China initiated pilot reforms on water resource tax in 2016. Prior to the pilot, water resource levies were governed by administrative fee regulations, whereas the principle of statutory taxation mandates that taxes be legally codified. Consequently, water resource tax were integrated into the Resource Tax Law framework, achieving the fee-to-tax transition through pilot programs.

China has successively launched pilot reforms on the water resource tax in multiple provinces and cities including Hebei, Beijing, and Shanxi, etc. After accumulating sufficient experience from the reform pilots, the Ministry of Finance (MOF), the STA, and the Ministry of Water Resources issued the Implementation Measures for the Pilot Reform of Water Resource Tax in October 2024, specifying that the pilot program of transitioning water resource levies to taxes would roll out nationwide effective from December 1, 2024.

The reform adheres to categorized regulation and regionally differentiated principles. Specifically, higher tax rates apply to water extraction in severely water-scarce regions and overexploited zones to deter groundwater depletion and non-essential water consumption. It also establishes region-specific minimum tax thresholds based on local water resource availability and economic conditions, authorizing local governments to set tax rates within statutory parameters.

With the nationwide roll-out of water resource tax reforms, water resource levies have been phased out, ensuring tax burdens for most enterprises remain stable. The reform has played a significant role in guiding rational resource allocation. Statistics show that from 2018 to 2023, taxable groundwater extraction volumes in pilot regions decreased by 17.7%.

The reform impacts on enterprises directly extracting water. In areas with severe groundwater overexploitation, tax burdens for enterprises extracting groundwater may increase significantly, potentially driving high-water-consumption industries to industrial restructuring in the long term. Additionally, enterprises must accurately report and pay water resource taxes in compliance with regulations, necessitating robust internal tax compliance systems and coordinated efforts between finance and operation departments to ensure accurate tax filings.

## Section 3: Multiple Tax Policies Promote Industrial Upgrading and Innovation

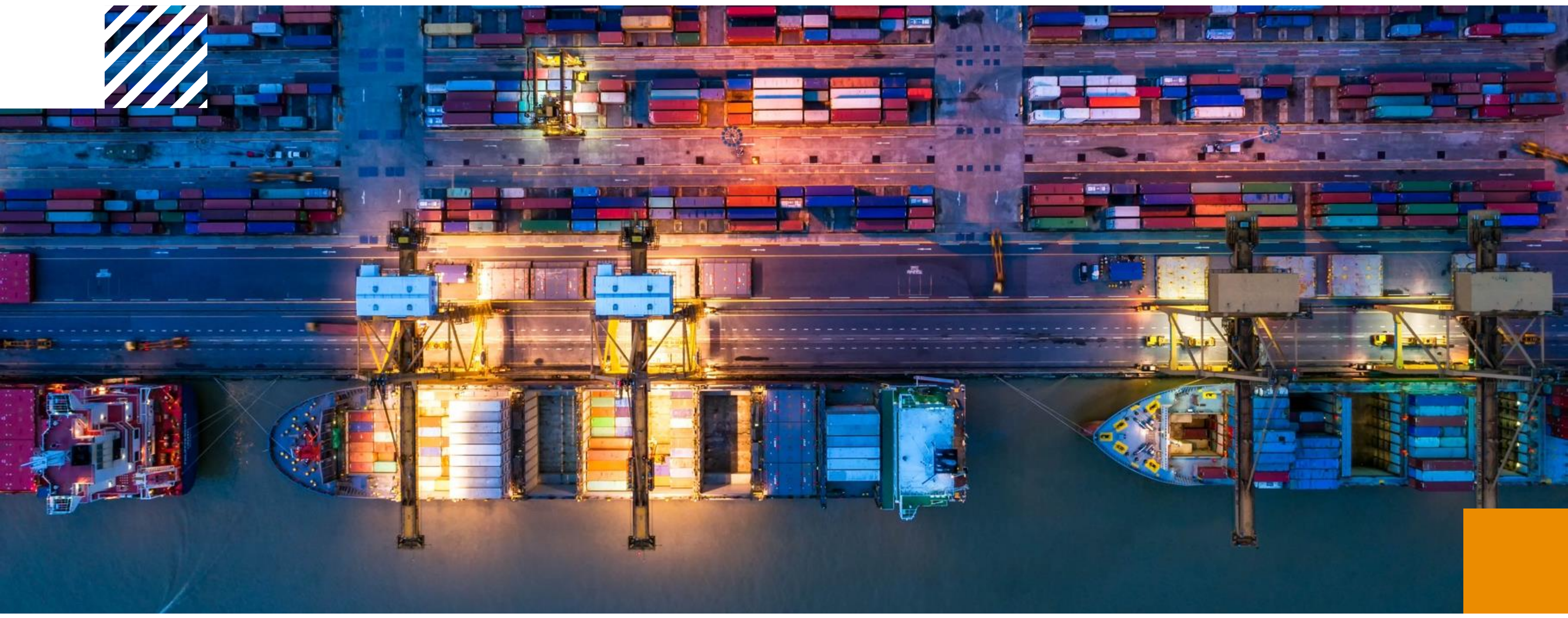
Accelerating industrial structure optimization and maintaining a commitment to innovation-driven development are critical to achieving high-quality growth in China. In recent years, guided by this philosophy, enterprises have shown vigorous engagement. Restructuring and reorganization activities have become increasingly frequent, enhancing competitiveness and vitality through optimized internal structures and resource allocation. The pace of machinery and equipment upgrades has accelerated, with advanced production technologies and equipment coming into widespread use to improve production efficiency and product quality. Capital has poured into technological innovation, with enterprises increasing R&D investments and proactively pioneering new technologies.

To support industrial upgrading and innovation, China's fiscal and tax authorities have issued a series of tax policies in recent years. In terms of encouraging R&D investment, the continuous increase in the super-deduction ratio for R&D expenses enables enterprises to deduct more R&D costs when calculating taxable income, thereby reducing their tax burden. For high-tech industries and advanced manufacturing industries, the government has been providing comprehensive preferential policies, ranging from corporate income tax reductions to value-added tax preferential treatments, which have accelerated the rapid development of high-tech and advanced manufacturing industries, gradually making them new engines of economic growth. The implementation of a regularized input value-added tax credit refund system has effectively alleviated the cash flow pressure on manufacturing enterprises, providing them with more sufficient funds for technological upgrades and new product development, thereby promoting manufacturing toward high-end development.

In 2024, China's fiscal and tax authorities, building upon previous policies, further introduced the following measures to support industrial upgrading and innovation.

### Stamp Tax Policies for Enterprise Restructuring and Institutional Reforms

The Public Notice [2024] No. 14, jointly issued by the MOF and the STA, further refined stamp tax policies related to enterprise restructuring, reorganization, bankruptcy liquidation, and institutional reforms of public institutions. Notably, the Public Notice expanded the applicable scenarios of preferential policies for property transfer agreements and clarified the stamp tax implications on some previously controversial restructuring activities. According to the Public Notice, property transfer agreements for mergers, spin-off, bankruptcy liquidations, and internal transfers of land, property, or equity within the same investment group are exempt from stamp tax. These measures reduce the costs of enterprise restructuring and institutional reforms, further stimulating the internal dynamism and innovative vitality of market entities and promoting high-quality economic and social development.



### Corporate Income Tax Policies for Digital and Intelligent Transformation of Equipments for Energy and Water Conservation, Environmental Protection and Safety Production

The Public Notice [2024] No. 9, jointly issued by the MOF and STA, focuses on the digital and intelligent transformation of equipment for energy and water conservation, environmental protection and safety production. With the advancement of science and technology, traditional specialized equipment are faced with an urgent need for upgrading, and this policy comes at just the right time. From January 1, 2024 to December 31, 2027, for an enterprise that makes investment in digital and intelligent transformation of specific equipment, it may use 10% of the investment up to 50% of the equipment's original tax basis at the time of purchase to offset against its current-year tax payable.

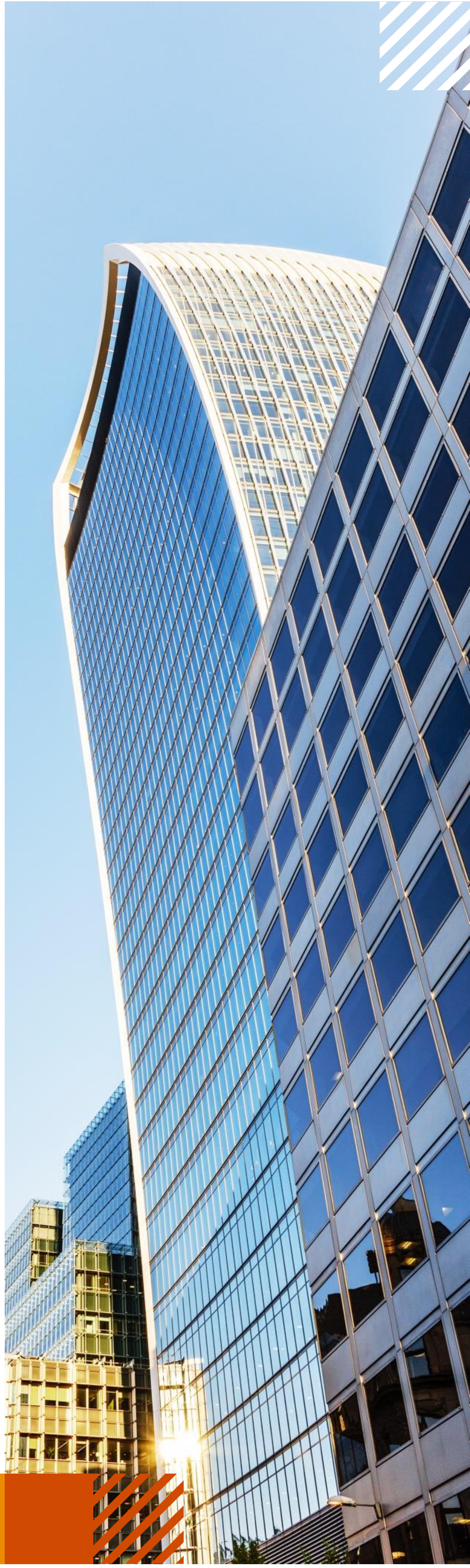
The implementation of this policy strongly encourages enterprises to invest in digital and intelligent upgrades. For example, upgrading air pollution control equipment with digital and intelligent technologies not only improves efficiency and quality of environmental protection but also reduces costs of enterprises through tax incentives, achieving a win-win situation for economic and environmental benefits.

### Individual Income Tax Preferential Treatment on Equity Incentives of Listed Companies

The Public Notice [2024] No. 2, jointly issued by the MOF and STA, outlines individual income tax preferential policies for equity incentives of listed companies. The policy extends the deferral tax period for stock options, restricted shares, and equity rewards granted by domestic listed companies to individuals from 12 months (as stipulated in Caishui [2016] No. 101) to 36 months.

Talent is the core competitiveness of enterprise innovation and development, and equity incentives are a key tool to attract and retain talent. This policy alleviates the individual income tax burden on equity incentive recipients, retains talents, and provides intellectual support for industrial transformation. Simultaneously, it enables enterprises to implement equity incentive plans more flexibly, attract talents, enhance core competitiveness, and accelerate high-end industrial development.

The policies implemented by China's fiscal and tax authorities in 2024 have provided robust support for industrial transformation and upgrading from multiple aspects. They have assisted enterprises in reducing costs, enhancing innovation capabilities, and strengthening market competitiveness, thereby propelling China's economy toward a higher-quality and more innovation-driven direction.



## Section 4: 2025 China Tax Policy Outlook

Amidst the current adjustments in the global economic landscape and domestic economic transformation, the direction of China's fiscal and tax policies in 2025 has attracted significant attention. According to the 2025 Report on the Work of the Government, China will "implement more proactive and impactful macroeconomic policies" in 2025. Specifically, the country will "accelerate the shift of the consumption tax collection on certain items to later stages and devolve it to local governments to enhance their fiscal autonomy; standardize tax incentive policies; actively explore the establishment of incentive mechanisms to encourage local governments to cultivate new revenue sources through high-quality development". Against the backdrop of the overall tax environment, PwC anticipates that China's tax policies and administration in 2025 will demonstrate movements in the following aspects:

### Implementation Rules for the Value-Added Tax Law

The Value-Added Tax Law was officially passed in 2024 and will take effect on January 1, 2026. To ensure its smooth implementation as scheduled, the STA will release the Implementing Regulations for the Value-Added Tax Law within 2025. Based on past practical experience, implementing regulations often provide detailed interpretations and supplements to the principled provisions in the law. While the Value-Added Tax Law clarifies key elements such as the tax rate and scope of tax, specific rules for taxing special types of transactions, adjustments to preferential policies targeting specific sectors, and other matters still require further clarification in the implementing regulations. For instance, the Value-Added Tax Law introduces the destination principle, and the definition of "consumption within the territory" may be further clarified in the implementing regulations.

### Potential Progress in Consumption Tax Reform

The shift of the consumption tax collection to a later stage stands as a key focus of China's current consumption tax reform. That is, the collection of some current consumption tax items will be gradually shifted from the point of production or import to the wholesale or retail stage. This strategic adjustment aims to expand local revenue sources while encouraging local governments to prioritize consumer environment improvements. However, implementing this reform requires comprehensive considerations. Legislators must carefully assess multiple factors including impact on tax burdens across a variety of commodities, precise demarcation of taxation stages, transition period arrangements, etc. Controllable tax administration remains a fundamental prerequisite for successful reform. Notably, the continuous enhancement of tax collection and administration capabilities in recent years has laid solid groundwork for these institutional adjustments. We anticipate new developments in China's consumption tax reform framework during this year's legislative agenda.

### Increased Tariff as a Result of the Escalated US-China Trade Tension

Following the inauguration of President Trump, his policy of "domestic tax cuts and external tariff increases" will be swiftly implemented. From the current situation, the U.S.-China trade tensions in 2025 will further escalate. As the tariff game involves multiple factors, the trajectory of the U.S.-China trade disputes in 2025 remains highly uncertain. Enterprises need to re-examine their supply chains, make rapid and flexible adjustments to supply chain strategies based on actual conditions, and continuously monitor the developments of both sides.

### Tax Legislation in Progress

According to the Legislative Plan of the 14th National People's Congress Standing Committee, the Value-Added Tax Law, Consumption Tax Law, Custom Duty Law, and Tax Collection and Administration Law are all categorized as Category I Legislative Projects — indicating relatively mature conditions for prioritization in deliberation and legislative promotion during the five-year term of the 14th National People's Congress Standing Committee. Among these, the Value-Added Tax Law and Customs Duty Law were officially passed in 2024. The 2025 National Taxation Work Conference mentioned "actively advancing the revision of the Tax Collection and Administration Law". The STA released the Revised Draft of the Tax Collection and Administration Law in late March 2025, proposing a comprehensive revision to the 2001 version of the Tax Collection and Administration Law. The public consultation period is open until 27 April 2025. As a Category I Legislative Project, we expect more progress in the revision of the Tax Collection and Administration Law in 2025.

