Dispel Clouds, Sail Ahead

An overview of China's Tax Policies from 2025 to 2026 and Tax Guides to 17 Popular Investment Destinations for Chinese Enterprises Going Global

Contents

Foreword

In 2025, China's economy forged ahead steadily at a critical stage of in-depth restructuring and transformation towards high-quality development. Faced with the intense competition and market saturation in the domestic market, a growing number of Chinese enterprises have set their sights overseas to seek new growth drivers and market space. Waves of reshaping the global industrial and supply chains, coupled with the continuous release of consumption capacity in emerging economies, has presented unprecedented global opportunities for Chinese enterprises. In this historical process, Chinese enterprises are more determined in “going global”, and their global layout is evolving from “going global” to “integrating in”. Data from the Ministry of Commerce shows that China’s outbound direct investment across all industries maintained steady growth in 2025, demonstrating the determination and capability of Chinese enterprises to embed themselves in the global value chain. Chinese enterprises are increasingly becoming an indispensable force in the development of the global economy.

When enterprises enter the global market, they are confronted with vastly different tax systems, collection and administration practices, and compliance requirements across the world. From the rapidly developing emerging markets in Southeast Asia to the mature European and American economies with well-established regulatory systems, there are tremendous variations in tax structure, tax rates, the scale of tax incentives, and the complexity of filing compliance. In addition, the global tax governance landscape is undergoing profound changes. Only by deeply understanding and proactively adapting to the changes in the domestic and international tax policy environment can enterprises navigate the complex global tax landscape steadily.

Dispel Clouds, Sail Ahead: An Overview of China’s Tax Policies from 2025 to 2026 and Tax Guides to 17 Popular Investment Destinations for Chinese Enterprises Going Global is the second issue of the annual tax series of publications for Chinese outbound enterprises. This publication aims to review the major annual tax policy changes in China and analyze policy development trends from a forward-looking perspective. Meanwhile, building on the first issue, it updates the latest tax hot topics in existing investment destinations and expands coverage of popular overseas investment destinations, offering detailed guidance to support enterprises in their tax decision-making as they go 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 and achieve greater success in their international development.

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China 2025 Tax Policy Review and 2026 Outlook

Section 1: Steady Progress in Tax Legislation – Improved Legislative Supporting Measures and In-depth Innovation in Collection and Administration

In 2025, China made key progress in tax legislation under the principle of rule of laws. As a key step toward building a modern tax system as set out in the 14th Five-Year Plan and the Third Plenary Session of the 20th CPC Central Committee, this year saw the release of the Regulations on the Implementation of the VAT Law, laying an operational foundation for legalizing China's largest tax. It also launched the discussion draft for the most comprehensive revision of the Tax Collection and Administration Law in nearly 24 years, moving toward a more standardized tax system. These steps consolidate reform achievements, provide stable policy expectations for businesses, and advance China's tax rule of law.

Improving VAT Legislation: From Legal Framework to Implementation Rules

As China's largest tax, VAT legislation has long been central to tax rule of law. In December 2024, the VAT Law of the People's Republic of China was adopted, replacing the 31-year-old Provisional VAT Regulations and taking effect on January 1, 2026.

As a critical supporting document for the implementation of the VAT Law, the Implementation Regulations of the VAT Law were released on December 30, 2025, effective the same day as the VAT Law. They clarify key rules such as non-taxable transactions, input tax credit reversal, and export VAT refund management. For long-term assets, they introduce a mechanism for differentiated treatment based on the original value of assets; for un-allocable input tax, annual reconciliation is required—boosting accuracy and compliance clarity.

With the new VAT Law in force, VAT reform has entered a critical stage of full implementation and refinery. In February 2026, the Ministry of Finance and State Taxation Administration issued a series of new supporting documents covering input VAT deduction of long-term assets, taxable scope, preferential policy transition, sales calculation, and small-scale taxpayer thresholds, precisely addressing multiple core pain points of VAT from both policy and administration perspectives. These documents not only refine the VAT Law but also optimize current practices. Taxpayers should timely understand policies, adjust financial and invoicing processes, and ensure full compliance for a smooth transition.

Revision of the Tax Collection and Administration Law: Launch of the Most Significant Reform in Nearly 24 Years

The current Tax Collection and Administration Law has been in force for 24 years since its comprehensive revision in 2001. Although amended several times on a small scale, it can no longer meet the needs of economic and social development. On March 28, 2025, the State Taxation Administration and the Ministry of Finance jointly issued the Discussion Draft on the Revision of the Tax Collection and Administration Law, officially kicking off a major revision of this foundational tax law.

The draft has achieved breakthroughs in many aspects. For the first time, it clearly establishes a sound tax credit system, integrating incentives for compliance and penalties for dishonesty into the legal framework, marking a shift from power-dominated to credit-based tax governance. It also stresses unified and standardized tax law enforcement across regions and forbids local governments from setting revenue targets for tax authorities. Together with the newly issued Measures for the Implementation of the Fair Competition Review Regulations, this helps remove local protectionism and regional tax preferences and fosters a unified national market.

On institutional design, the draft addresses long-disputed issues. It renames late payment surcharges and clarifies that it is not subject to the cap under the Administrative Coercion Law, reflecting the special nature of tax claims. A new rule on holding investors liable for unpaid taxes is introduced to coordinate with the revised Company Law, targeting tax avoidance through company deregistration. In addition, non-bank payment institutions are included into the scope of entities with tax assistance obligations, and digital tools such as electronic invoices and tax-related information exchange are legally recognized, demonstrating forward-looking legislation.

Protecting taxpayers' rights is another highlight. While clarifying the tax authorities' power to take compulsory measures against individual taxpayers, the draft strengthens procedural justice. It allows lighter, reduced or no punishment for taxpayers who voluntarily correct violations, embodying a modern governance approach that balances strictness and leniency.

Section 2: Tax Incentives on Reinvestments – Tax Credit for Foreign Investors

Expanding high-level opening-up and stabilizing foreign investor confidence are key to China's high-quality economic growth. To encourage foreign investors to reinvest domestic profits locally, fiscal authorities rolled out a new tax credit policy for reinvestment, building on existing deferred tax rules to form a dual incentive system of "deferral + credit."

In June 2025, the Ministry of Finance, State Taxation Administration (STA), and Ministry of Commerce issued the Public Notice Regarding Tax Credit for Foreign Investors' Direct Reinvestment with Profits Distributed from Tax Resident Enterprises (TREs) in China (Public Notice [2025] No. 2) to establish the policy framework. In July of the same year, the STA issued the Public Notice Regarding Certain Matters on Tax Credit for Foreign Investors' Direct Reinvestment with Profits Distributed from TREs in China (Public Notice [2025] No. 18) and its official interpretations to further clarify the collection and administration requirements, providing clear guidance for the implementation of the tax credit policy.