## Tax Collection and Administration under Digital Transformation

Digital transformation continues to drive the reform of China's tax collection and administration. With the development of modern cutting-edge information technologies, big data, cloud computing, artificial intelligence, and other technologies are being applied throughout the entire tax collection process. Tax authorities can utilize algorithmic models to identify suspicious clues from massive data and precisely deal with risks. The 2025 National Taxation System Conference emphasized the need to thoroughly implement the "Strengthening the Foundation Project" for tax and fee collection under digital transformation, taking the comprehensive optimization of tax filing administration as the entry point to actively building a new administration model. The consolidated foundational tax data will further drive the intelligent aggregation and analysis of multi-tax categories, multi-teams, and various tax and fee information, forming a more robust digital governance capability. Therefore, in the future, tax authorities' risk supervision over taxpayers will become more accurate and comprehensive. Enterprise management should strengthen internal tax risk controls, while individual taxpayers should further enhance legal awareness to address the challenges brought by the digital transformation of tax collection and administration.

## New Methods to Attract Business and Investment

The Fair Competition Review Regulation and its implementation measures were promulgated in June 2024 and March 2025 respectively, forming the legal framework for government investment promotion activities. According to the Regulation and its implementation measures, local governments are prohibited from granting specific operators tax incentives, implementing selective or differentiated fiscal rewards or subsidies that affect production and operation costs without legal authorization, or from providing preferential treatment in areas such as resource access, administrative charges, government funds, or social insurance contributions. Following the promulgation of the Regulation, many local governments have begun reviewing and evaluating their investment promotion policies, while planning adjustments to ensure compliance. Some enterprises may face uncertainties due to changes in subsidy policies. In the future, investment models overly reliant on local fiscal incentives will gradually diminish. Local investment authorities will prioritize soft indicators such as capital support, professional services, and diversified partnerships, pursuing fairer and more efficient methods. Enterprises should pay attention to and assess the implementation details of the Regulation and its impacts on government policies and business operations.

Chapter two:

# Tax Guides to 11 Popular Investment Destinations for Chinese Enterprises Going Global

# Hong Kong Special Administrative Region

Hong Kong's tax system is renowned for its simplicity and competitiveness. Currently, it imposes two major types of taxes, i.e. income taxes (namely profits tax, salaries tax and property tax) and stamp duty. There is no turnover tax such as VAT, nor is there customs duty except in respect of limited types of goods. For a brief introduction to each specific type of tax, please refer to PwC Worldwide Tax Summaries - Hong Kong.

Hong Kong imposes income taxes on a territorial basis. This means that generally income is taxed in Hong Kong only if it arises in or is derived from Hong Kong (i.e. onshore income). Meanwhile, certain onshore income is non-taxable/exempt, including capital gains, dividends and bank interest.

As of January 2025, Hong Kong has signed more than 50 tax treaties with different jurisdictions. It has been expanding its tax treaty network, especially with countries of the Belt and Road Initiative, including Armenia, Bahrain, Croatia and Türkiye with which Hong Kong has recently signed tax treaties.

In recent years, Hong Kong's tax system has undergone several significant changes, particularly with the refinement of its foreign-sourced income exemption (FSIE) regime and the introduction of various industry-specific tax incentives. Given that tax considerations are crucial in strategic business planning, MNC investors looking to invest in Hong Kong should understand Hong Kong's dynamic tax landscape and incorporate tax considerations early in their decision-making process.

The following outlines the hot issues that MNC investors are most concerned about when investing in Hong Kong, as well as anticipated future trends in Hong Kong's tax landscape.

## Part one: Hot tax issues that MNC investors are most concerned about

### 1.1 Overview and tax incentives

A person (including a corporation) who carries on a trade, profession or business in Hong Kong is chargeable to profits tax on the profits from that trade, profession or business (excluding profits that are capital in nature) that arise in or are derived from Hong Kong. The tax residence of a person is generally irrelevant for profits tax purposes.

Subject to certain conditions, corporations are subject to two-tiered profits tax rates in Hong Kong, at 8.25% on the first HK$2 million of profits and 16.5% on the remaining profits.

To bolster the development of industries, preferential tax treatments are available to targeted classes of taxpayer/income. Common scenarios eligible for these preferential tax treatments include:

- Tax concessions for targeted industries: Subject to certain conditions, reduced tax rates (ranging from 0% to 8.25%) or tax exemptions are available to insurers, aircraft/ship lessors, aircraft/ship leasing managers, shipping commercial principals, corporate treasury centres, investment funds, single family office-managed family investment vehicles and carried interest, etc.

- Tax concessions for R&D: Subject to conditions, super deductions up to 300% are available for expenditures incurred on qualifying R&D activities undertaken and carried on in Hong Kong. In addition, intellectual property (IP) income derived from certain IP generated from R&D is subject to tax at a 5% concessionary tax rate if certain conditions are met.

- Tax certainty enhancement scheme: Onshore equity disposal gains will be regarded as capital in nature and not taxable if certain conditions are met, which include, among others, a 15% holding percentage and a 24-month holding period.

### 1.2 FSIE regime

Under the FSIE regime, four types of offshore income, namely (1) dividends, (2) interest, (3) IP income (essentially royalties) and (4) disposal gains, are deemed to be taxable if the income is received in Hong Kong by an MNC entity carrying on a trade, profession or business in Hong Kong (irrespective of its revenue or asset size), unless the relevant exception requirement is met. Generally, an MNC entity is required to have adequate economic substance in Hong Kong in order to preserve its non-taxable claim on the offshore income (except for IP income and IP disposal gains which are subject to another requirement).

### 1.3 Taxation of non-residents and application of tax treaties

Non-resident enterprises carrying on a business in Hong Kong, irrespective of whether through a permanent establishment (PE), are generally subject to profits tax in the same manner as resident enterprises.

Hong Kong does not impose withholding tax on dividends and interest. On the other hand, royalties paid to non-resident enterprises not carrying on a business in Hong Kong are generally subject to withholding tax at an effective tax rate ranging from 2.475% to 4.95%. If the non-resident enterprises receiving the royalties are tax residents of jurisdictions that have signed tax treaties with Hong Kong, they may enjoy lower withholding tax rates under specific conditions.

### 1.4 Transfer pricing (TP)

Following the international norm, Hong Kong has enacted legislation introducing a comprehensive TP regulatory regime and TP documentation requirements.

The TP regulatory regime contains rules empowering the Hong Kong Inland Revenue Department (IRD) to impose TP adjustments on both domestic and cross-border related-party transactions that are not conducted on an arm's-length basis, with exemptions for certain specified domestic transactions. Additionally, the legislation adopts the Authorised OECD Approach (i.e. the separate enterprises principle) for attributing profits to a PE of a non-resident operating in Hong Kong.

Under the mandatory 'three-tiered' TP documentation requirement, resident enterprises and Hong Kong PEs of non-resident enterprises are required to prepare TP documentation, namely a master file, a local file and a country-by-country report, unless exemptions apply.

With the push for greater tax transparency and the increased focus on TP in the international tax arena, related party transactions have come under close scrutiny by the IRD in recent years. To manage and mitigate TP disputes, taxpayers may consider applying for Advance Pricing Arrangements (APAs). An APA is an arrangement that determines, in advance of controlled transactions, an appropriate set of criteria for establishing the TP of those transactions. In Hong Kong, there is a formal statutory APA scheme which allows unilateral/bilateral/multilateral APAs to be made.

## Part two: Outlook for 2025 and beyond

Driven by several factors, including the need to align with international tax rules and enhance Hong Kong's tax competitiveness, significant changes have been announced for Hong Kong's tax landscape in 2025. Pending amendments to the tax law, the following key changes are expected:

### 2.1 Implementation of Pillar Two rules

As a member of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS), Hong Kong is committed to implementing the global anti-base erosion (GloBE) rules (i.e. global minimum tax at 15%) under Pillar Two of BEPS 2.0. Subject to the passage of the legislation, Hong Kong will adopt the income inclusion rule (IIR) and the Hong Kong domestic minimum top-up tax for a fiscal year beginning on or after 1 January 2025, and the undertaxed profits rule (UTPR) at a later date to be specified.

MNC investors who fall within the scope of Pillar Two should carefully consider the potential implications of the Pillar Two top-up tax when planning to invest in Hong Kong.

### 2.2 Introduction of an inward company re-domiciliation regime

In late 2024, a legislative bill was gazetted to propose an inward company re-domiciliation regime, enabling non-Hong Kong companies to transfer their domicile to Hong Kong while maintaining their legal identities. This will provide a comparatively simple and cost-effective route for overseas companies to re-register their place of incorporation to Hong Kong instead of winding-up the existing company in the original domicile and then incorporating a new Hong Kong company. The bill also introduces provisions for transitional tax matters and unilateral tax credits to facilitate a tax-neutral re-domiciliation process, thereby providing re-domiciled companies with greater degree of certainty concerning their tax liabilities and obligations in Hong Kong.

With the proposed introduction of the company re-domiciliation regime, MNC investors may consider re-domiciling their existing overseas companies to Hong Kong to leverage the city's favourable tax and business environment.

### 2.3 Further enhancements to the tax concessions for investment funds, single family office-managed family investment vehicles and carried interest

To consolidate Hong Kong's status as a leading asset and wealth management (AWM) hub, the Hong Kong Special Administrative Region government is proposing to enhance the tax concessions for investment funds, family investment vehicles managed by single family offices and carried interest. The proposed enhancements include reviewing the scope of the tax concessions, increasing the types of qualifying transactions and improving flexibility for incidental transactions. An industry consultation was conducted to collect feedback on the proposed changes.

MNC investors in the AWM industry should closely monitor the development in this area to assess whether and how they can benefit from these enhancement measures.

**Author:**

Kathy Kun
Tax Director, PwC Hong Kong SAR
kathy.cy.kun@hk.pwc.com

**Co-author:**

Jeremy Ngai
South China Tax Leader, PwC Hong Kong SAR
jeremy.cm.ngai@hk.pwc.com

## Singapore

Foreign direct investments (FDIs) continue to play a crucial role in driving economic growth by bringing in new companies and helping existing businesses grow, enhancing the overall competitiveness of the Singapore economy. For the detailed introduction to the tax regime of Singapore, please refer to PwC Worldwide Tax Summaries - Singapore.

To attract foreign enterprises in setting up or expanding operations in Singapore, the Singapore government has established a number of tax incentives that Singapore business could apply for, depending on the nature and extent of activities carried out in Singapore.

In alignment with the global Base Erosion and Profit Shifting (BEPS) 2.0 initiative, Singapore has introduced a minimum effective tax rate of 15% with effect from 1 January 2025. This has negated the attractiveness of Singapore's tax incentive regimes leading foreign enterprises in reconsidering Singapore has a location for its outbound investments. The tax incentive regime has therefore been enhanced and new measures are introduced with an aim to continue attracting FDIs.

**1. Development and Expansion Incentive (DEI)**

The DEI, administered by the Economic Development Board (EDB), was introduced in 1997 to encourage companies to grow capabilities and conduct new and expanded activities in Singapore, with two concessionary tax rate tiers of 5 per cent and 10 per cent, subject to conditions. A higher concessionary tax rate tier of 15 per cent was introduced to allow companies to continue qualifying for the DEI despite global tax changes.

**2. Refundable Investment Credit**

The Refundable Investment Credit (RIC) was first announced in Budget 2024 to encourage companies to make sizeable investments that bring substantive economic activities to Singapore, in key economic sectors and new growth areas. The EDB and Enterprise Singapore (EnterpriseSG) will award the RIC based on qualifying expenditures incurred by the company in respect of a qualifying project, during a qualifying period of up to 10 years.

The RIC supports six types of qualifying activities:

I. Investing in new productive capacity

II. Expanding or establishing the scope of activities in digital services, professional services, and supply chain management

III. Expanding or establishing headquarters activities or centres of excellence

IV. Carrying out R&D and innovation activities

V. Implementing solutions with decarbonisation objectives

VI. Setting up or expanding activities by commodity trading firms.

Qualifying activities must be in support of proposed projects to be undertaken in Singapore that are in line with Singapore's priority economic growth areas such as Advanced Manufacturing, International Trade, Supply Chain Management, Mobility, Digitalisation & Artificial Intelligence, and Green Economy.

RIC provides for up to 50% support rates on qualifying expenditure including manpower, capital expenditure, professional fees, freight and logistics costs, materials and consumables, etc.

The credits are to be offset against corporate income tax payable. Unutilised RICs may be carried forward to offset tax liability in subsequent years and any remaining unutilised credits will be refunded to the company in cash within four years from when the company satisfies the conditions for receiving these credits.

**Budget 2025**

Prime Minister and Finance Minister Mr Lawrence Wong announced the Singapore Budget 2025 on 18 February 2025. Several measures were announced to position and bolster Singapore's next phase of growth and they include:

1. Measures to strengthen the development of Singapore's equities market

As enterprises scale up, they may also list on a stock exchange to access more capital. To attract new listings in Singapore, a listing corporate income tax rebate of 20 per cent will be granted to Singapore-based companies seeking a primary listing on the Singapore Stock Exchange (SGX). This rebate will be 10 per cent for entities seeking secondary listings. The rebate should lighten the financial burden for companies considering a Singapore listing and encourage fundraising on the SGX.

Coupled with non-tax initiatives to be announced in due course, the listing rebate should boost attractiveness for companies to list on SGX and signal Singapore's position as a vibrant equities market.

2. Global Founder Programme

Recognising the importance of entrepreneurship in driving economic growth, Singapore is launching the Global Founder Programme (GFP) which aims to attract high-potential startup founders and venture capitalists by offering fast-tracked work passes and permanent residency pathways for top-tier entrepreneurs. It is a strategic initiative by the EDB to attract and support seasoned entrepreneurs with a proven track record of building successful businesses to establish their next venture in Singapore.

The GFP aims to foster a vibrant ecosystem for both startups and established businesses, driving economic growth and creating new opportunities for collaboration and innovation. The programme underscores Singapore's commitment to nurturing a dynamic and forward-looking business environment.

3. Deduction on cost-sharing agreement

One of Singapore's key priorities is to ensure a strong, innovative and vibrant economy. For Singapore to sharpen its competitive edge globally, research and development (R&D) is needed to push the frontiers of innovation across its entire economy.

Currently, the government offers various tax incentives, grants and enhanced tax deductions on qualifying R&D activities. To further increase its efforts to support R&D activities, a significant tax measure aimed at fostering innovation through collaborative efforts was introduced. With effect from 19 February 2025, a tax deduction will be granted for payments under an approved cost sharing agreement for innovation activities. This initiative is designed to stimulate collaborative innovation that may not strictly fall under the definition of research and development (R&D) currently defined in the tax legislation for any tax deduction to be allowed. This is particularly advantageous for small and medium-sized enterprises (SMEs) that may lack the resources to undertake innovation independently.

**Johor-Singapore Special Economic Zone**

Tax measures aside, Singapore has concluded a Johor-Singapore Special Economic Zone (JS-SEZ) Agreement with Malaysia on 6 January 2025. The JS-SEZ combines Singapore's strengths as a business and financial hub and Johor's abundant resources. Under the collaboration, Singapore businesses in 11 economic sectors (i.e. manufacturing, logistics, food security, tourism, energy, digital economy, green economy, financial services, business services, education, and health) can expect to expand their businesses to Johor with enhanced connectivity of goods and people. The JS-SEZ could alleviate business concerns of enterprises from a cost, labour and land scarcity perspectives, and opens up a whole new dimension for enterprises considering Singapore as a location to expand abroad.


**Author：**

**Emily Wu**
Tax Partner, PwC Singapore
emily.m.wu@pwc.com

**Co-author：**

**Iris Pang**
Tax Leader of Singapore Desk, PwC China
iris.pang@cn.pwc.com


## Malaysia

Malaysia is increasingly recognised as an investment hub, particularly in big tech and manufacturing. Significant investments in artificial intelligence (AI) infrastructure and advanced technologies highlight the importance of growing the digital economy. Guided by the New Industrial Master Plan (NIMP) 2030, the government is committed to nurturing high-value and innovation-driven sectors such as aerospace, chemical, electrical and electronic (E&E), pharmaceutical and medical devices. The main categories of taxes applicable to businesses in Malaysia include income taxes (corporate tax and personal tax), consumption taxes (Sales and Service Tax), capital gains tax, real property gains tax and stamp duty. For a detailed overview of each specific tax, please refer to the PwC Worldwide Tax Summaries – Malaysia.

Malaysia's tax system is constantly evolving to align with the country's economic agenda and the need to widen the tax base. MNCs investing in Malaysia must gain a thorough understanding of the local tax environment and stay informed about ongoing developments, integrating these considerations into their business strategies. Below is a summary of key tax developments MNCs should be aware of, along with expected trends in Malaysia's tax landscape for 2025 and beyond.

## Part one: Recent tax developments relevant to MNCs

### 1.1 Tax incentives

Malaysia offers a range of tax incentives to attract foreign investment, particularly in high-value and innovation-driven sectors. These incentives are designed to support the country's economic growth, digital transformation, and environmental sustainability goals. Key incentives include Pioneer Status (in the form of tax exemption), Investment Tax Allowance (incentive granted based on the capital expenditure incurred), and various special economic zones incentives. These incentives are generally available to companies that engage in promoted activities or produce promoted products, subject to qualifying conditions.

The Johor-Singapore Special Economic Zone (JS-SEZ) is a newly launched incentive scheme designed to attract MNCs to invest in Malaysia, particularly in the Johor region. The JS-SEZ offers a comprehensive tax incentive package for various flagship areas (combination of Iskandar Malaysia and Pengerang areas), focusing on high-value and innovation-driven sectors such as AI, quantum computing, and global business services.

Key incentives offered under the JS-SEZ include a special corporate income tax rate of 5% for up to 15 years for manufacturing businesses involved in AI, quantum computing, medical devices, pharmaceuticals, aerospace manufacturing and maintenance services. The incentive package also features a 100% Investment Tax Allowance on qualifying capital expenditure for five years, which can be applied against 100% of statutory income for companies that relocate their overseas facilities for a new business segment into Malaysia. Knowledge workers are also eligible for a 15% personal tax rate for 10 years. For a snapshot of the incentives, please refer to TaXavvy 4-2025.

Incentives are also offered for green technology/renewable energy. Activities which qualify for incentives include investments in green hydrogen, electric vehicle (EV) charging stations, integrated waste management, generation of renewable energy, solar leasing, etc. For a snapshot of the incentives, please refer to TaXavvy 32-2024.

To support the comprehensive development of Malaysia's digital ecosystem including data centres and cloud computing, the Digital Ecosystem Acceleration (DESAC) Scheme which provides tax incentives to qualifying digital companies has been introduced in conjunction with the Guidelines for Sustainable Development of Data Centre (SDDC). An outcome-based incentives where the corporate tax rate is reduced down to 10% for a period of up to 10 years or Investment Tax Allowance of up to 60% on qualifying capital expenditure for up to 5 years is offered. Under the SDCC, sustainable data centre status is determined based on power usage effectiveness, carbon usage effectiveness and water usage effectiveness. Applications for the tax incentives are available until 31 December 2027. For a snapshot of the incentives, please refer to TaXavvy 1-2025.

Imported complete built up (CBU) EVs, which include passenger vehicles, commercial vehicles and motorcycles, are fully exempted from import duty and excise duty until 31 December 2025.

### 1.2 Transfer pricing

Malaysia's transfer pricing legislation adheres to the arm's length principle as outlined in the OECD Transfer Pricing Guidelines. The Director General of Inland Revenue (DGIR) can adjust any transfer price between related parties that do not meet the arm's length standard.

Businesses are required to prepare contemporaneous transfer pricing documentation (CTPD) if they engage in controlled transactions, with exemptions for entities with controlled transactions not exceeding RM1 million or those engaged solely in domestic controlled transactions under certain conditions.

Full CTPD is required for taxpayers with gross business income exceeding RM30 million and cross-border controlled transactions totaling RM10 million or more annually, or those which receive or provide financial assistance exceeding RM50 million annually. Taxpayers below these thresholds can opt for minimum CTPD.

Full CTPD requires comprehensive documentation, including a detailed comparability analysis and justification of transfer prices. Minimum CTPD, on the other hand, involves less detailed documentation, focusing on the worldwide group structure, organisational structure, controlled transactions, and pricing policy.

The arm's length range is defined as a range of figures or a single figure falling between the value of 37.5 percentile to 62.5 percentile of the data set acceptable. However, the DGIR may adjust to the median or any point above the median within the arm's length range if the DGIR has reason to believe that the comparables have a lesser degree of comparability or there are any comparability defects.

### 1.3 Tax compliance

Tax audits in Malaysia are conducted by the Inland Revenue Board of Malaysia (IRBM) to ensure compliance with tax laws and regulations. There are two primary types of tax audits: desk audits and field audits. Desk audits are conducted at the tax office, where tax officers review the submitted tax returns and supporting documents. Field audits involve tax officers visiting the taxpayer's premises to examine records and documents more thoroughly. A tax audit may cover a period of one to three years of assessment determined in accordance with the audit focus. The years of assessment to be covered in a tax audit may, however, be extended depending on the issues identified during an audit.

A recent development in tax audits is the launch of a tax compliance operation which aims to enhance tax compliance among taxpayers. This operation is a collaborative effort between the IRBM and the Royal Malaysian Customs Department (RMCD), focusing on audits, collections, legal actions, strategic compliance investigations and taxpayer verification. The operation targets companies in the trade and services industries, particularly those that report income below industry margins, have never been audited before and claim tax incentives. This initiative is part of a broader strategy to enhance overall tax compliance, including tax file registration, tax form submission, tax reporting, and payment. The IRBM administers direct taxes whilst the RMCD administers indirect taxes and customs duties.

## Part two: Outlook for 2025 and beyond

### 2.1 New incentive framework

A New Investment Incentive Framework using an outcome-based approach is expected to be implemented in the third quarter of 2025, which focuses on high-value activities as opposed to a product-based approach. Economic clusters will be established based on regional specialisations, and special tax incentives will also be provided for investments in 21 economic sectors across various states in Malaysia, contingent upon the achievement of economic spillovers.

### 2.2 Expansion of consumption tax

The Government has announced plans to expand the Sales and Service Tax (SST) to include business-to-business (B2B) commercial service transactions and non-essential food items. As part of these changes, the sales tax regime will extend the 10% rate to cover non-essential goods, including premium imported items such as salmon and avocados, starting in May 2025.

The service tax scope will also broaden to encompass certain commercial services, especially those operating on a fee-based model. Currently, the service tax is set at an 8% ad valorem rate for taxable and digital services. However, exceptions exist for sectors like logistics, food and beverage, telecommunications, and parking space services, which remain subject to a 6% rate.

Industry consultations are currently being conducted to finalise the scope and rates of the expanded SST.

### 2.3 Carbon pricing

Under Budget 2025, the Government plans to introduce Carbon tax for iron and steel, and energy industries in Malaysia by 2026. This is aimed at encouraging the adoption of low-carbon technology. The tax rate was not indicated at the time of announcement.

The Bursa Carbon Exchange (BCX) was launched in December 2022. BCX is a voluntary carbon market which allow carbon emitters to offset their emissions by purchasing carbon credits generated from projects that remove or reduce greenhouse gases (GHG) from the atmosphere. In relation to this, a further tax deduction of up to RM300,000 is given to companies for costs incurred on measurement, reporting and verification related to development of carbon projects. The tax deduction is deductible against income generated from trading of carbon credits on the BCX. The tax incentive is available for application by 31 December 2026.

### 2.4 Wealth management hub

Malaysia is actively working to attract family offices by implementing initiatives to make the country an appealing destination for wealth management.

Foreign families establishing a Single Family Office in Malaysia can benefit from the attractive tax incentives, including the 0% concessionary tax rate for an initial period of 10 years (extendable for another 10 years) and stamp duty exemptions for asset transfers, subject to qualifying conditions, the finalisation of which is underway.

These incentives are particularly advantageous for families seeking to establish a presence in Asia, leveraging Malaysia's strategic location and business-friendly environment.

### 2.5 Pillar Two implementation

Malaysia will implement the Global Minimum Tax (GMT) under Pillar Two through the Income Inclusion Rule (IIR) and Qualified Domestic Minimum Top-up Tax for the Financial Year (FY) beginning on or after 1 January 2025 and subsequent FYs.

To mitigate the impact of GMT on Multinationals the government is committed to streamlining the existing incentives and creating new non-tax incentives and exploring the feasibility of Strategic Investment Tax Credit.

MNCs considering operations in Malaysia should be aware of the new rules and staying informed about further guidance on tax credit to manage tax obligations effectively.

### 2.6 e-Invoicing

Malaysia has commenced the implementation of e-Invoice since 2024 as follows:

| Targeted taxpayers | Implementation date |
|---|---|
| Taxpayers with an annual turnover or revenue exceeding RM100 million | 1 August 2024 |
| Taxpayers with an annual turnover or revenue exceeding RM25 million and up to RM100 million | 1 January 2025 |
| Taxpayers with an annual turnover or revenue exceeding RM500,000 and up to RM25 million | 1 July 2025 |
| Taxpayers with an annual turnover or revenue up to RM500,000 | 1 January 2026 |

## Part three: Insights for MNCs

### 3.1 Tax incentive opportunities

Malaysia offers attractive tax incentives covering renewable energy, digital and data centres, a new incentive framework (underway), and the JS-SEZ incentive with benefits like a concessionary corporate tax rate of 5% for up to 15 years and a 100% Investment Tax Allowance places Malaysia encourages MNCs in sectors such as AI, quantum computing, and aerospace manufacturing to expand their operations in Malaysia.

### 3.2 Transfer pricing compliance

Compliance with Malaysia's transfer pricing regulations, which align with the OECD's arm's length principle, is important for MNCs. The specified arm's length range of 37.5% to 62.5% should be noted. MNCs must ensure their global transfer pricing policies are aligned with Malaysia's requirements, as non-compliance could lead to significant tax adjustments and penalties, affecting their financial standings.

### 3.3 Future tax landscape

The expansion of the SST to B2B services and non-essential goods necessitates a review of supply chains and pricing strategies. The introduction of the Global Minimum Tax will require MNCs to review their tax position and incentives in addition to complying with GMT tax returns. The introduction of carbon tax which is announced to start by 2026 is currently planned for carbon intensive such as iron and steel, and energy industries. Investments in carbon-intensive industries would need to watch this space.


**Author：**

Lorraine Yeoh
Tax Leader of China Business Services, PwC Malaysia
lorraine.yeoh@pwc.com

**Co-author：**

Windy Li
Tax Partner, PwC China
windy.li@cn.pwc.com

## Vietnam

Vietnam has swiftly positioned itself as a major player in the global market, drawing significant interest from international investors. This remarkable shift began with the reforms in 1986, which transitioned Vietnam towards a more market-oriented economy. GDP per capita has increased dramatically, rising from less than US$700 in 1986 to nearly US$4,700 by 2024. The economy has shown resilience through various global challenges, with a GDP growth target set by the government of 8% for 2025. Organisations like the World Bank, UOB, ADB, and Oxford Economics estimate growth rates between 6.5% and 7%, underscoring Vietnam's strong economic environment. This growth has strengthened key sectors such as manufacturing, electronics, real estate, and energy, making Vietnam a hotspot for foreign investment.

### Trends in foreign direct investment (FDI)

Vietnam has emerged as a leading destination for foreign direct investment (FDI). In 2024, the nation attracted nearly $38.23 billion in registered capital, ranking it among the top 15 developing countries for FDI inflows. Chinese investment, in particular, has seen significant growth, spurred by the US-China trade tensions and Vietnam's competitive advantages. According to the Ministry of Planning and Investment, China was the third-largest investor in Vietnam in 2024, with a total investment capital of $4.7 billion, following Singapore and South Korea. Remarkably, China led in the number of new projects, accounting for 28% of all new projects established in Vietnam that year.

Vietnam's attractiveness as an investment destination is driven by its strategic location, cost-effective labor, and improving infrastructure. The country benefits from 17 free trade agreements (up to 2024), which enhance its access to international markets and offer additional advantages. Vietnam's geographic position further establishes it as a pivotal trade hub, providing easy access to key Asian markets.

### Navigating Vietnam's legal and tax framework

For foreign investors, understanding Vietnam's complex legal and tax systems is crucial. The regulatory environment has evolved significantly, particularly with the advancement of digital technologies, adding layers of complexity to compliance. Investors must stay updated on changes like corporate tax reforms, value added tax modifications, and global minimum tax policies.

Resources such as PwC Vietnam's Pocket Tax Book and PwC Worldwide Tax Summaries – Vietnam provide essential insights into the country's tax regulations, helping investors navigate these complexities. A comprehensive grasp of Vietnam's legal and tax environment is vital for minimising risks and maximising investment returns.

### Strategic advice for foreign investors

To successfully navigate Vietnam's dynamic market, foreign investors should adopt a strategic approach that emphasises compliance, local understanding, and proactive planning. Here are key recommendations to consider:

1. **Conduct thorough market research and tax planning:** Begin by understanding consumer preferences and market trends to tailor your investment strategies effectively. Implement proactive tax planning strategies, such as leveraging investment incentives and optimising transfer pricing policies, to achieve significant cost savings and enhance competitiveness.
2. **Undertake comprehensive due diligence:** Before making any investment decisions, conduct thorough due diligence encompassing legal, financial, and tax aspects. This process will help identify potential red flags and negotiate favourable terms, ensuring informed decision-making and avoiding unforeseen risks.
3. **Engage local expertise:** Operating in an unfamiliar market without local expertise can hinder decision-making and expose businesses to regulatory pitfalls. Engage local advisors with in-depth knowledge of Vietnamese tax laws and business practices to gain invaluable insights and mitigate compliance risks.
4. **Prioritise a strong compliance framework:** Establish a robust compliance framework by engaging proactively with local tax authorities and maintaining strict adherence to regulatory requirements. This approach not only mitigates risks but also enhances your business's reputation. Effective tax strategies, informed by local expertise and incentive utilisation, are crucial for optimising returns.
5. **Build strong relationships:** Relationship building with local stakeholders, including government officials, business partners, and community leaders, is critical for long-term success in Vietnam. Investing time and resources in networking activities and corporate social responsibility initiatives can foster goodwill and facilitate smoother business operations.
6. **Emphasise flexibility and adaptability:** In a rapidly evolving regulatory environment, maintaining flexibility and adaptability in business models is essential. Being prepared to adjust to changing regulations and policies ensures sustained growth and competitiveness.