Eligible foreign investors reinvesting profits from Chinese resident enterprises in China between Jan 1, 2025, and Dec 31, 2028, may claim a tax credit equal to 10% of the investment amount (or the lower treaty rate) against future corporate income tax on dividends, interest, and royalties from the profit-distributing enterprise.

Key eligibility conditions:

- **Industry:** Investee must operate in sectors listed in the Catalogue of Encouraged Industries for Foreign Investment (stricter than the prior “non-prohibited” rule on deferral treatment).

- **Holding period:** Continuous holding for at least 5 years to qualify. The holding period starts from the reinvestment time specified in the Profit Reinvestment Form, and ends at the earlier of the equity transfer or the receipt of transfer consideration.

- **Fund flow:** Profits must be transferred directly from the distributing enterprise to the investee, with no intermediate accounts.

The implementation of this policy is another important measure for China to stabilize foreign investment and facilitate industrial upgrading. It lowers long-term investment costs and directs capital to priority sectors. By combining tax deferral and tax credit, the policy provides foreign investors with more predictable tax incentives, significantly enhancing the attractiveness of long-term investment in China. Meanwhile, foreign investors must maintain robust tax compliance, including establishing dedicated credit ledgers, keeping track of information for reinvestment, tax credit and tax payment, and monitor holding periods to avoid claw-back taxes and penalties. Amid global Pillar Two implementation, groups should also assess impacts on effective tax rates to maximize benefits while staying compliant.

Section 3: Hainan Island-wide Special Customs Operations: New Tax Policies Leading Higher Level of Opening Up

On December 18, 2025, Hainan Free Trade Port (FTP) achieved a historic milestone: the full-island customs special operations were launched, marking full implementation of the “freer access at the first line, regulated access at the second line and free flow within the island” framework. Before launching customs special operation, relevant ministries rolled out supporting tax policies to drive growth and position Hainan as a strategic opening-up hub.

Island-wide Zero-tariff Coverage

With the customs special operation now in effect, imports entering Hainan through the “first line” are exempt from tariffs, VAT, and consumption tax, except for limited items on a restricted list. This cuts costs for high-end manufacturing (e.g., importing R&D equipment for biopharma, purchasing core parts for new energy vehicles) and enables trade firms to develop bonded warehousing and transit trade.

Duty Exemption for Processing Value Added Goods Energizes Industry Chains

The revised Provisional Measures on Tax Administration for Processing Value-Added Goods Exempt from Customs Duties expands coverage to the entire island, removes the encouraged industry revenue threshold, and allows cross-enterprise value-added aggregation. This lowers compliance costs and fosters industrial clusters.

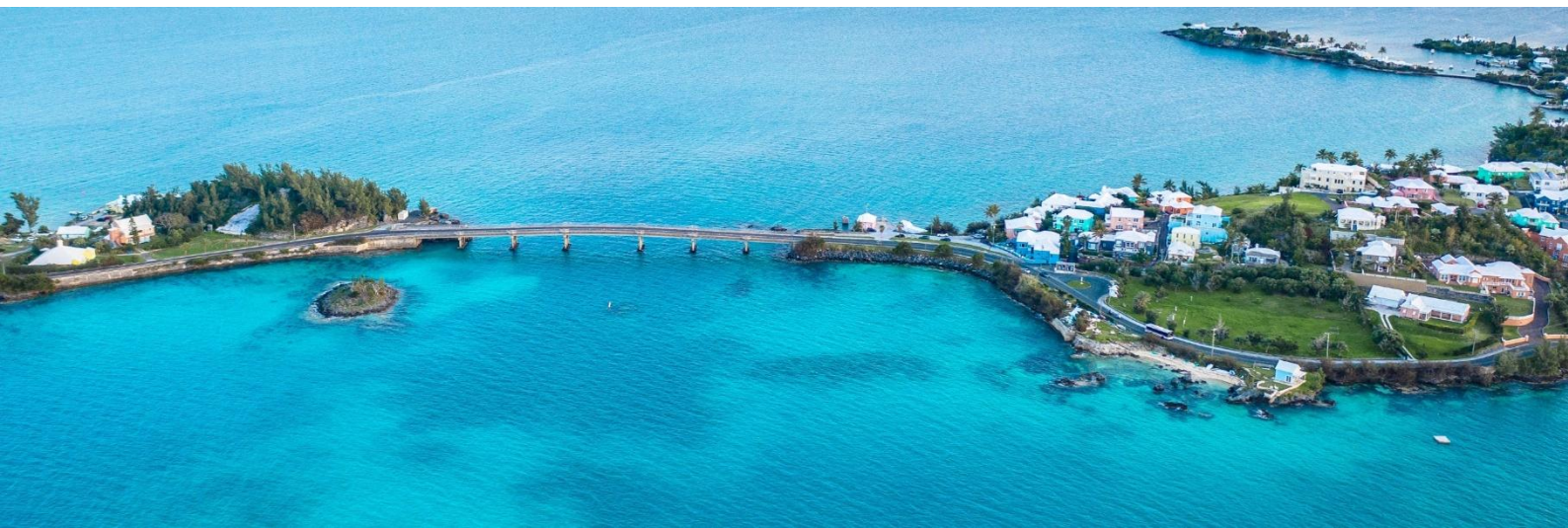
Dual Income Tax Incentives Bolster Industrial Foundations

Hainan continues to leverage the advantages of the income tax policies. Encouraged enterprises registered and substantively operating in Hainan enjoy a 15% corporate income tax rate; income from new overseas direct investment is exempt from corporate income tax to support enterprises “going global”. High-end talent gets personal income tax relief for portions exceeding 15%, attracting talents in technological innovation, finance, and other fields. These policies provide stable expectations for high-end manufacturing and modern service enterprises, consolidating the industrial foundation.

Strategic Significance of Institutional Opening-up

Hainan’s customs special operation goes beyond simple tax incentives, serving as a key pilot for China’s institutional opening-up. The combination of the processing value-added goods policy and zero tariffs promotes the localization of high-end manufacturing such as biomedicine and precision instruments. The multi-functional free trade account (EF Account) and cross-border asset management pilot facilitate cross-border capital flows. The Hainan Free Trade Port Foreign Investment Regulation improves foreign investment access and creates a business environment aligned with international standards.

With a framework of “island-wide zero tariffs + industrial chain tax exemption + dual 15% income tax rates”, the new tax policies of the Hainan Free Trade Port offer multi-dimensional support for enterprises. As customs special operation takes effect, Hainan is shifting from a “policy highland” to an “institutional highland”. Enterprises should seize the opportunities brought by detailed implementation rules, leverage the synergy of various incentives, and embrace new opportunities for opening-up.



Section 4: New Compliance Challenges for Platform Enterprises – New Rules on Tax-Related Information Reporting

In recent years, China's platform economy has boomed. To improve the governance system, standardize tax order, and enhance tax administration efficiency, the Provisions on Tax-Related Information Reporting by Internet Platform Enterprises (the "Provisions") were officially issued and took effect in June 2025. The Provisions aim to regulate how internet platforms report tax-related information of merchants and practitioners on their platforms, protect taxpayers' legitimate rights and interests, and foster a fair and unified tax environment to support the regulated and healthy development of the platform economy.

Key contents include:

- **Reporting obligations and scope**: Platforms must submit identity and quarterly income information of merchants and practitioners to the competent tax authority by the end of the month following each quarter.

- **Exemptions from reporting**: Three categories are exempt to reduce compliance burdens:

    1. Income information of practitioners in delivery, transport, housekeeping and other services eligible for tax incentives or non-taxable status;

    2. Historical tax-related information before the Provisions took effect;

    3. Information already reported via withholding or entrusted declaration, or obtainable through government information sharing.

    Tax authorities are required to provide secure reporting channels, connecting services and policy guidance.

- **Confidentiality obligations**: Strict requirements are imposed on the security management of tax-related information. Internet platforms must properly maintain relevant information, while tax authorities must maintain confidentiality in accordance with the law and establish sound security management systems. Both parties are responsible for protecting data security.

After the Provisions were released, the STA issued two supplementary public notices to clarify practical details: who to report, what to report, how to report, consequences of non-compliance, and withholding/entrusted declaration.

These rules significantly affect stakeholders. Internet platforms face higher operating costs, compliance risks and reputation challenges, and may even experience reduced traffic and revenue. Merchants and practitioners, especially those with weaker tax compliance, will face stronger regulatory pressure. In addition, foreign internet platforms providing commercial services in China must also comply with the reporting requirements.

Section 5: Outlook for China’s Tax Policies in 2026

The Rule of Law

With the VAT Law and its implementing regulations taking effect, fiscal and tax authorities will continue to release supporting rules. 2026 will be critical for evaluating the new VAT regime. Meanwhile, in line with the 2023 Legislative Plan of the 14th National People’s Congress Standing Committee, the legislation for the consumption tax and the revision of the Tax Collection and Administration Law are progressing. Regarding consumption tax reform, the 2026 Government Work Report reiterates the need to “adjust and optimize the scope and rates of the consumption tax, and move the levy point of some items to later stages” reflecting a clear and consistent reform path. For the revision of the Tax Collection and Administration Law, the draft will undergo multiple reviews by the National People’s Congress Standing Committee and may be further adjusted based on feedback. Notably, while the widely advocated advance tax ruling system was not included in this round of revisions, local authorities continue to explore its implementation. Currently, many local tax authorities launched pilot programs to build certainty and accumulate experience.

Tax Supervision and Inspections

In 2026, taxpayers will face more targeted, data-driven tax supervision and enforcement. As announced at the January National Tax Work Conference, China's tax authorities will strengthen systematic supervision and inspection, focusing on:

- Improving risk identification and monitoring key industries and high-risk tax activities;
- Directly investigating major cases at higher levels and cracking down on fake invoicing, fraudulent tax refunds, improper tax incentives, and oil product tax evasion via inter-agency cooperation;
- Illegal local investment incentives and the "invoice-driven economy" will be rectified to standardize local tax administration.

Recently, we have observed that tax authorities will also tighten scrutiny of Controlled Foreign Companies (CFCs) to prevent profit retention and tax avoidance in low-tax jurisdictions and continue enhancing cross-border information exchange via CRS to monitor overseas income compliance of resident individuals. Taxpayers are advised to prioritize tax compliance and strengthen internal tax control and management systems.

Fiscal and Tax Outlook for the 15th Five-Year Plan (2026–2030)

The 15th Five-Year Plan for National Economic and Social Development of China was officially approved and released in March 2026. It outlines the core directions for fiscal policy optimization and fiscal and tax system reform during the 15th Five-Year Plan period, emphasizing the need to "implement more proactive macro policies", "give full play to the role of proactive fiscal policy and enhance fiscal sustainability", and "maintain a reasonable level of macro tax burden".

Against this backdrop, China's tax policies over the next five years are expected to prioritize supporting the overarching goals of steady growth and structural adjustment, with targeted incentives for key areas such as technological innovation (e.g., higher R&D super deductions) and green transition. Concurrently, policies will place greater emphasis on "investing in people": optimizing individual income tax deductions and other measures will reduce household costs related to childcare and education, thereby boosting consumption.

02

Tax Guides to 17 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 2026, 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 Jordan, Maldives and Rwanda 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 (CTCs), 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.