**Future outlook: 2025 and beyond**

Vietnam's digital economy is experiencing rapid growth, boasting the fastest expansion rate in Southeast Asia. With a smartphone penetration rate of 72% and an anticipated 70 million internet users by 2025, the digital economy is expected to grow at a 14% compound annual growth rate (CAGR), reaching USD 57 billion by that year. This digital transformation is not only reshaping business operations but also opening up new opportunities while presenting challenges that investors must navigate.

Concurrently, Vietnam's environmental commitments, as announced at COP26 and reinforced at COP27, reflect a strong alignment with global trends towards sustainability and digital innovation. By integrating these priorities into their strategies, investors can leverage Vietnam's progressive policies and its increasing influence in the global economy. The intertwining of digital growth and sustainability efforts positions Vietnam as a forward-thinking market, offering unique prospects for investors who are prepared to adapt to this evolving landscape.

While Vietnam offers lucrative opportunities for foreign investors, navigating its complexities requires a strategic approach and a thorough understanding of the local landscape. By addressing common challenges, avoiding pitfalls, and embracing proactive measures, foreign investors can unlock the full potential of Vietnam's vibrant economy, paving the way for sustainable growth and prosperity.


## Author：

Nguyen Huong Giang
Tax Partner, PwC Vietnam
n.huong.giang@pwc.com

## Co-author：

Cherie Li
Tax Partner, PwC China
cherie.c.x.li@cn.pwc.com


# United Arab Emirates (UAE)

The UAE introduced a 9% Federal Corporate Income Tax (CIT) effective 1 June 2023, applicable to annual taxable income exceeding AED 375,000. 0% CIT rate applies to income below this threshold, benefiting SMEs and startups. CIT is applicable across all UAE emirates including free zones and offshore zones in the UAE.

The standard 9% CIT regime has a number of exemptions, reliefs, and incentives.

Besides, there is a special 0% CIT regime for free zones entities.

It is important to note that the UAE has a very wide double tax treaty (DTT) network [1], which can be accessed by UAE tax resident companies. Therefore, the clarity of WHT/taxing rights by leveraging UAE's DTTs for foreign income, together with UAE's domestic competitive taxation regimes and 0%/no WHT on outgoing payments, provide a very friendly tax environment in the UAE for investors and businesses. For detailed information, please refer to the PwC Worldwide Tax Summaries – United Arab Emirates.

## Part One: Tax incentives and credits

### 1.1 Qualifying Free Zone Person (QFZP) regime

Businesses operating in UAE's many free zones can qualify for preferential tax treatment under the QFZP regime, provided they meet specific substance and income criteria.

A free zone entity meeting the conditions to be considered a QFZP is eligible for 0% UAE CIT rate on its qualifying income. At the same time, part of income of a QFZP that is not qualifying income will still be subject to CIT at 9%.

To qualify for the 0% UAE CIT rate, a QFZP must meet all of the following conditions:

- Be a UAE Free Zone Person (i.e. a juridical person incorporated, established, or otherwise registered in a Free Zone, including branches of UAE or foreign companies);
- Maintain adequate substance in a Free Zone. Adequate substance will depend on the nature and level of activities carried out. The guidelines issued by the UAE Federal Tax Authority (FTA) emphasize the overall principle that the substance should be enough to perform core income-generating activities (CIGA). CIGA refers to the essential and value-adding activities that a QFZP performs to generate its free zone business income;
- Derive Qualifying Income (see below), subject to a de minimis level of non-Qualifying revenue, which is AED 5m or 5% of total revenue whichever is lower;
- Not have made an election to be subject to the standard 9% CIT regime;
- Comply with all transfer pricing rules and documentation requirements;
- Prepare audited IFRS financial statements.

[1] The UAE has bilateral income tax treaties with more than 140 countries and jurisdictions.

The Qualifying Income of a QFZP includes only the below categories of income:

I. Income derived from transactions with other UAE Free Zone Persons (who should be the beneficial recipient of the relevant goods/services), except for income derived from Excluded Activities;

II. Income derived from transactions with non-Free Zone Persons (e.g. foreign companies), but only in respect of Qualifying Activities (see below) that are not Excluded Activities;

III. Income derived from the ownership or exploitation of Qualifying Intellectual Property;

IV. Any other income provided that the QFZP satisfies the de minimis requirements stated above.

The list of Qualifying Activities is:

- Manufacturing, processing of goods or materials;
- Trading of Qualifying Commodities (shall be traded on a recognised commodity exchange);
- Holding of shares and other securities (e.g. bonds, cryptocurrency) for long-term investment purposes;
- Ownership, management and operation of ships and sea vessels;
- UAE regulated reinsurance services, fund management services, wealth and investment management services;
- Headquarter services, treasury and financing services to related parties;
- Financing and leasing of aircrafts;
- Distribution of goods or materials in or from a special Designated Free Zone to a customer that resells such goods or materials, or parts thereof or processes or alters such goods or materials or parts thereof for the purposes of sale or resale;
- Logistics services;
- Any activities that are ancillary to the activities listed above.

Where a Free Zone person fails to meet any of these conditions during the tax year, it will be treated as a taxable person subject to 9% CIT rate on its full income for the current year and next 4 years. Thereafter, it may retest its QFZP status in the 6th year.

There are comprehensive Ministerial Decision, Cabinet Decision and Guide that thoroughly regulate and explain the QFZP regime.

### 1.2 Withholding tax (WHT)

The UAE currently has 0% WHT rate and the list of cross-border payments subject to it has not been published. Therefore, practically, there is no WHT in the UAE.

### 1.3 Foreign tax credit (FTC)

A credit is available for foreign taxes paid on a UAE taxable person's income. The FTC is limited to the amount of UAE CIT due on the relevant net taxable income. Any unutilised FTC cannot be carried forward or back and will be lost.

### 1.4 Transfers within a qualifying group

The UAE CIT Law provides tax relief on intra-group transfer of assets or liabilities between taxable persons that are members of the same qualifying group. Taxable persons will be treated as members of the same qualifying group if all the following conditions are met:

- The taxable persons are tax resident entities, or non-residents that have a permanent establishment in the UAE;
- The taxable persons are at least 75% commonly owned and have the same financial year and prepare the financial statements using the same accounting standards;
- None of the taxable persons are regarded as an exempt person or a QFZP.

There is a clawback period of two years from the date of initial transfer in the case there is a subsequent transfer of such asset or liability outside the permitted group or where transferor or transferee ceases to be a member of the permitted group.

### 1.5 Business restructuring relief

The UAE CIT Law provides tax relief on mergers, spin-offs, and other corporate restructuring transactions where the whole or an independent part of the business is being transferred in exchange for shares or other ownership interest, provided the following conditions are met:

- The transfer is undertaken in accordance with the applicable regulations in the UAE;
- The taxable persons are resident persons, or non-resident persons that have a PE in the UAE;
- None of the persons are regarded as an exempt person or a QFZP;
- They have the same financial year and prepare the financial statements using the same accounting standards;
- The transfer is undertaken for valid commercial or economic reasons.

There is a claw back period of two years from the date of the transfer if there is a subsequent transfer to a third party, or shares or ownership interests received are transferred or otherwise disposed of, and the gains or losses on the initial transfer will be reported in the period in which the subsequent transfer is made to the third-party.

# Part Two: Significant tax developments in the UAE

### 2.1 Pillar Two developments in the UAE

The UAE has issued regulations to implement a Domestic Minimum Top-up Tax (DMTT) in the UAE. The DMTT will apply to Multinational Enterprises (MNEs) that are within scope of Pillar Two based on the OECD Global Anti-Base Erosion (GloBE) Model Rules, and will be imposed in cases where the MNE's effective tax rate (ETR) in the UAE is below 15%.

The DMTT is effective for financial years starting on or after 1 January 2025. Notably, the DMTT will only apply to MNEs with global consolidated revenues (in at least two of the preceding four fiscal years) of at least EUR 750m, including MNEs headquartered in and outside the UAE. The DMTT will not apply to UAE headquartered groups with no operations outside the UAE.

The DMTT Rules contain details on the calculation methodology of the Top-up Tax, scope and conditions for Covered Taxes, accounting standard requirements, various exclusions, certain administrative and compliance matters, and liability provisions. Broadly, the DMTT Rules align with the GloBE Model Rules.

There is no clarity on whether the UAE will also introduce an Income Inclusion Rule (IIR) and/or Undertaxed Profits Rule (UTPR), the other charging mechanisms under the GloBE rules. With the DMTT in place, MNEs will need to consider its impact on their existing UAE tax profiles and compliance obligations.

### 2.2 Tax incentives to support growth and innovation

The UAE continues to enhance its business-friendly environment, reflecting its commitment to national strategic objectives such as strengthening economic competitiveness and improving ease of doing business. To promote sustainable growth, innovation, and investment, the Ministry of Finance is currently considering the introduction of the following CIT incentives.

To encourage R&D activities, foster innovation and economic growth within the UAE, an R&D Tax Incentive is being considered. Based on feedback received during public consultations conducted in April 2024, the proposed incentive is expected to take effect for tax periods starting on or after 1 January 2026. The R&D tax incentive will be expenditure-based, offering a potential 30-50% tax credit and will be refundable depending on the revenue and number of employees of the business in the UAE. The scope of Qualifying R&D activities will be aligned to the OECD's Frascati Manual guidelines and will be required to be conducted within the UAE.

Another incentive being considered is a refundable tax credit for high-value employment activities. This aims to encourage businesses to engage in activities that deliver significant economic benefits, stimulate innovation, and enhance the UAE's global competitiveness. This incentive is proposed to take effect from 1 January 2025 and will be granted as a percentage of eligible salary costs for employees engaged in high-value employment activities. This includes C-suite executives and other senior personnel performing core business functions that add substantial value to the UAE economy.

The final form and implementation of the above mentioned proposed incentives are subject to legislative approvals.

### 2.3 Sharjah Emirate Law on taxation of extractive and non-extractive activities

In February 2025, the Emirate of Sharjah published its law with 20% Emirate level corporate tax on Sharjah companies/branches engaged in extractive and non-extractive natural resource activities.

Under the law, companies subject to its provisions, if they are liable under applicable federal legislation for any type of direct tax (e.g. UAE Federal Corporate Income Tax), are granted a deduction from the Sharjah tax due under this law equal to any direct federal tax that is proven to have been paid.

### 2.4 Family foundation

A UAE based family foundation structure, with an elected tax transparent status, generally prevents the income of the foundation or trust from attracting UAE CIT and is a useful vehicle for families to ensure a tax efficient holding structure, proper governance, as well as succession planning.

Since end of 2024, there is now also the option to extend the tax transparent status to any underlying legal entity wholly owned and controlled, directly or indirectly, by a family foundation. Whereas family foundations previously had to hold the assets directly in order for any income they generate to benefit from the structure's tax transparent status, this amendment allows family foundations to hold assets via a legal entity such as a company without compromising the overall tax efficiency of the structure.

### 2.5 Taxation of crypto

In the UAE, the tax treatment of cryptocurrency related transactions varies for individuals and businesses. While individuals may enjoy a tax-free environment for their cryptocurrency activities (if they do not require a license to perform such activities), businesses involved in crypto-related activities are subject to CIT regime above. This applies to companies engaged in cryptocurrency trading, mining, or providing crypto services, including exchanges and custodial services.

One of 0% CIT QFZP regime activities is the "Holding of shares and other securities for investment purposes" (held or intended to be held for at least 12 months). The Free Zone guide issued by the FTA clarifies that this includes cryptocurrency.

The FTA has issued in January 2025 a public clarification on the VAT treatment of cryptocurrency activities, particularly focusing on mining and transactions. For mining activities, the FTA distinguishes between mining for personal use and mining as a service. When mining for personal use, the activity is not considered a taxable supply under VAT laws, and expenses incurred for mining are not recoverable as input tax. However, when mining is performed on behalf of another person, it is considered a taxable supply of services and is subject to the standard rate of VAT of 5% unless zero-rating applies.

Regarding cryptocurrency transactions, the UAE has amended its VAT Executive Regulation in October 2024, with retrospective application of 1 January 2018, to treat digital assets like traditional financial services, making crypto-to-crypto transfers and conversions VAT-exempt. This move is expected to promote the use of digital assets and attract more blockchain businesses to the region.

**Author:**

Muzaffar Salaev
Tax Director, PwC Middle East
muzaffar.salaev@pwc.com

**Co-author:**

Rebecca Wong
Tax Partner, PwC China
rebecca.s.wong@cn.pwc.com

# Australia

Australia has a comprehensive tax system that includes various types of taxes levied at both the federal and state/territory levels. The main types of taxes in Australia include income taxes (corporate and individual), Capital gains tax (CGT), Goods and Services Tax (GST), Withholding tax (WHT), Stamp duty, Land tax etc. For detailed information, please refer to the PwC Worldwide Tax Summaries – Australia.

Australia has a robust tax system that is continually evolving. The Australian Taxation Office (ATO) is enhancing compliance and efficiency through a focus on publishing practical compliance guidance for taxpayers and the promotion of digital tools.

Foreign investors operating in Australia should align their business strategies with the local tax landscape and emerging trends. The following provides an overview of key tax issues and future tax developments relevant to foreign investors. Under the Australian tax system, the onus is with the taxpayer to familiarize themselves with the system. The taxpayer also carries the burden of proof should their circumstances be reviewed by the ATO.

The content included below is for general information purposes only and should not be used as a substitute for seeking formal tax advice or consultation with professional advisors.

## Part one: Key tax issues that are relevant for foreign investors

### 1.1 Tax incentives and simplification measures

The standard corporate income tax rate in Australia is 30% (25% for 'small-medium business' entities ). Australia offers a variety of tax incentives designed to encourage investment, innovation, and economic growth. These incentives are available to businesses and individuals and can take several forms. Here are the major types of federal tax incentives in Australia:

- **R&D tax offset** - Australia offers attractive R&D tax incentives to encourage innovation. Companies with annual aggregated turnover below AUD 20 million may enjoy a refundable tax offset at 18.5% above the claimant company's tax rate. Companies with an aggregated turnover of at least AUD 20 million have access to a non-refundable tax offset at rates based on their R&D intensity. Generally, only genuine R&D activities in Australia qualify for the R&D tax incentive, though some overseas activities may be eligible in certain circumstances. Additionally, special grants might be available to support specific R&D projects. These incentives provide a supportive environment for foreign investors looking to drive innovation and growth in Australia.
- **Managed Investment Trust regime** - the Managed Investment Trust (MIT) regime in Australia is a set of tax rules designed to promote Australia as an attractive destination for investment funds, particularly in the real estate and infrastructure sectors. Australia has a specific withholding tax regime for distributions from widely held trusts. Distributions to residents of countries with information exchange agreements enjoy a reduced 15% withholding tax rate, while others face a 30% rate. Eligible MITs can opt into the Attribution MIT (AMIT) regime, which provides benefits such as predictable tax outcomes, flexible income attribution, asset segregation, and mechanisms to correct distribution errors. This regime supports investors by offering competitive rates, structural flexibility, and clear tax treatment, making it an attractive option for investing in Australian real estate and assets.
- **Franking credits** - If fully franked dividends (that is, dividends derived from profits on which Australian corporate tax has been paid) are paid by an Australian subsidiary to its foreign parent (or shareholder), no dividend withholding tax is payable. To the extent that dividends are unfranked, dividend withholding tax of 30% (or as reduced under the relevant double tax treaty) is payable on the gross unfranked amount.
- **Tax consolidation** – Australia's tax consolidation regime permits wholly owned Australian groups, including companies, partnerships, and trusts, to consolidate for tax purposes. This arrangement applies to Australian subsidiaries entirely owned by a foreign company, even when there is no common Australian head company. Once elected, consolidation is irrevocable and requires the inclusion of all 100% owned entities. A consolidated group files a single tax return, effectively disregarding intra-group transactions between consolidated entities for income tax purposes. This approach offers advantages such as the resetting of asset tax cost bases, thereby streamlining tax management. While there are implications to consider, this regime can provide significant benefits to foreign investors.

- **Tax losses regime** - In Australia, the carry-forward tax losses mechanism allows businesses and individuals to use their tax losses from one year to offset taxable income in future years subject to specific integrity tests but without time limits to use the carried forward losses. This flexibility can significantly enhance cash flow management and financial planning for foreign investors entering the Australian market. By allowing the indefinite carry forward of losses, Australia offers a supportive environment for businesses to navigate initial challenges and invest confidently for long-term growth.

### 1.2 Transfer pricing

Australia has a comprehensive transfer pricing regime aimed at protecting the tax base by ensuring that dealings involving non-Australian parties are conducted at arm's length. When filing local income tax returns, taxpayers are required to self-assess their compliance with the transfer pricing law and eliminate certain types of tax benefits that arise from non-arm’s length cross-border dealings (referred to as ‘transfer pricing benefits’). In addition, a taxpayer that does not have transfer pricing documentation in place at the time of lodgement of the tax return is deemed to have a transfer pricing position that is not ‘reasonably arguable’, which can potentially expose the taxpayer to higher penalties in the event of an adverse transfer pricing adjustment made by the Commissioner.

In recent years, the focus of ATO has been on cross-border related party financing, intangibles arrangements, marketing hubs and distribution arrangements, and has published their compliance approaches to assessing transfer pricing risks from such arrangements.

Australia’s transfer pricing landscape is rigorous, requiring businesses to adhere to detailed compliance requirements that reflect international standards while also accommodating local nuances. Companies engaged in international transactions with related entities must ensure robust documentation and proactive engagement with the ATO to manage compliance and mitigate tax risks effectively.

### 1.3 Country-by-Country Reporting

Australia requires entities in groups with global revenue of AUD 1 billion or more to adhere to Country-by-Country (CbC) reporting. These entities must annually submit a CbC report, a Master File, and a Local File to the ATO. The CbC report and Master File align with the OECD framework, while the Local File includes additional requirements on BEPS topics and disclosures of restructures locally and internationally.

Starting 1 July 2024, Australia also requires large multinational groups with an Australian presence to publicly report certain financial and tax data to the ATO, which will be made available publicly. This obligation supplements existing confidential CbC reporting and any other public CbC requirements, such as the European Union regime.

### 1.4 Thin Capitalisation Rules

Thin capitalisation rules in Australia operate to set limits on the amount of debt deductions that multinationals can claim in a given income year. For an entity that is a ‘general class investors’ (broadly, a non-financial entity), the rules broadly limit the amount of net debt deductions at 30% of the entity’s tax EBITDA (referred to as the ‘fixed ratio test’). Some entities may be able to benefit by choosing alternative tests, namely the ‘group ratio test’ that allows net debt deductions based on the worldwide group’s net interest expense as a percentage of group EBITDA and the ‘third party debt test’ that allows debt deductions attributable to third party debt satisfying specific conditions.

### 1.5 Pillar Two

Australia has enacted legislation to implement a global and domestic minimum tax regime under the OECD’s Pillar Two framework. The new laws take effect for income years starting on or after 1 January 2024. These provisions broadly align with the OECD framework and allow for the efficient incorporation of future OECD administrative guidance. In-scope multinational entities must assess the applicability of these rules and prepare necessary documentation to substantiate their Pillar Two compliance and financial reporting. An immediate focus is determining eligibility for the Transitional CbC Report Safe Harbour, which offers reduced compliance obligations during the initial three years if specific criteria are met.

### 1.6 CFC rules

The non-active income of foreign companies controlled by Australian residents can be attributed to those residents depending on the company's residence. For companies in “unlisted” countries, if they fail the active income test by earning 5% or more income from passive or tainted sources, their tainted income is attributed to their Australian parent. In contrast, for companies resident in “listed” countries (such as the UK and US), a narrower scope of tainted income is attributed.

### 1.7 Hybrid mismatch rules

Australia's hybrid mismatch rules aim to address tax discrepancies arising from differences in the tax treatment of entities or instruments across jurisdictions. These rules prevent income tax avoidance and double non-taxation by disallowing deductions or including amounts in assessable income, limiting exemptions for foreign branch income, and denying imputation benefits on certain distributions. Additionally, an integrity rule may impose extra tax on interest and derivative payments to foreign entities in low or zero-tax jurisdictions.

### 1.8 Tax regulator activity

The ATO aims to enhance tax compliance and provide certainty for taxpayers through tailored compliance products. These initiatives, such as the Compliance Assurance Review (CAR), the "Top 1000" tax performance program, and Practical Compliance Guidelines (PCG), focus on transparency and trust, helping taxpayers to have a greater level of certainty about their tax affairs and to meet their obligations effectively.

In more recent times, the ATO has increased its focus on cross-border matters and funds flow involving capital migration.

### 1.9 Stamp duty

All Australian states and territories impose a stamp duty on a wide variety of transactions at different rates. All jurisdictions impose a stamp duty on real estate conveyances (and some states also apply additional duty to foreign purchasers), but most exempt conveyances of goods (not associated with other property).

It is recommended that the stamp duty implications are observed and considered on a transaction-by-transaction basis.

## Part two: Outlook for 2025 and beyond

Australia's recent updates to its tax regime reflect a significant alignment with global standards, most notably through the enactment of laws to implement a Global Minimum Tax consistent with Pillar Two of the OECD's BEPS framework and public CbC reporting requirements. These changes necessitate that businesses adapt their tax strategies and enhance their data management and collaboration with tax advisors. While these regulatory shifts present challenges, they also offer opportunities for businesses to optimize their tax positions and streamline operations, thereby fostering a more transparent and efficient business environment.

Looking beyond 2025, Australia's tax regime is expected to continue evolving with a focus on maintaining economic competitiveness and ensuring fair tax distribution. This evolution may include the introduction of incentives aimed at encouraging innovation and addressing the complexities associated with the digital economy. For foreign investors, staying informed about these changes and being proactive in adapting to them is crucial to fully leveraging the opportunities within Australia's dynamic market.

**Author：**
Nathan Nguyen
Tax Partner, PwC Australia
nathan.nguyen@au.pwc.com

**Co-author：**

Andrew D'Azevedo
Tax Partner, PwC Hong Kong SAR
andrew.f.dazevedo@hk.pwc.com

# Germany

Most taxes in Germany are levied on income or transactions. Enterprises engaged in commercial activities primarily pay two types of taxes on their income, including transaction tax and company tax. The main tax imposed on transactions in Germany is the value-added tax, which is levied under the EU unified system. Other significant transaction taxes include excise tax, insurance tax, real estate transfer tax, as well as inheritance tax and gift tax. For detailed information, please refer to PwC Worldwide Tax Summaries – Germany.

The following summarizes the hot issues that foreign investors are most concerned about when investing in Germany and the future development trends of German tax.

## Part one: Hot tax issues that foreign investors are most concerned about

### 1.1 Pillar Two

#### 1.1.1 General

The German Minimum Taxation Act has come into force since 1 January 2024. It is largely based on the EU Directive, the OECD's model regulations and other relevant OECD publications. Accordingly, it provides for the introduction of an Income Inclusion Rule (IIR), an Undertaxed Payment Rule (UTPR) and a Qualified Domestic Minimum Top-up Tax (QDMTT) as well as the introduction of so-called safe harbours.

Domestic constituent entities of a corporate group are subject to minimum tax if the consolidated financial statements of the ultimate parent company report a consolidated group revenue of at least EUR 750m in two of the previous four years.

The term "constituent entities" includes, among other things, corporations and partnerships and, in certain contexts, permanent establishments located in Germany.

German constituent entities of a multinational enterprise (MNE) group form the German minimum tax group. If an MNE group has only one constituent entity in Germany, the legislation states that this constituent entity in Germany also forms a German minimum tax group.

Under the German Minimum Taxation Act, the head of the German minimum tax group is required to

- file the German minimum tax return; and
- pay the top-up tax for German minimum tax group.

The members of German minimum tax group whose top-up tax is paid by the head of German minimum tax group are jointly and severally liable for the minimum tax owed by the latter.

In return for the minimum tax payments, the head of the minimum tax group holds a compensation claim against those members of the minimum tax group. On the other hand, it has the obligation to forward to the minimum tax group members any refunds of top-up taxes it receives on their behalf.

The due dates for the following key compliance obligations are set out as follows:

1. Notification of the head of the minimum tax group

The notification of the head of the minimum tax group must be filed with the German Federal Central Tax Office no later than two months after the end of the taxable period. In the case of a financial year beginning on 1 January, 2024, the notification has to be made by 28 February 2025.

A later change in the head of the German minimum tax group also must be electronically reported by both the former and the new head of the minimum tax group. In addition, the latter must inform all other German minimum tax group members of its function as the head of the minimum tax group.

2. Minimum Tax Report (GloBE Information Return – GIR)

Unless GIR has already been submitted to the competent authority by the ultimate parent entity (UPE) or a constituent entity authorized by the UPE in the jurisdiction of the UPE, each taxable constituent entity located in Germany is obliged submit the so-called minimum tax report GIR for the respective fiscal year to the Federal Central Tax Office in accordance with the officially prescribed data set no later than 15 months after the end of the fiscal year (or 18 months in the first year of application, i.e. 30 June 2026 for the fiscal year 2024).

3. German minimum tax return

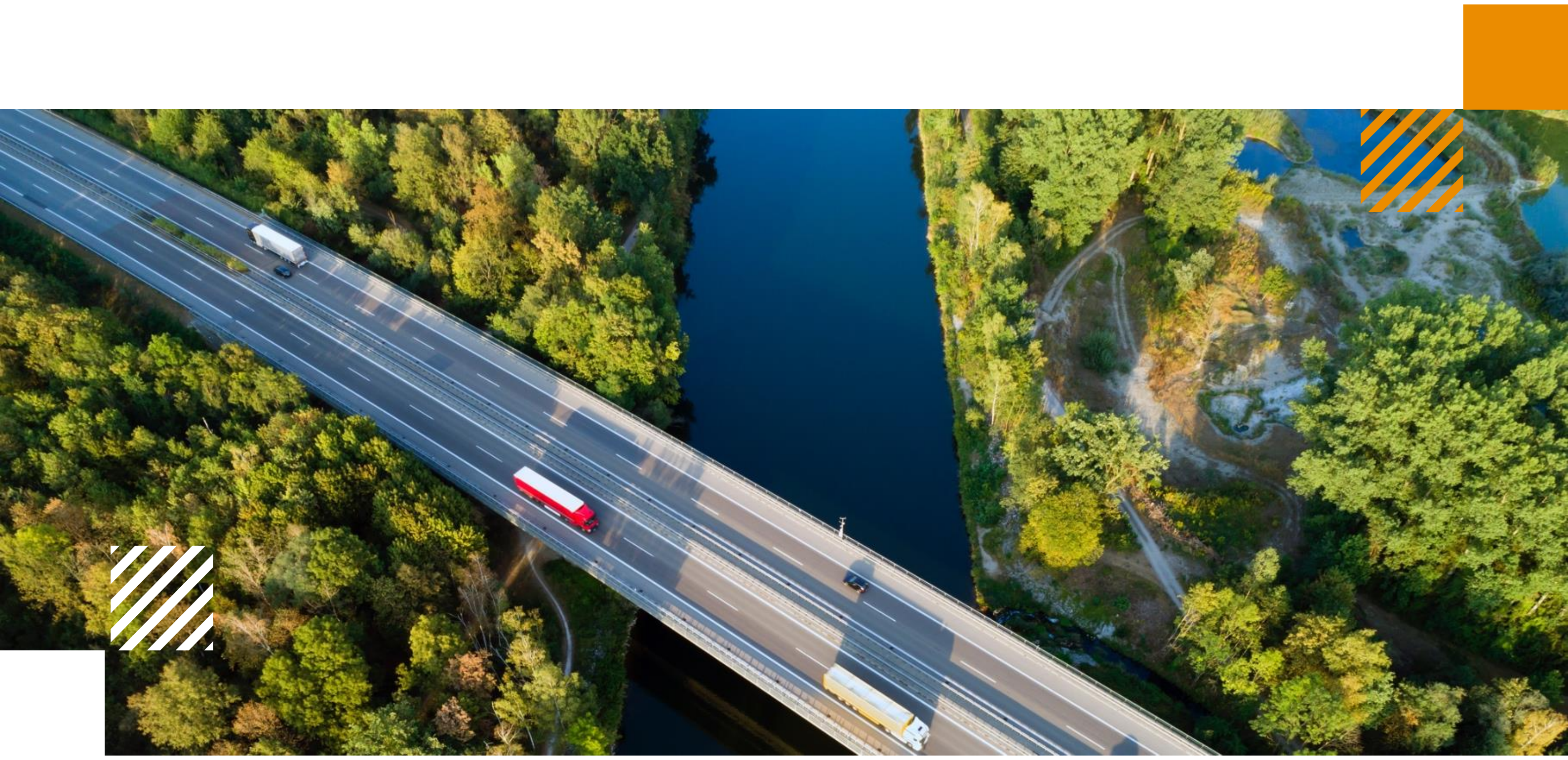
Although the obligation to file a tax return generally applies to all taxable constituent entities located in Germany, it is generally limited to the so-called group parent of the domestic minimum tax group. The return should be filed no later than 15 months (or 18 months in the first year of application, i.e. 30 June 2026 for the fiscal year 2024) after the end of the fiscal year. This must contain all the information required for the calculation of any tax increase amount.

### 1.1.2 Other considerations for Pillar 2

Upon application, the top-up tax for the respective tax jurisdiction can be reduced to zero if safe harbours rules apply.

### 1.1.3 Our recommendations:

MNE with German subsidiaries should analyze if the compliance obligations under the German Minimum Taxation Act are applicable and optimize process within different units within the Group to collect the data in a consistent and a timely manner. Further, the impact on the CbCR safe harbour calculation, calculation of deferred taxes and certain details in the calculation should also be considered.