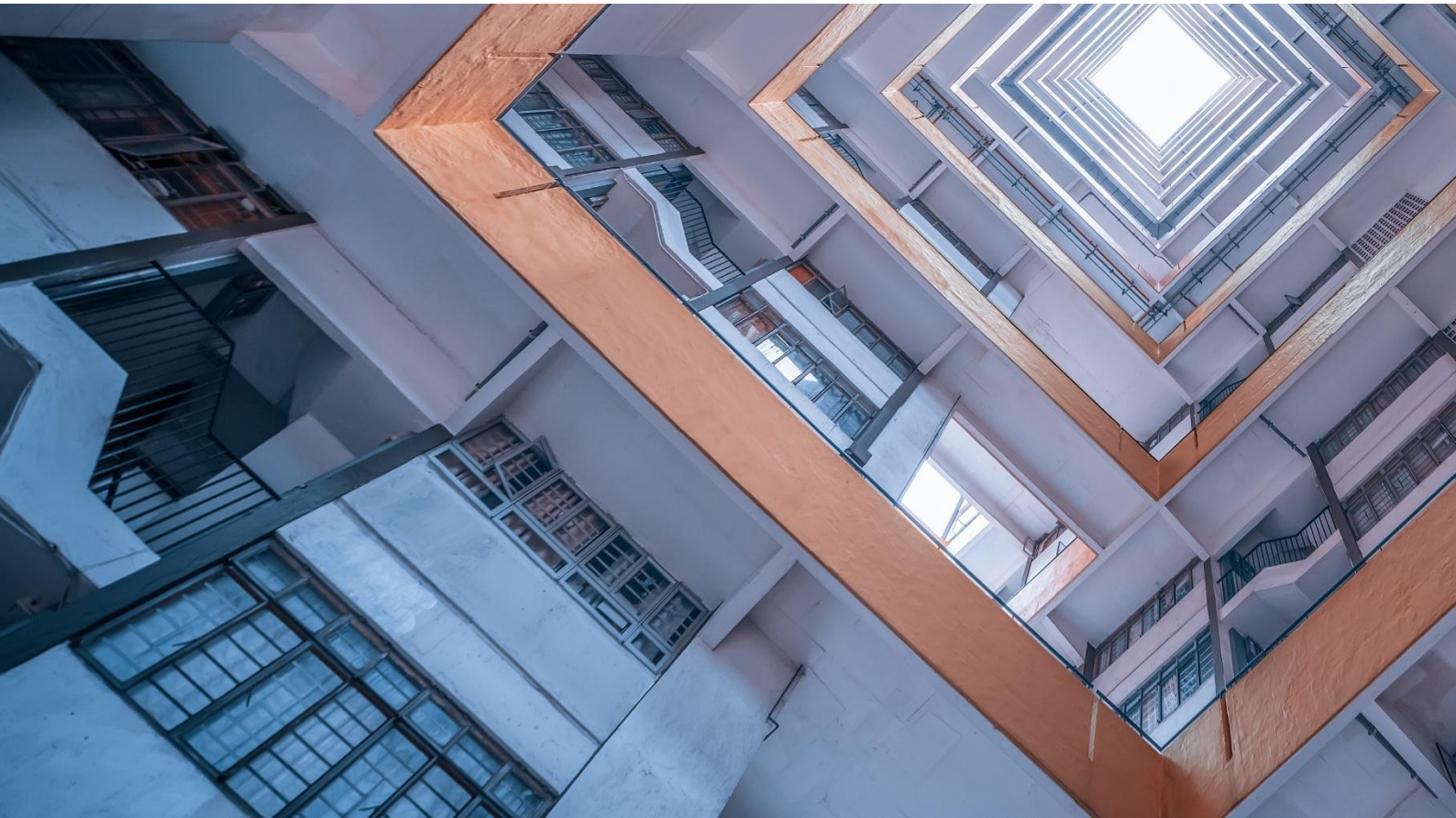
1.2 FSIE regime

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.

1.5 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. Legislation has already been enacted in June 2025 to implement these rules, along with the related Hong Kong minimum top-up tax (HKMTT). Specifically, the income inclusion rule (IIR) and the HKMTT apply to a fiscal year beginning on or after 1 January 2025, and the undertaxed profits rule (UTPR) will apply at a later date to be specified.

Part two: Outlook for 2026 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 2026. Pending amendments to the tax law, the following key changes are expected:

2.1 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 (HKSAR Government) will further enhance the tax concessions for investment funds, family investment vehicles managed by single family offices and carried interest. The 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 may benefit from these enhancement measures.

2.2 Review of tax deduction arrangements for IP-related expenditures

To accelerate the development of IP-intensive industries and promote the development of IP trading in Hong Kong, the HKSAR Government is reviewing the relevant tax deduction arrangements for various IP-related expenditures, including lump sum licensing fees for acquiring the rights to use IP, and related expenses incurred on purchase of IP or the rights to use IP from associates.

MNC investors with significant IP investment or those engaged in IP-intensive industries should closely monitor the developments in this area to assess whether and how they may benefit from the enhanced tax deduction arrangements.

2.3 Review of tax concession for CTCs

To attract more Chinese Mainland enterprises to establish CTCs in Hong Kong and support their overseas investments, the HKSAR Government is exploring ways to further enhance the existing tax concession regime for CTCs.

MNC investors who are currently benefiting from the regime, or those planning to set up a CTC to manage their financing functions, should closely monitor the developments on this front and evaluate whether to expand or establish their CTC operations in Hong Kong.

2.4 Enhancement of tax concessions for maritime services and introduction of tax concession for physical commodity traders

Hong Kong currently has preferential tax regimes for ship lessors, ship leasing managers and shipping commercial principals. To maintain the competitiveness and relevance of these regimes amid evolving international tax rules and market developments, the HKSAR Government has proposed several enhancements. These include introducing a tax deduction on ship acquisition cost for ship lessors under an operating lease, adding an additional tiered concessionary tax rate and expanding the scope of activities eligible for tax concessions.

Furthermore, to promote the development of high value-added maritime services, the HKSAR Government has proposed introducing a half-rate tax concession to eligible commodity traders.

MNC investors engaged in the maritime sector or physical commodity trading should closely monitor the forthcoming legislative changes and evaluate how they may benefit from the enhanced or new tax concessions.

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Singapore

Part one: Overview

Singapore continues to stand out as a highly attractive hub for Chinese corporates and global businesses for regional and international growth due to its strategic location, strong legal framework, political stability, robust financial infrastructure, and favorable tax regime.

As global tax dynamics evolve and geopolitical tensions reshape investment flows, Singapore has remained committed to adjusting its policies to ensure that the nation retains its competitive edge while supporting sustainable, innovation-driven growth.

Against this backdrop, Singapore's Budget 2026 introduces targeted enhancements focused on innovation. Notably, the Government dedicated a full section of the Budget Statement to artificial intelligence (AI), signalling its intention to position Singapore at the forefront of AI adoption.

At the same time, refinements to existing tax incentives – such as the Enterprise Innovation Scheme, Double Tax Deduction for Internationalisation and Finance and Treasury Centre Incentive reinforce Singapore's commitment to staying relevant, adaptive and competitive in a rapidly changing global economy.

Enterprise Innovation Scheme (EIS)

To support firms in transforming their businesses, the EIS is expanded to include AI expenditures as a qualifying activity, enabling companies to benefit from substantial tax incentives. Under the EIS, an additional 300% deduction will be available per Year of Assessment (YA) for up to SGD 50,000 of qualifying AI expenditure in YA 2027 and YA 2028.

Business planning to invest in AI should consider using this opportunity to accelerate the adoption of AI to equip the business and workers with the tools and capabilities needed to thrive in an AI-enabled economy.

Double Tax Deduction for Internationalisation (DTDi) Scheme

Internationalisation remains a critical pillar of Singapore's economic strategy.

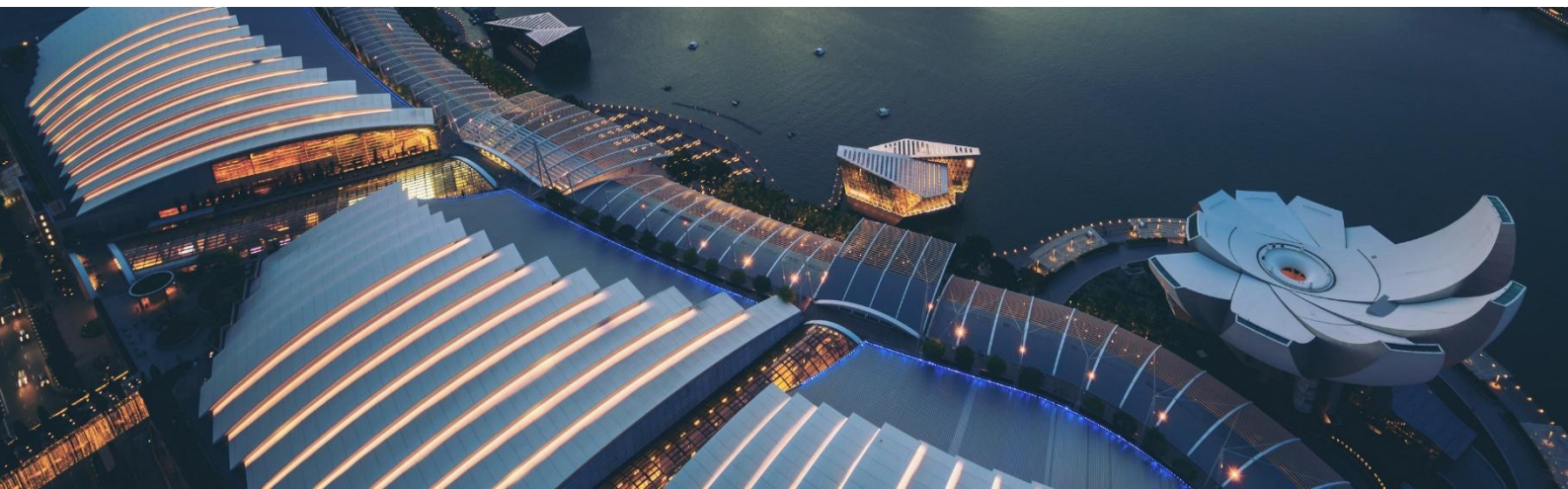
To further support businesses in their internationalisation efforts, the government will expand the scope of qualifying activities and increase the expenditure cap under the DTDi Scheme.

From YA 2027, the scope of internationalisation activities that do not require prior approval under the DTDi scheme will be broadened. The expanded list will include investment feasibility and due diligence studies, master licensing and franchising activities, market surveys and feasibility studies, overseas business development, and the production of corporate brochures for overseas distribution. In addition, the scope of qualifying expenditure for overseas market development trips and study trips will be widened to cover all eligible expenses. Finally, the expenditure cap for claims that can be made without prior approval will also be raised to SGD 400,000 per YA.

Notwithstanding no prior approval being required for claims, companies should maintain documentation of qualifying activities and related expenditure to substantiate their claims. Against a backdrop of geopolitical uncertainty and supply chain fragmentation, international diversification has become increasingly important for businesses. They should plan ahead, strengthen their record-keeping processes, enhance coordination among business, finance and tax teams to fully benefit from the enhanced scheme.

Finance and Treasury Centre (FTC) Incentive

The FTC incentive has been extended to 31 December 2031, giving companies a longer horizon to anchor their regional treasury activities in Singapore. In addition, the scope of withholding tax exemption has been broadened to include interest-like borrowing costs paid on or after 13 February 2026, recognising that non-interest borrowing costs are an integral part of and reflect the economics of true financing arrangements.



Part two: Other Updates

Pillar Two Top-Up Taxes

Singapore's corporate tax rate remains at 17%, and the country has implemented the following taxes under the Pillar Two Top-Up Taxes regime for financial years beginning on or after 1 January 2025:

- Multinational Enterprise Top-up Tax (MTT)

- Domestic Top-up Tax (DTT) applies to low-taxed profits of group entities located in Singapore.

Singapore has entered into the operational phase of its BEPS 2.0 Pillar Two implementation. On 31 December 2025, the Inland Revenue Authority of Singapore (IRAS) released a one-time registration form and explanatory notes for in-scope multinational enterprise (MNE) groups under the Multinational Enterprise (Minimum Tax) Act 2024 (MMT Act).

An MNE group must register in Singapore if it:

- has consolidated annual revenue of at least €750 million in at least two of the four preceding financial years; and

- has at least one Constituent Entity or Joint Venture located in Singapore, or a Reverse Hybrid Entity that is incorporated or registered in Singapore.

Registration is a one-time requirement. Online registration is scheduled to open in May 2026 and must be completed within six months after the end of the first financial year to which the MMT Act applies. For calendar year-end MNE groups, this means registration must be completed between May 2026 (when the portal opens) and 30 June 2026.

A surcharge of 10% on the DTT and MTT (where applicable) may be imposed if an in-scope MNE group fails to notify the IRAS of its registration liability.

GST InvoiceNow

First announced in 2024, GST InvoiceNow is an initiative by IRAS and Infocomm Media Development Authority in a strategic shift towards digitalisation and an integral part of a global trend towards real time tax reporting aimed at increasing efficiency and enhancing business transparency.

InvoiceNow is Singapore's nationwide e-invoicing network enabling businesses to easily send and receive invoices in a structured digital format. GST-registered businesses will be required to transmit invoice data to IRAS using InvoiceNow-Ready Solutions and this will be mandated in phases:

Implementation Date	Who it applies to
1 May 2025	Soft launch for voluntary early adoption by existing GST-registered businesses.
1 November 2025	Companies that register for GST voluntarily within 6 months of incorporation date.
1 April 2026	All new voluntary GST registrants regardless of incorporation date or business structure.
1 April 2028	All new compulsory GST registrants Existing GST-registered businesses with total annual supplies* ≤ S$200,000
1 April 2029	Existing GST-registered businesses with total annual supplies ≤ S$1,000,000
1 April 2030	Existing GST-registered businesses with total annual supplies ≤ S$4,000,000
1 April 2031	Existing GST-registered businesses with total annual supplies > S$4,000,000

Total annual supplies refer to the total value of standard-rated, zero-rated and exempt supplies made in all the prescribed accounting periods ending in calendar year 2025.

Exclusions

The following groups of businesses will be exempted from the GST InvoiceNow requirement:

- Overseas entities (including overseas vendors that are registered under the Overseas Vendor Registration regime)

- Businesses registered under the Reverse Charge regime

Notwithstanding the announced implementation timelines, businesses should consider moving early to GST InvoiceNow to gain benefits such as streamlined and standardised invoicing, higher accuracy and security, better record keeping and compliance, increased operational efficiency, and shorter payment cycles.

To support businesses in their transition, the government offers incentives such as the InvoiceNow Accelerate programme, which provides newly incorporated companies with one year of complimentary InvoiceNow services from selected providers.

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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, including sovereign AI cloud initiatives and large-scale data centre capacity, highlight the importance of growing the digital economy. Under the Ekonomi MADANI framework and the Thirteenth Malaysia Plan, 2026 - 2030, and guided by the New Industrial Master Plan (NIMP) 2030 and the National Semiconductor Strategy, 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, as well as green and digital industries. These national strategies also underpin Malaysia's shift to an outcome-based investment incentive system, the broader digitalisation of tax administration, and the development of market-aligned carbon policies for 2026 and beyond.