## 1.2 Introduction of new section and the interpretation on arm's length interest for intercompany loans

### 1.2.1 General

With the introduction of the new section of German Foreign Tax Act from 2024, interest expenses incurred on intercompany borrowing by a German taxpayer is now subject to more stringent deduction limitations. The new § 1 (3d) in the German Foreign Tax Act provides a concretization of the arm's length principle for financial transactions from the legislator's point of view. According to the new legislation, the interest deduction is to be denied if:

- the taxpayer cannot credibly demonstrate that he could service the debt (interest and principal) for the entire term of the financing relationship from the very beginning; and
- the taxpayer cannot credibly demonstrate that the financing is economically necessary (positive return expectation) and is used for the purpose of the business (an investment in an overnight money account or in the cash pool is not considered to be part of the business purpose);
- Or
- to the extent that the interest rate payable by the taxpayer for a cross-border financing relationship with a related party exceeds the interest rate at which the company could obtain financing from unrelated third parties based on the group rating. The regulation contains a possibility of counterevidence in § 1 (3d) sentence 2 of the German Foreign Tax Act, which requires the taxpayer to prove that a credit rating derived from the group rating complies with the arm's length principle. If the taxpayer can provide such evidence, this must be taken into account when calculating the interest rate.

According to § 1 (3d) sentence 3 of the German Foreign Tax Act, a financing relationship within the meaning of § 1 (3d) includes, in particular, a loan relationship and the utilisation or provision of debt capital and debtlike instruments.

In addition, the law now also contains a provision according to which the intermediation or onlending of funds is in principle to be regarded as a service with a low functional and risk profile ( § 1 (3e)).

§ 1 (3e) sentence 1 of the German Foreign Tax Act stipulates that

- the intermediation/onlending of funds within a group of companies is generally to be regarded as a service with a low functional and risk profile for which remuneration can only be demanded on a cost-plus basis;
- According to § 1 (3e) sentence 2, the scope of application of § 1 (3e) should include, for example, activities in the context of liquidity management, financial risk management, currency risk management and activities as a financing company.

The regulation contains a counter-evidence option in § 1 (3e) sentence 3, which requires the taxpayer to prove on the basis of a functional and risk analysis that these activities are not a service with a low functional and risk profile.

### 1.2.2 Our recommendation

Taxpayers are strongly advised to maintain documentation to demonstrate the necessity for intragroup financing and the arm's length nature of interest expenses and other financing costs.

### 1.3 Introduction of e-invoicing

#### 1.3.1 General

The mandatory electronic invoicing for services between entrepreneurs was introduced in the course of the Growth Opportunities Act with effect from 1 January 2025. In short, the electronic invoice must be issued, transmitted, and received in a specific structured electronic format and enable electronic processing. The obligation to issue electronic invoices applies to businesses based in Germany that invoice a service recipient also based in Germany or in one of the territories specified in § 1 (3) of VAT Act for a service that is taxable in Germany.

In October 2024, the Federal Ministry of Finance (BMF) published the circular on the introduction of mandatory electronic invoicing for transactions between domestic businesses from 1 January 2025, providing further guidance to taxpayers.

#### 1.3.2 Our recommendation:

Taxpayers are strongly advised to assess how it will impact the business and whether the invoicing process and specification are in compliant with German tax law.

## Part two: Outlook for 2025 and beyond

### 2.1 Faster and Safer Tax Relief of Excess Withholding Taxes (FASTER)

On 10 December 2024, the Council of the EU adopted the Faster and Safer Relief of Excess Withholding Taxes (FASTER) Directive. FASTER Directive seeks to put in place more harmonised procedures for cross-border dividend payments subject to withholding taxes and simplify the system to make the Capital Markets Union (CMU) more attractive to investors. It also aims to address the problems of tax fraud and abuse that can be linked to securities investments. Member states will have to transpose the Directive into national legislation by 31 December 2028, and the national rules will apply from 1 January 2030.

Taxpayers are advised to identify and prioritise key compliance actions, including robust due diligence processes, verification of tax residence, and streamlined withholding tax mechanisms to meet the evolving regulatory landscape effectively.

### 2.2 Introduction of DAC 9 in connection with Pillar 2 Directive

DAC9 was adopted by European Commission in October 2024. DAC9 proposal is closely linked with the 2022 Pillar 2 Directive, which aims to ensure a global minimum level of taxation for MNE and large-scale domestic groups in the EU.

DAC9 proposal supports the Pillar 2 Directive by making it easier for MNEs to comply with their filing obligations under Pillar 2 Directive. Without the DAC9 proposal, each company that forms part of an MNE would have to file a top-up tax information return in the country where it is based, which can be time-consuming and complicated.

Under DAC9, MNEs only have to file one top-up tax information return, at central level, for the entire group. This will significantly simplify the filing process and reduce the administrative burden for MNEs. Once adopted by the EU Council, EU governments will have until 31 December 2025 to put DAC9 into practice.

Taxpayers are advised to keep informed of the legislative process and assess how it will affect the current compliance obligations in connection with Pillar 2 filings.

**Author：**
Huili Wang
Tax Partner of China Desk, PwC Germany
huili.t.wang@pwc.com;

**Co-author：**
Simon Chen
Tax Partner, PwC China
simon.x.chen@cn.pwc.com

# United Kingdom

The UK does not have a standalone tax code. Instead, UK tax law is primarily derived from statutory law, EU legislation, case law, and statements from tax authorities. Like other areas of UK law, the legal framework for taxation is established through a series of parliamentary acts, which set out fundamental tax principles, while courts are responsible for interpreting these laws.

From a tax classification perspective, the central government levies taxes in three main categories: **(1) Income-based taxation**, including personal income tax, corporate income tax, petroleum revenue tax, and National Insurance contributions. **(2) Consumption-based taxation**, including value-added tax (VAT), excise duties, and customs duties. **(3) Capital-based taxation**, including capital gains tax. For detailed information, please refer to PwC Worldwide Tax Summaries – United Kingdom.

At the end of October 2024, the UK government released its autumn budget statement, which outlines the financial policies, economic outlook, and future spending plans for the upcoming year.

In the past, the annual budget statements have been relatively predictable, primarily because the Conservative Party has been in power for the last fourteen years (meaning that the market did not expect there had been minimal changes year on year). However, this year's budget was proposed by the newly elected Labour Party in July, which includes several significant strategic adjustments. These changes may not only have a major impact on local UK businesses and citizens but could also lead to many changes for foreign companies investing in the UK or considering investments in the UK or Europe.

For many years, the UK has been an important investment destination for Chinese enterprises. Therefore, we have compiled and interpreted several aspects of the autumn budget that may be relevant to Chinese companies, hoping to assist them in better assessing the potential impacts and formulating timely responses.

1. Corporate tax rate remains unchanged

The government has confirmed that the highest corporate tax rate in the UK will remain at 25%, aligning it with China's corporate tax rate and positioning it relatively low among G7 economies. And this will not change during the current leadership's term of office (up to five years). This stability is encouraging, particularly in the context of the current global economic landscape, where predictability is essential.

The UK also confirmed it will fully implement the OECD's Global Minimum Tax standards - the Undertaxed Profits Rule for worldwide companies from 1 January 2025. This means that any profits generated by overseas investors anywhere in the world which have not been taxed in at an effective rate of 15% may result in a tax charge to tax authorities which have implemented this standard (UK, the EU territories and potentially others).

As such, companies must carefully evaluate strategies to mitigate potential tax burdens associated with certain economic activities in the UK amidst these significant international tax reforms.

2. Reform of transfer pricing policies

The budget outlines a gradual reform of the current UK transfer pricing tax policies. These reforms are expected to introduce clearer standards regarding the applicability of transfer pricing documentation and the relevant documentation required for the assessment of permanent establishments.

Generally, these changes are encouraging, as they aim to clarify the tax treatment of previously ambiguous cross-border transactions while safeguarding the UK's taxing rights. However, it is important to note that as transfer pricing rules are refined, the UK tax authority is likely to enhance its enforcement efforts. This may result in stricter audits of cross-border related-party transactions that previously exploited loopholes, ultimately leading to an increase in tax revenue for the UK.

3. Increase in employee social insurance contributions

The budget proposes an increase in the employee social insurance contribution rate from 13.8% to 15%, with potential uncertainty regarding further increases. The Labour Party has consistently prioritized enhancing basic job security for the public; however, this change will increase employment costs for businesses. Companies may need to evaluate these employee-related expenses within the broader context of human resource planning to mitigate any potential negative impacts.

4. Other Significant Changes

a) The capital gains tax rate for individuals will rise from the previous range of 10-20% to 18-24%, impacting future mergers, acquisitions, and capital disposal plans;

b) For investment fund managers, the carried interest (a performance-based pay), previously treated as capital gains, will be classified as trading income and taxed at higher capital gains tax rates starting in April 2026, which will adversely affect their financial returns;

c) For individuals, UK residents with domicile outside of UK previously did not have UK income tax obligations on overseas income unless it was remitted back the UK; this will soon change. This shift could impact many Chinese nationals residing in the UK, especially senior management dispatched. Individuals that become UK resident may also be chargeable to the UK IHT on their worldwide assets. However, the new rules will include certain exemptions and transitional relief measures. Self-assessment and planning should be considered.

5. Investment in tax management infrastructure

Last but not least, akin to developments in China, the UK government plans to enhance investment in tax reporting and management infrastructure, including the recruitment and training of qualified tax professionals and the implementation of electronic auditing. This initiative aims to improve the taxpayer experience and increase the efficiency of tax collection, ensuring timely collection of all due taxes.

As a result, multinational enterprises will face heightened expectations regarding tax management in the UK, necessitating regular self-assessments and proactive resolution of any identified issues to mitigate the risk of significant penalties and interest charges. There will also be an improved system for companies to obtain rulings from the tax authority on complex matters.

**Author：**
Graham Robinson
Tax Partner, PwC United Kingdom
graham.x.robinson@pwc.com

**Co-author：**
Shane Sang
Tax Partner, PwC China
shane.sang@cn.pwc.com

# Hungary

As a member of the European Union, Hungary has political stability, a complete legal system, an open financial market, and a superior investment environment, making it highly attractive to foreign investors. In recent years, relying on EU funding support and a series of economic policies and livelihood measures promoted by the Hungarian government, Hungary's economy has maintained stable growth.

Hungary possesses clear competitive advantages in multiple fields, especially in industries such as automotive, electronics, telecommunications, biopharmaceuticals, and wine-making, which feature many locally distinctive technologies and craftsmanship. Hungary's industries benefit both from the spillover effects of the EU market, such as the automotive and auto parts industries, and from the advantages of its own characteristic industries, such as tourism and wine-making, while also holding significant positions in traditional innovation sectors like biopharmaceuticals and telecommunications.

Additionally, Hungary provides high-quality labor force resources. According to statistics from the Hungarian Investment Promotion Agency, Hungary has the lowest labor cost per unit of GDP in Central and Eastern Europe, with average wages approximately one-third of those in Western European countries. About two-thirds of the labor force have received secondary education, technical training, or vocational education, and higher-educated talents are even more abundant, further enhancing Hungary's attractiveness as a commercial and technological hub.

## Part one: Introduction to the Hungarian tax regime

Hungarian direct taxes relevant to corporations include corporate income tax, local business tax, innovation contribution and energy suppliers' income tax. Furthermore, there are certain sectoral taxes, including extra-profit tax of financial institutions and insurance companies, or surtax on retail tax. Turnover taxes include value-added tax, customs and excise duties. The rate of personal income tax is 15% and the rate of employees' contributions is 18.5%. The employer's social tax rate is 13%. For a brief introduction to each specific tax, please refer to PwC Worldwide Tax Summary - Hungary.

## Part two: Subsidies and incentives in Hungary

### 2.1. Regional aid from Hungarian Funds

The maximum regional aid intensity in Hungary is determined by the Regional Aid Map and varies between 30% and 60%, except in Budapest where no regional aid can be granted. From 2022 Central Hungary (excluding Budapest) is eligible for up to 50% regional aid intensity. The two main types of regional aid are the VIP investment cash subsidy and the development tax incentive.

**VIP investment cash subsidy** is available based on individual Government decisions. The main aim is to attract investments in the manufacturing (greenfield or capacity extension), and shared service center (SSC) sectors. For a manufacturing asset investment, the minimum criteria are to reach EUR 3-10 million eligible cost depending on the location and to maintain the base headcount during the monitoring period. In case of establishing or expanding SSCs, at least 25 new jobs must be created – over the base headcount – without investment amount criteria. The aid intensity is according to the regional aid map.

**Development tax incentives** may be claimed for a 13- year period in the CIT returns, starting from the tax year or the tax year subsequent to when the investment is put into operation, within a maximum period of 16 tax years starting from the tax year following the one in which the application for the incentive is submitted to the Ministry of Finance. In any given tax year, the tax incentive is available for up to 80% of the CIT payable, but in total up to the state aid intensity ceiling. There are several ways to qualify for the development tax incentive, such as making investments that reach at least HUF 3 billion (EUR 7.9 million) in present value, as well as R&D-related or job creation-related investments. However, it is important to mention that, as far as Global Minimum Taxation Rules are concerned, their provisions can have a significant impact on the future utilization of development tax incentives.

### 2.2. Non-regional aid from Hungarian Funds

The Government aims to encourage manufacturing companies to **invest in renewable energy production.** VIP subsidy is available for new production capacity investments accompanied by an investment into renewable energy production and/or storage, in case the latter is below 50% of the total investment costs. The minimum limit of the total investment costs varies between EUR 3-10M depending on the location. The maximum aid intensity for the renewable energy investment part is 45% throughout Hungary. The maximum aid amount for the renewable energy investment part is EUR 30 million.

Subsidies can be granted for investments in strategic sectors aimed at **accelerating the transition to a net-zero** economy, such as: production of strategic equipment that facilitates the roll-out of renewables and carbon capture technologies; production of key components designed and primarily used as direct input for the production of the equipment defined in the previous point; or production or recovery of related critical raw material necessary to produce the equipment and key components defined in the previous points.

As of 1 January 2024, a new tax incentive is available regarding **investments in electricity storage.** The taxpayer can apply the tax incentives for an investment in the construction of an electricity storage facility. The tax incentive is available for the tax year following the year in which the investment is put into operation, or the tax year in which the investment is put into operation, at the taxpayer's option, and for the following five tax years. At least 75 percent of the project's energy fed into the electricity storage during the year needs to be covered from a renewable energy power plant connected to the public grid at the same point as the electricity storage.

### 2.3. Tax incentives regarding R&D

A **tax base allowance** is applicable for R&D activities if the taxpayer carries out basic research, applied research, or experimental research activities within its own scope of activities.  The direct cost of the R&D activity or the amount of depreciation on the research activity (if the cost of R&D activity is capitalized) is deductible when calculating the pre-tax profit. Additionally, an extra deduction is granted from the tax bases in the form of a downward tax base adjustment. Eligible R&D costs include the costs of own R&D and R&D subcontracted to non-Hungarian related or unrelated parties, provided the result of the R&D (i.e. the IP) is owned by the Hungarian entity. Eligible R&D costs can also be deducted from the local business tax and innovation contribution base. Alternatively, the deduction can be made from the social tax base instead of the corporate income tax base. This option may have special relevance if the GloBE minimum tax rules apply to the Hungarian entity, as the use of the R&D double deduction in the corporate income tax base will reduce the effective tax rate (ETR) calculated for GloBE minimum tax purposes

In addition to the R&D tax base allowance available so far, by introducing the global minimum tax a new **R&D tax credit** had been entered into force, which is proposed to be recognized as refundable tax credit. Companies will have a choice between the two types of R&D incentives.