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. Recent fiscal reforms also encompass measures such as tighter subsidy rationalisation, expanded use of e-invoicing and a new outcome-based investment incentive regime which will be implemented in phases beginning framework slated to be launched in Q1 2026, alongside plans to introduce a carbon tax in 2026 initially targeting selected sectors like iron, steel and energy. 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 support the country's economic agenda, with current priorities centred on fiscal consolidation, improving revenue through stronger administration and compliance (including e-invoicing), and refining tax incentives and reporting requirements. There is also a gradual move towards environmental-related measures such as carbon taxation. 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 2026 and beyond.

Part one: Recent tax developments relevant to MNCs

1.1 Tax incentives

Malaysia is moving decisively toward a new outcome-based New Incentive Framework (NIF), which replaces the traditional promoted-product approach under the Promotion of Investments Act 1986. The NIF is anchored on the National Investment Aspirations and rewards investments that deliver measurable outcomes aligned with national priorities in economic complexity, high-value job creation, domestic linkages, inclusivity, industrial cluster development and ESG practices.

The NIF takes effect in phases—manufacturing from 1 March 2026, followed by services in Q2 2026. Incentives will be granted under the Income Tax Act 1967. New applications under the PIA 1986 close on 28 February 2026 (3pm), with existing approvals maintained.

Key changes foreign investors should note:

Tiered, outcome-based incentives: Investors may qualify for Investment Tax Allowance (ITA) up to 100% on qualifying capital expenditure for up to 15 years, or a special tax rate ranging from 0% - 15% for up to 15 years, depending on outcomes achieved from the investment.

Qualifying conditions are tied to outcomes under National Investment Aspiration (NIA) targets, i.e., increase in economic complexity, creation of high-value jobs, extending domestic linkages, development of new and existing economic clusters, improvement in inclusivity and enhancement in ESG practices. Pre-qualifying conditions also apply depending on sectors comprising requirements on capital investment per employee, IR4.0 adoption, ESG requirements and Malaysian workforce thresholds.

Targeted Subsectors: 15 subsectors from NIMP 2030 comprising:

- Electrical and Electronics (E&E)
- Chemical and Chemical Products
- Pharmaceuticals
- Medical Devices
- Aerospace
- Machinery and Equipment (M&E)
- Automotive
- Petroleum Products and Petrochemicals
- Oleochemicals and their derivatives
- Food Production and Processing
- Wood, Paper and Furniture
- Textile, Apparel and Footwear
- Strategic minerals-based products
- Rubber-based Products
- Metal

For a full summary of the incentive, refer to Tax in Motion 3-2026.

Existing flagship schemes continue to operate alongside the NIF and remain relevant for investors evaluating Malaysia:

- Johor-Singapore Special Economic Zone (JS-SEZ)—key incentives offered 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.

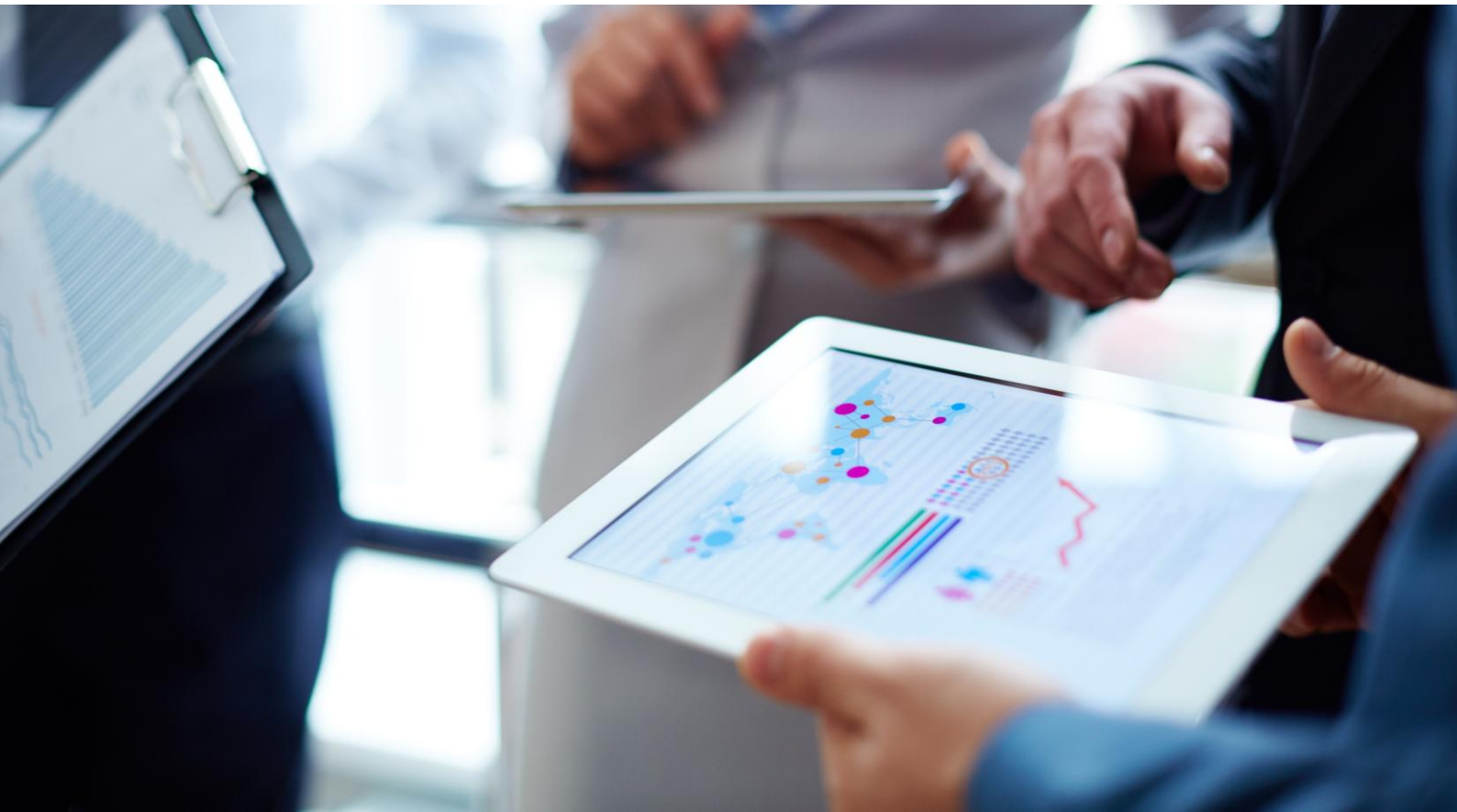
- Incentives are also offered for green technology/renewable energy. Activities which qualify for incentives include investments in green hydrogen, electric vehicle (EV) charging stations, integrated waste management, generation of renewable energy, solar leasing, etc. For a snapshot of the incentives,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

- Digital Ecosystem Acceleration (DESAC) Scheme—designed to deepen Malaysia's digital ecosystem, offering either a reduced corporate tax rate of 10% for up to 10 years or an Investment Tax Allowance of up to 60% on qualifying capital expenditure for up to five years. The incentive supports data centres and cloud-based digital infrastructure aligned with the Guidelines for Sustainable Development of Data Centre, including metrics such as 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.