Furthermore, **VIP R&D subsidy** can be obtained – based on individual Government decisions – for R&D projects that last a minimum of one and a maximum of three years, with a minimum of EUR 1 million in eligible costs. The aid intensity is up to 40% (except Budapest where the maximum is 25%) of the eligible costs, and EUR 25 million is the maximum available subsidy.

## Part three: multinational companies

### 3.1 Pillar Two Global Minimum Tax

Based on the OECD Model rules the European Member States (including Hungary) implemented the Global Minimum Tax directive as of 1 January 2024. Accordingly, MNE groups having a Hungarian subsidiary and meeting the annual threshold of at least EUR 750 million of consolidated revenues are subject to the new rules. Based on the rules, a minimum 15% effective tax rate should be achieved by an MNE in Hungary. According to expectations, not only corporate income tax qualifies as a so-called covered tax for effective tax rate calculation purposes in Hungary (i.e. local business tax as well), however, the effective tax rate calculation requires a complex exercise taking into account several factors. The rules contain a full list of Pillar Two collection mechanisms, including a Qualified Domestic Minimum Top-up Tax.

### 3.2 Group financing, holding, IP holding

Even though the Hungarian corporate income tax rate is 9% and the rates of the local business tax and R&D contribution are low (up to 2% and 0.3% respectively), given that the latter two are based on a wider basis than profits (gross margin, where notably cost of personnel, financing, amortisation are not deductible), they often produce an ETR above 15%, especially for labour intensive industries. At the same time there are activities which are not subject to local business tax and R&D contribution (such as group financing, holding or IP holding) and this produces a structuring opportunity through the jurisdictional blending regulations of Pillar Two.

Hungary has been used by multinational group companies as a location for group financing, holding and IP holding activities since 1999. From the perspective of these activities, the summary of the main features is as follows:

- Full participation exemption on dividends and capital gains
  - No minimum holding percentage
  - No holding period for dividends
  - One year holding period for capital gains
  - Only disqualifications relate to controlled foreign companies (CFCs) and dividends received from a hybrid instrument. CFC definition is ATAD compliant and applies the significant people function (SPF) test. If Hungary is not the state of headquarters, CFC implications are easily manageable
- Financial statements may be kept in any foreign currency
  - No requirements for accounting in USD or Euro
  - Other currencies require that 25% of the balance sheet and profit and loss account (P&L) are in the chosen currency
- Financial statements can be prepared either under Hungarian GAAP or IFRS
- No withholding taxes on interest and dividend that is paid to corporate entities
- No local or trade taxes on dividends, qualifying royalties, interest, and capital gains
- No capital taxes or duties
- Extensive treaty network (approx. 80), mostly old treaties that do not contain the article allowing capital gain taxation on the alienation of shares in real-estate rich companies in the state where the real estate property is situated
- Tax grouping is available from 2019
- Tax migration is possible to any jurisdiction, while legal migration is possible within the EU
- OECD nexus independent research and development („R&D") regime allowing double deduction of R&D costs
- OECD nexus compliant IP regime

## Part four: Outlook of 2025 and beyond

No tax reform or major tax law changes are expected for 2025 and beyond. Certain extra profit taxes and sectoral taxes have been cancelled from January 1, 2025 or may be cancelled in the upcoming years.

In connection with the annual financial statements, the rules for the preparation of simplified financial statements, consolidated financial statements and notes to the annual financial statements, furthermore, the requirements for statutory audit will be more relaxed through the amendment of the relevant threshold values (e.g., total assets and net sales).


**Author：**

Gergely Juhász
Tax Partner, PwC Hungary
gergely.juhasz@pwc.com

**Co-author：**

Nicole Yu
Tax Partner, PwC China
nicole.j.yu@cn.pwc.com


# United States

The United States and its political subdivisions operate under a common law legal system. The U.S. federal government has the authority to regulate interstate trade and commerce within the United States. The state governments have the right to, among other things, regulate the incorporation and dissolution of companies and other business entities under applicable state law, as well as the property rights of businesses and individuals residing within the states.

Business entities incorporated as corporations are subject to corporate income tax under the federal law as well as under the state laws of most states. Business entities organized as limited liability companies and partnerships that are categorized as "pass-through" entities, are not subject to income tax, but the profits of pass-through entities are allocated to their owners that will pay income tax on their share of the profits with or without receiving distributions from pass-through entities.

Corporate taxable income is taxed at the federal rate of 21%. State corporate income tax rates vary from 2.5% in North Carolina to 9.8% in Minnesota. Generally foreign corporations doing business in the United States do not have preferential or discriminatory tax treatment. Foreign and domestic corporations are treated equally. In addition to the income tax, the after-tax profits are subject to the federal withholding tax when a corporation pays dividend to a non-U.S. shareholder. A foreign corporation engaging a trade or business in the form of a branch is subject to branch profits tax on the branch's after-tax profits. The branch profits tax is equivalent to the withholding tax on dividends. For a more detailed tax overview, please refer to the PwC Worldwide Tax Summaries – United States.

## Part one: Hot tax issues that foreign investors are most concerned about

### 1.1 Financing U.S. operation

Generally, funding a U.S. business can be either debt or equity. The U.S. tax system has the concept of thin capitalization with respect to the debt considered to be incurred, especially in the cross-border related party context. The Internal Revenue Service (IRS) and the courts may regard borrowing by a thinly capitalized business entity as indicative of a debt instrument being more akin to equity. This may, along with other factors, cause a debt instrument to be recast for tax purposes as equity, resulting in, among other things, the loss of interest deductions attributable to that financing, and different tax implications when the debt is repaid.

### 1.2 Distributions and withholding tax implications

A corporation's distributions to its shareholders are generally taxed as dividends to the extent that the corporation has either current or accumulated "earnings and profits." Dividends paid to non-resident shareholders are generally subject to withholding tax. Similarly, interest income received by a non-resident person from U.S. sources and not effectively connected with the conduct of a U.S. trade or business is also subject to withholding tax. The withholding tax rate is 30% which may be reduced or eliminated under an applicable income tax treaty.

## 1.3 Tax incentive for investment in the United States

Various business credits are available to provide special incentives for the achievement of certain economic objectives. In general, these credits are combined into one general business credit for purposes of determining each credit's allowance limitation for the tax year. The general business credit that may be used for a tax year is limited to a tax-based amount. In general, the credit that cannot be used in a given year because of the credit's allowance limitation may be carried back to the tax year preceding the current year and carried forward to each of the 20 years following the current year. Credits that are combined into the general business credit includes research credit, investment credit for investing in certain energy projects, work opportunity tax credit, biofuel producer credit, low-income housing credit, etc.

However, there generally are limited incentives related to inbound investment at the federal level. Some states may offer incentives to attract investments in their states. Foreign businesses that consider investment in the United States should investigate state policies and negotiate with state governments to maximize potential incentives.

The credit for increasing research activities (R&D credit) is available for companies that incur qualified research expenditures (QREs) to develop new or improved products, manufacturing processes, or software in the United States. The credit generally is computed by calculating current-year QREs over a base. The base is calculated using either the regular research credit (RRC) method or the alternative simplified credit (ASC) method. Under the RRC method, the credit equals 20% of QREs for the tax year over a base amount established by the taxpayer in 1984-1988 or by another method for companies that began operations after that period. The ASC equals 14% of QREs over 50% of the average annual QREs in the three immediately preceding tax years. If the taxpayer has no QREs in any of the three preceding tax years, the ASC will be 6% of the tax year's QREs.

The deduction for R&D expenditures must be reduced by the entire amount of the credit unless an election is made to reduce the amount of the credit.

## 1.4 Transfer pricing

U.S. transfer pricing rules generally conform to the arm's length principle of the Organization for Economic Co-operation and Development (OECD). Section 482 of the Internal Revenue Code permits the IRS to impose a transfer pricing adjustment in respect of a transaction between related parties that is not made on arm's length terms or that does not meet certain conditions.

Transfer pricing applies to a wide range of intercompany transactions, including transactions involving:

- tangible goods (e.g., manufacturing, distribution),
- services (e.g., management services, sales support, contract R&D services),
- financing (e.g., intercompany loans, accounts receivable, guarantees, debt capacity); and
- intangible property (e.g., licenses, royalties, cost sharing transactions, platform contribution transactions, sales of intangibles).

Taxpayers can be subject to significant penalties if the IRS determines that a transfer pricing adjustment is inappropriate, and the taxpayer cannot produce upon request contemporaneous documentation regarding the transactions subject to the transfer pricing rules.

## 1.5 U.S. tax treaties

The United States has bilateral income tax treaties with more than 60 countries and jurisdictions, including China, but not Hong Kong, Taiwan, Singapore, etc.

To be eligible for treaty benefits, taxpayers must satisfy the conditions of the residency article as well as certain other requirements. In general, an individual is treated as a resident of the country in which the individual is subject to tax by reason of domicile, residence, or citizenship. A corporation generally is treated as resident in the country in which it is subject to tax by reason of its place of management, place of incorporation, or similar criteria. U.S. domestic rules contain provisions that address the treatment of the availability of treaty benefits to income received by fiscally transparent entities; some U.S. treaties also address fiscally transparent entities.

The vast majority of U.S. tax treaties contain a limitation on benefits (LOB) article. Different treaties have different terms of LOB articles. They are anti-“treaty shopping” provisions that are designed to deny treaty benefits when the party seeking the benefits does not have sufficient connection to the jurisdiction in which it is resident to support the application of the treaty. LOB articles provide objective tests (e.g., ownership-base erosion test and publicly traded company test) to determine whether an entity is appropriately claiming treaty benefits or was created merely to obtain treaty benefits. As new treaties are negotiated, the United States has been adding more restrictive provisions to the LOB tests; as a result, a company that is not engaged in treaty shopping nonetheless may fail the tests. If objective tests are not met, a country’s competent authority may grant treaty benefits with respect to a specific item of income upon request by the taxpayer, if the competent authority determines that the establishment, acquisition, or maintenance of the entity and the conduct of its operations did not have as one of its principal purposes the obtaining of treaty benefits.

## 1.6 Indirect taxes

The United States does not impose any national value-added tax (VAT) or goods and services tax (GST). However, most states have sales and use tax that is imposed on the end users of products or services.

## 1.7 State and local tax issues

Foreign companies with activity in the United States may trigger both federal and state-level taxes. There are no uniform rules among the states as to whether state tax liability attaches; in some cases, significant state tax liabilities may be imposed even if little or no U.S. federal tax obligations exist. Several aspects of state taxation are critical for non-U.S. companies, including a state’s power to tax, income apportionment among multiple states, filing methodologies, tax base issues, treatment of foreign-source income, transfer pricing adjustment considerations, registration requirements, and indirect taxes.

Also in the United States, limits on federal taxation do not always translate into state limitations. For example, a foreign entity’s income may be excluded from federal taxable income by U.S. income tax treaty, but that income still may be taxable by a state because U.S. income tax treaties are not binding on states. States may not require physical presence to assert tax jurisdiction; economic presence may be deemed sufficient to create nexus. Companies performing cross-border restructuring work should consider state tax implications even when minimal or no federal taxes are expected.

## Part two: Outlook for 2025 and beyond

### 2.1 New tax legislations

The Trump Administration and Congress are working on new tax legislations which can hopefully be completed in 2025. At this point details are not available, but it is anticipated that various lower tax rates that will expire in 2025 will be extended or made permanent, corporate tax rate likely be reduced, and taxpayers' overall tax burden be lower.

### 2.2 The Inflation Reduction Act of 2022 (IRA)

The Act included several provisions and updates relating to energy tax credits. The new and updated energy tax credits from the IRA, including production of electricity through clean and renewable energy sources, sales of technologies and materials that facilitate clean energy production sale and usage of biodiesels and alternative fuels. However, President Trump has ordered a pause on funding for the IRA. Whether these energy tax credits continue to be available is uncertain.

### 2.3 Base Erosion and Profit Shifting (BEPS)

The United States is not a signatory to the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting. Although the United States has participated in the OECD/G20 Inclusive Framework on BEPS generally and in the development of Pillar One and Pillar Two specifically, it is currently unclear if or when the United States will adopt the changes to domestic law required to implement Pillar Two. Similarly, the United States Senate is not expected for the foreseeable future to approve any multilateral instrument related to Pillar One. President Trump has indicated he strongly opposes the implementation of Pillar Two by any countries that will negatively affect U.S. companies.

**Author：**
Al Wang
Tax Advisor, PwC China
al.y.wang@cn.pwc.com

**Co-author：**
Jenny Gao
Tax Partner, PwC China
jenny.ge.gao@cn.pwc.com

# Mexico

With the accelerating wave of Chinese enterprises going global, Mexico has become a popular choice for many Chinese companies due to its unique geographical advantage of being adjacent to the United States and connecting North and South America, its rich and diverse resource supply, and its vast market potential.

## Part one: Mexico’s tax system and framework

### 1. Tax system

According to tax administration authority, Mexico’s taxes are mainly divided into federal taxes and local taxes. Federal taxes primarily include corporate income tax, value-added tax (VAT), and personal income tax. Local taxes mainly include payroll tax and property tax. For a brief introduction to specific tax types, please refer to PwC's Worldwide Tax Summaries - Mexico.

### 2. Federal taxes

#### 2.1 Corporate income tax

Mexico imposes corporate income tax on the global income of its resident enterprises (entities with actual management and control in Mexico) and on the income of non-resident enterprises derived from Mexico.

The standard corporate income tax rate is 30%. Generally, corporate tax losses can be carried forward for 10 years but cannot be carried back.

When Mexican domestic enterprises distribute dividends to foreign enterprises, a 10% withholding tax is required. Under applicable tax treaties, the rate may be reduced to 0%.

#### 2.2 Value-added tax (VAT)

In Mexico, VAT is levied from the import of products or services to the local sales stage. VAT input tax generated in the procurement stage can be offset against VAT output tax in the sales stage. The standard VAT rate in Mexico is 16%, and the export VAT rate is 0%.

#### 2.3 Personal income tax

Mexican resident taxpayers are required to pay personal income tax on their global income according to law. According to Mexico’s Personal Income Tax Law, personal income types include wages and salaries, statutory profit-sharing, director fees, commercial and professional income, investment income (including dividends, interest, rent, royalties), and property transfer income.

Personal income tax is calculated based on total personal income minus applicable deductions. Total income is divided into different brackets, with the highest tax rate reaching 35%.

## 3. Local taxes

### 3.1 Payroll tax

Payroll tax applies to wages and employment-related expenses, but the rates vary by state, typically ranging from 1.5% to 4% of the total related expenses.

### 3.2 Transfer tax

Transfer tax is imposed by states on the transfer of real estate, with rates varying by state, typically ranging from 2% to 5%.

### 3.3 Real property tax

Real property tax is a local tax on the ownership of real estate, with rates varying by state, typically ranging from 1% to 3%.

## 4. Other major tax-related matters

### 4.1 Profit-sharing tax

According to Mexican law, employees are entitled to share 10% of the company's taxable income. Newly established companies are exempt from profit distribution in their first year. Note that directors, managers, and general managers are excluded.

### 4.2 Social security contributions

Employers must purchase social insurance for their employees as stipulated by the Mexican Social Security Institute, covering healthcare, pensions, and housing funds.

## 5. Mexico's investment and tax incentives

### 5.1 Special economic zones

Special economic zones provide fiscal, customs, regulatory, and infrastructure incentives for investors, offering foreign investors benefits such as reductions in income tax and VAT, exemptions from other taxes, and simplified procedures.

### 5.2 Manufacturing, Maquiladora, and Export Services Program (IMMEX Program)

Companies under this program can defer payment of tariffs and VAT on temporarily imported and re-exported raw materials and components, meaning qualified companies do not need to pay tariffs and VAT upon import.

### 5.3 Sectoral Promotion Program (PROSEC Program)

The PROSEC Program covers 24 manufacturing-dominated industries, including electronics, steel, automotive and auto parts, furniture, footwear, textiles, and apparel. Eligible companies can import required materials at preferential or zero tariffs.

### 5.4 International agreements

Mexico has signed tax treaties with nearly 60 countries/regions, over 50 free trade agreements (FTAs), and more than 10 economic integration agreements (EIAs).

## Part Two: Major tax policy updates and outlook for 2025

### 2.1 Tax work focus in the economic package plan

Strengthening tax administration is a key focus of Mexico's tax work for the new year. The tax authority aims to improve tax administration efficiency through artificial intelligence and digital tools, aligning with the third pillar of the government's economic package plan, which is to enhance tax administration without creating or increasing taxes in real terms, and to fight against tax fraud.

### 2.2 Administration focus

According to the Mexican Tax Administration Service's 2025 Master Plan, the key areas of tax administration include corporate equity and asset restructuring, VAT exemption and IMMEX preferential policy application review, tax treaty preferential treatment application, related-party transaction arrangements, fake invoice audits, and origin assessments.

On December 31, 2024, the Federal Government amended Article 19 of the Mexican Constitution to include "activities related to fake tax invoices" as a crime warranting mandatory remand in custody during a criminal trial. The amendment requires federal and state criminal courts to order the remand of anyone charged with such an offense.

Taxpayers should regularly review their transaction arrangements in light of the above tax administration focus areas and to properly retain supporting documents.

### 2.3 Tax incentives

To reduce regional development disparities, encourage investment, and create high-quality employment opportunities, and strengthen the economic development of the relatively underdeveloped southeastern region of Mexico, the Mexican government has announced a decree offering a series of tax law to enterprises that choose to invest in one of the 10 development Poles along the Isthmus of Tehuantepec Corridor.

The main incentives for enterprises engaged in productive economic activities in the "Development Poles" include:

- A full exemption from Income Tax (ISR) during the first three years of operation. In the fourth, fifth, and sixth years, companies will pay only 50% of ISR, with potential discounts, and with the possibility of up to 90% tax reduction if specified employment targets are met;
- Eligible for accelerated depreciation during the first six years of operation;
- VAT exemption for business activities conducted within and between the Development Poles. Additionally, companies can apply for a refund of VAT paid on purchases made outside the Poles over a four-year period;
- Benefit from existing foreign trade benefits, such as exemption from VAT on temporarily re-exported products and a 0% tax rate on exported goods or services.

### 2.4 Pillar Two

Mexico has not yet shown clear developments regarding Pillar Two policies.


**Author:**

Adriana Rodriguez
Tax Leader of International Tax Services, PwC Mexico
adriana.rodriguez@pwc.com

**Co-author:**

Grace Liu
Tax Director, PwC China
grace.xa.liu@cn.pwc.com



**PwC Tax Contacts for Chinese Enterprises' Outbound Investment**

Jenny Chong
Tax Leader of Asia Pacific International Tax Services
j.chong@cn.pwc.com

Kevin Wang
Tax Leader of International Tax Services, PwC China
kevin.p.wang@cn.pwc.com

# Our Leaders

**Hemione Hudson**
Chair and CEO of PwC China
+852 2289 3222
hemione.ra.hudson@hk.pwc.com

**Alan Yam**
Central China Tax Leader
+86 (21) 2323 2518
alan.yam@cn.pwc.com

**Charles Lee**
China Tax Leader
+86 (755) 8261 8899
charles.lee@cn.pwc.com

**Jeremy Ngai**
South China Tax Leader
+852 2289 5616
jeremy.cm.ngai@hk.pwc.com

**Jeff Yuan**
China Tax Markets Leader
+86 (21) 2323 3495
jeff.yuan@cn.pwc.com

**Lennon Lee**
Singapore Tax Leader
+65 8182 5220
lennon.kl.lee@pwc.com

**Rex Chan**
North China Tax Leader
+86 (10) 6533 2022
rex.c.chan@cn.pwc.com

**Jason Hsu**
Taiwan Tax and Legal Services Leader
+886 (2) 2729 5212
jason.c.hsu@tw.pwc.com

# Contacts in PwC

PwC in the Chinese mainland, Hong Kong SAR, Macau SAR, Taiwan province and Singapore operate in collaboration in accordance with the laws applicable in each respective area. With over 4,000 tax professionals and over 200 tax partners across Hong Kong SAR, Macao SAR, Singapore, Taiwan province and multiple cities in Mainland China, PwC's Tax and Business Service Team provides a full range of tax advisory and compliance services in the region. Leveraging on a strong international network, our dedicated China Tax and Business Service Team is striving to offer technically robust, industry specific, pragmatic and seamless solutions to our clients on their tax and business issues locally.

For more information of any China tax matters, please contact your client partner or any of the partners responsible for or working in your area:


**Beijing**
Rex Chan
+86 (10) 6533 2022
rex.c.chan@cn.pwc.com

**Shanghai**
Alan Yam
+86 (21) 2323 2518
alan.yam@cn.pwc.com

**Guangzhou**
Calvin Zhang
+86 (20) 3819 2187
calvin.zhang@cn.pwc.com

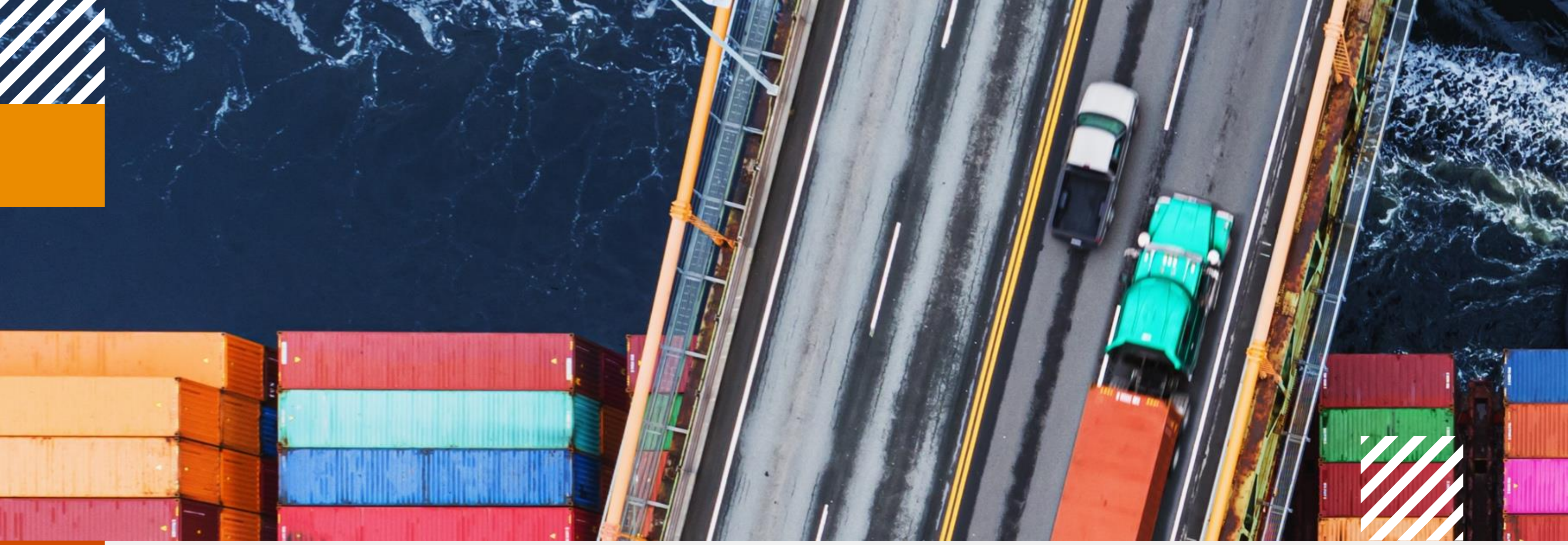
**Shenzhen**
Jeremy Ngai
+852 2289 5616
jeremy.cm.ngai@hk.pwc.com

**Hongkong**
Jeremy Ngai
+852 2289 5616
jeremy.cm.ngai@hk.pwc.com

**Dalian**
Robin Zhang
+86 (411) 8379 1698
robin.zhang@cn.pwc.com

**Tianjin**
Winnie Di
+86 (22) 2318 3006
winnie.di@cn.pwc.com

**Zhengzhou**
Bo Yu
+86 (10) 6533 3206
bo.yu@cn.pwc.com




**Hefei**
Andy Sun
+86 (21) 2323 8292
andy.sun@cn.pwc.com

**Nanjing**
Benny Zhang
+86 (25) 6608 6278
benny.zhang@cn.pwc.com

**Wuxi**
Anita Peng
+86 (21) 2323 2586
anita.c.peng@cn.pwc.com

**Suzhou**
Henry Zhu
+86 (512) 6273 1917
henry.hp.zhu@cn.pwc.com

**Hangzhou**
Donny Zhao
+86 (571) 2807 6390
donny.zhao@cn.pwc.com

**Chengdu**
William Xu
+86 (28) 6291 2018
william.xu@cn.pwc.com

**Wuhan**
Leo Wang
+86 (27) 5974 5511
leo.g.wang@cn.pwc.com

**Changsha**
Collin Xiong
+86 (755) 8261 8280
collin.xn.xiong@cn.pwc.com

**Xiamen**
Minting Yu
+86 (592) 210 7888
minting.yu@cn.pwc.com

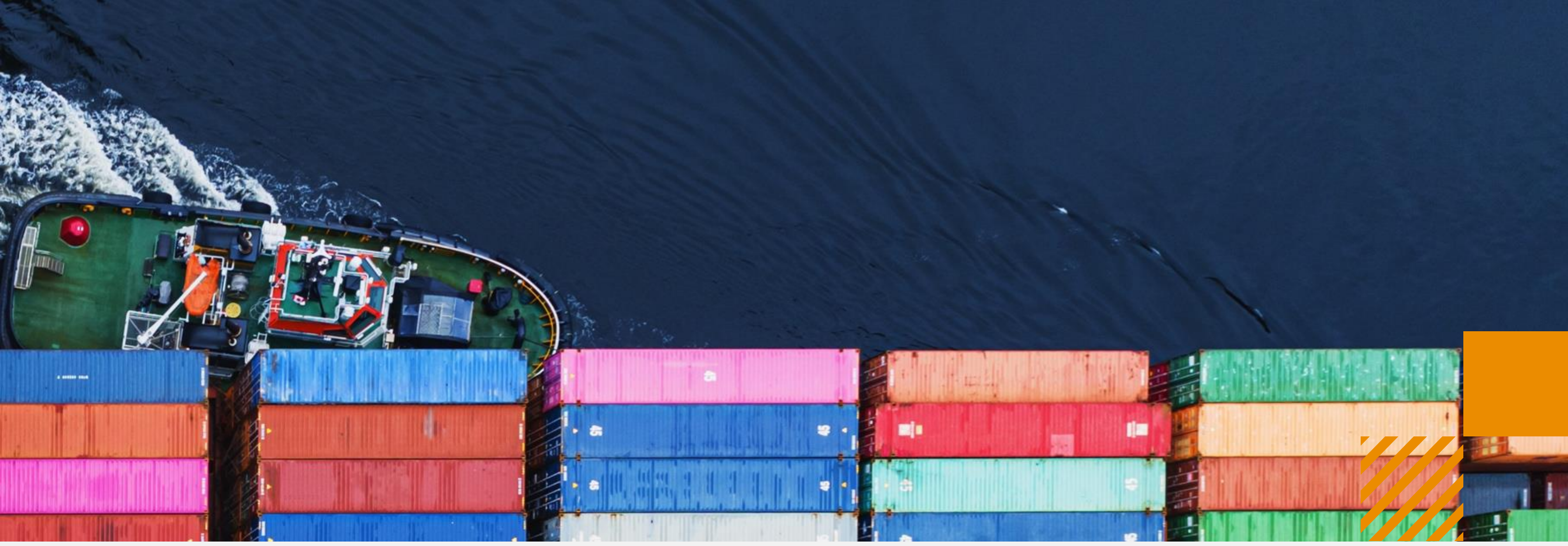
**Zhuhai**
Cynthia Lam
+86 (755) 8261 8706
cynthia.hy.lam@cn.pwc.com

**Macau**
Jeremy Ngai
+852 2289 5616
jeremy.cm.ngai@hk.pwc.com

**Nansha**
Sylvia Wu
+86 (20) 3819 2342
sylvia.wu@cn.pwc.com

**Taiwan**
Jason Hsu
+86 (2) 2729 5212
jason.c.hsu@tw.pwc.com

**Singapore**
Lennon Lee
+65 8182 5220
lennon.kl.lee@pwc.com



**Accounting and payroll services**
Steven Wong
+86 (10) 6533 3113
steven.wong@cn.pwc.com

**China business and investment advisory**
Bo Yu
+86 (10) 6533 3206
bo.yu@cn.pwc.com

**Customs and international trade**
Asta Nie
+86 (21) 2323 2269
asta.nie@cn.pwc.com

**Domestic enterprises tax services**
Yijun Yang
+86 (10) 6533 3208
yijun.yang@cn.pwc.com

**Indirect tax**
Robert Li
+86 (21) 2323 2596
robert.li@cn.pwc.com

**Global compliance services**
Vivian Sze
+86 (10) 6533 3084
vivian.vs.sze@cn.pwc.com

**International tax services**
Kevin Wang
+86 (10) 6533 3331
kevin.p.wang@cn.pwc.com

**Mergers and acquisitions**
Jeremy Ngai
+852 2289 5616
jeremy.cm.ngai@hk.pwc.com

**National tax policy services**
Long Ma
+86 (10) 6533 3103
long.ma@cn.pwc.com

**Tax technology**
Lin Rong
+86 (21) 2323 3768
rong.lin@cn.pwc.com

**Research and development incentive services**
Roger Di
+86 (10) 6533 2268
roger.di@cn.pwc.com

**Integrated corporate and regulatory services (iCARS)**
Michelle Taylor
+852 2833 4994
michelle.a.taylor@tiangandpartners.com

**People & organisation services**
Jane Cheung
+86 (21) 2323 3031
jane.kc.cheung@cn.pwc.com

**Tax controversy services**
Long Ma
+86 (10) 6533 3103
long.ma@cn.pwc.com

**Transfer pricing**
Jeff Yuan
+86 (21) 2323 3495
jeff.yuan@cn.pwc.com

**Value chain transformation**
Jenny Chong
+86 (21) 2323 3219
j.chong@cn.pwc.com

**US tax consulting services**
Dervis Pajo
+86 (21) 2323 1577
dervis.pajo@cn.pwc.com