1.2 Tax compliance

Tax compliance remains a central focus in 2026 as the Inland Revenue Board of Malaysia (IRBM) continues risk-based desk and field audits to test the accuracy of returns, the integrity of records and adherence to the Income Tax Act and subsidiary rules. The IRBM maintains a risk-based compliance programme encompassing desk and field audits, collections, legal actions and taxpayer verification, with heightened attention on sectors and profiles that present margin anomalies, untested positions or incentive claims.

Implementation of e-Invoicing across broader segments in 2026 strengthens third-party data matching and near-real-time oversight, and the IRBM's e-Invoice Compliance Review Framework introduces a structured, risk-based approach to programme supervision. Core compliance priorities include timely registration and maintenance of Tax Identification Numbers (TINs), accurate withholding tax and royalty/service characterisation, robust transfer pricing documentation with contemporaneous support for value-creation, and correct application of incentives under prevailing terms. Taxpayers also face increased administrative expectations around digital record-keeping, systems readiness and governance over filings made through MyTax, with penalties and surcharges applied in accordance with current legislation. In this environment, companies place greater emphasis on pre-filing reviews, documentation discipline and proactive engagement with the authorities to manage audit outcomes and sustain certainty.



Part two: Outlook for 2026 and beyond

2.1 New incentive framework

Malaysia is implementing the New Incentive Framework (NIF) as the central structure for future investment incentives. The NIF is outcome-based, sector specific and aligned with the National Investment Aspirations. Incentives will be tiered, with higher tiers granted to projects that deliver stronger commitments across NIA targets such as economic complexity, high value job creation, domestic linkages, inclusivity, industrial cluster development and sustainability.

Foreign investors should consider:

- Early alignment of project design with NIA targets.
- Sector specific conditions, including exclusions and sustainability mandates.
- Application timing—submissions must be made before operations commence.
- Annual compliance reporting obligations.

2.2 Wealth management hub

Malaysia positions itself as a regional wealth management hub through a legislated Single Family Office (SFO) incentive, including a 0% income tax rate for up to 20 years (10+10 years) for a verified single family office vehicle with at least RM30 million in assets under management, along with a one-off capital gains tax exemption on transfers of permitted assets into the SFO structure and targeted stamp duty exemptions.

Related relocation and facilitation measures, as well as withholding tax exemptions for specified financial sector service providers connected to SFO activity, and certain relocation-related allowances and deductions, reinforce Malaysia’s attractiveness for families establishing an Asian presence.

2.3 Stamp duty self-assessment and digitalisation

Malaysia phases in the Stamp Duty Self-Assessment System (SDSAS) from 1 January 2026, shifting from formal adjudication to self-assessment for many instruments. The phased implementation of SDSAS is as follows:

Phase	Effective date	Types of instruments
Phase 1	From 1 January 2026	• Rental / Lease • Security • General stamping
Phase 2	From 1 January 2027	• Transfer of real property which does not require valuation
Phase 3	From 1 January 2028	• All other instruments not in Phases 1 and 2

Stamping is conducted electronically via e-Duti Setem on the MyTax portal, with returns treated as deemed assessments and duty payable within 30 days of submission. All parties, or their appointed representatives, must hold a TIN and MyTax access.

The IRBM may review cases within five years, with no time limit in cases of fraud or wilful default, and legislative changes increase certain fines and set clear deadlines for refunds and appeals.

For Phase 1 instruments stamped during 2026, there is a one-year concession where no penalty for incorrect returns or incorrect information, although any underpaid duty and late-stamping penalties still apply.

For investors, SDSAS primarily affects transaction planning and execution by shifting classification and computation responsibilities to duty payers, requiring upfront readiness (for example, TIN/MyTax onboarding and data capture) and payment within prescribed timelines, and by increasing compliance and penalty exposure across common commercial, financing and corporate instruments.

2.4 e-Invoicing

Malaysia's e-Invoicing regime scales through phased thresholds legislated in mid-2024 and is active across broader segments in 2026. The updated guidelines raise the SME exemption threshold to RM1 million, reflecting the policy decision to ease compliance for smaller taxpayers while maintaining overall rollout momentum in 2026.

From 1 January 2026, taxpayers with annual turnover or revenue up to RM5 million, implement e-Invoicing with a 12-month interim relaxation through 31 December 2026 during which consolidated e-Invoices are permitted and no prosecution where consolidation conditions are met.

For new businesses commencing between 2023 and 2025 and exceeding RM1 million in annual turnover, the start date to implement e-Invoicing is 1 July 2026. Micro, Small and Medium Enterprises with annual turnover below RM1 million are exempt from e-invoicing, subject to specified related-party exceptions.

The IRBM continues to refine operational guidance and supervision as e-Invoicing becomes a core pillar of tax administration in 2026, and has issued the e-Invoice Compliance Review Framework, which establishes a structured, risk-based review covering up to two years of assessment, including on-site visits of 1-3 days and completion within 90 days, with defined review timelines.

2.5 Carbon tax

Under Budget 2026, Malaysia plans to introduce a carbon tax in 2026, initially focusing on the iron, steel and energy sectors to accelerate the adoption of low-carbon technologies, with detailed design elements-including coverage, taxable base, thresholds and the rate-pending announcement. The mechanism is planned to be coordinated with the National Carbon Market Policy and a forthcoming National Climate Change Bill to ensure coherence between compliance pricing and market mechanisms.

For investors, key features that drive cost and strategy-such as the tax rate, the treatment of offsets, scope and thresholds, exemptions or reliefs, transitional provisions, compliance timelines and interactions with existing are pending the issuance of detailed rules.

In parallel, Malaysia has established the Bursa Carbon Exchange (BCX) which is a voluntary carbon market operated by Bursa Malaysia where businesses can trade carbon credits on a voluntary basis.

Part three: Insights for MNCs

3.1 Tax incentive opportunities

From 2026, incentives for manufacturing and services will increasingly be granted on an outcome-based basis. Investments with a high degree of alignment with the NIA targets stand a better chance of not only securing an incentive but a higher tier incentive upon achieving the outcomes. MNCs which plan to optimize their operational costs should look at how their investment can meet the NIA targets. The targets include increasing domestic economic complexity, creation of high-value job opportunities, extending domestic linkages, development of new and existing economic clusters, improvement in inclusivity, enhancement in ESG practices, etc.

3.2 Tax compliance enforcement

Three developments shape near-term planning.

First, the outcome-based New Investment Incentive Framework advances in 2026, signaling tighter links between benefits and measurable spillovers; investors should expect deeper KPI tracking and periodic validations.

Second, tax administration continues to digitalise: e-Invoicing expands to taxpayers with turnover up to RM5 million from 1 January 2026 with an extended interim relaxation window, while the SDSAS phases in from 2026 with electronic stamping via MyTax, shifting classification and computation responsibilities to taxpayers and elevating process governance.

Third, carbon pricing progresses with a 2026 start focused on iron, steel and energy sectors; key cost drivers-including the rate, thresholds, scope and offset treatment-remain pending, so scenario testing and abatement roadmaps are prudent for carbon-intensive operations.

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Vietnam

In 2025, Vietnam's tax regulations have undergone changes in respect of corporate income tax, personal income tax, tax collection and administration, as well as the withholding provisions imposed by e-commerce platforms on individual businesses. Meanwhile, it has strengthened the requirements for tax collection and administration and compliance in the digital economy. The specific changes are as follows:

Part one: Corporate Income Tax

The government issued a new decree on December 15, 2025, providing guidance for the implementation of the 2025 Corporate Income Tax Law. The decree shall take effect on the date of its signing and apply to the tax years of 2025 and subsequent years. The transitional provisions contained therein allow taxpayers to flexibly select the effective date of application, and taxpayers may choose to apply the specific provisions (relating to income, expenses, incentives and loss carryforward) starting from the first day of the 2025 tax period, the effective date of the 2025 Corporate Income Tax Law (October 1, 2025) or the effective date of this decree. Provisions on non-cash payment certification and capital transfer shall take effect immediately on the effective date of the decree; the provisions related to the global minimum tax (e.g., the deductibility of specific top-up taxes allocated to Vietnam) shall apply as of their respective effective dates.

1. Provisions on Tax-Exempt Profits

- Profits from agriculture, forestry, fishery and salt industry: The specific activities and conditions for which profits in the above industries are eligible for corporate income tax exemption have been clarified, which is consistent with the policy objective of supporting primary industries and rural development.

- Profits from technology transfer: More detailed conditions are provided to determine the qualifying tax-exempt profits from technology transfer (e.g., eligible transferees, types of technology, supporting documents).

- Profits from green finance and environmental protection instruments are tax-exempt if the conditions of the decree are met: Income from the first transfer of emission reduction certificates and carbon credits allocated/granted to enterprises; interest income from green bonds; and income from the first transfer of green bonds after their issuance.

2. Provisions on Profits from Overseas Investment

- Timing of taxation: The principle under the 2025 Corporate Income Tax Law has been clearly regulated, that is, the tax liability for overseas profits arises at the time of accrual, rather than at the time of repatriation to Vietnam (this changes the previous repatriation-based method). In the meantime, supplementary filing guidelines are provided for taxpayers to confirm profits for which corporate income tax has not been declared and paid in overseas jurisdictions.

- Foreign corporate income tax (or profit tax of a similar nature) paid overseas may be used to credit the corporate income tax payable in Vietnam in accordance with various conditions and quota provisions.

3. Deductible and Non-Deductible Expenses

- Expenses not complying with specific legal provisions: Expenses incurred from activities that fail to meet the requirements of specific laws are clearly stipulated as non-deductible, such as overtime pay exceeding the statutory ceiling, and advertising/promotional expenses for promoting products or services whose advertising is prohibited or that require prior registration/approval by the competent authority but for which the relevant permits have not been obtained.

- Non-cash payment threshold: Non-cash payment is mandatory for amounts exceeding 5 million Vietnamese Dong, which is consistent with the VAT provisions and shall take effect on the effective date of this decree. This threshold shall not be applied retroactively to the entire 2025 fiscal year.

- Specific conditions and supporting document requirements for certain expenditures: Donations, sponsorships and payments of a similar nature; expenditures on scientific research, technological development, innovation and digital transformation; expenses generating no corresponding income; and expenses related to green activities (e.g., environmental protection, energy conservation, etc.).

- Additional deduction for research and development (R&D): The decree introduces an additional deduction system for certain R&D-related expenses. Under specific conditions, taxpayers may be entitled to an additional deduction (up to 200% of the qualifying actual R&D expenses), provided that the application of such additional deduction will not result in a tax loss for the taxpayer.

4. Corporate Income Tax Incentives

- Special investment incentives and locations: For projects eligible for special investment incentives under the Investment Law, their total registered investment capital must be fully disbursed within 10 years from the effective date of the investment license to maintain the incentive eligibility. For new investment projects located in economic zones, if more than 50% of the project area is situated in non-incentive areas, a 17% corporate income tax rate for a 10-year period may still apply subject to certain conditions.

- Expansion investment projects – Thresholds and commencement time: An expansion investment project may be eligible for tax incentives when the increase in the historical cost of fixed assets reaches the following minimum thresholds: VND 40 billion for expansion in incentive industries; or VND 20 billion for expansion in incentive locations. The tax exemption/reduction period shall commence when the registered capital of the expansion project is fully disbursed and the project starts to generate taxable profits, but not later than the fourth year after the capital disbursement year at the latest.

- Multiple incentives and profit scope: Where profits meet multiple incentive conditions (e.g., based on industry and location), taxpayers may select the most favorable regime, but the incentive period already enjoyed must be taken into account when switching regimes. For manufacturing activities enjoying location-based incentives, such incentives shall also apply to profits derived from the sale of products outside the incentive locations; for projects engaging in trading and service activities, the incentives are limited to profits earned within the incentive areas. Once a taxpayer selects a certain incentive measure for specific profits, such selection shall apply to the entire remaining incentive period and shall not be altered.

5. Transitional Provisions and Loss Carryforward

- Existing projects approved prior to the effective date of the 2025 Corporate Income Tax Law: Newly built or expanded projects granted incentives before the effective date of the 2025 Corporate Income Tax Law may choose to continue applying the existing incentive regime until its expiration, or opt to apply the more favorable incentives under the new decree starting from the 2025 tax period.

- Profits no longer eligible for incentives under the 2025 Corporate Income Tax Law: Profits that were previously eligible for incentives but no longer meet the relevant conditions under the new law and this decree shall cease to enjoy incentives from the effective date of the new law, unless specific provisions for continuing the application of old rules apply for protection.

- Tax loss carryforward: Tax losses incurred prior to the effective date of this decree (including losses from real estate and project transfer activities) may still be carried forward and deducted within the statutory carryforward period. However, where the law restricts that losses shall not be used to offset profits from tax-exempt/incentive activities, the aforementioned carried forward losses shall not be used to offset profits generated from activities enjoying tax incentives.

6. Provisions on Capital Gains Tax (Decree No. 320/2025/ND-CP)

- Capital transfer: Foreign enterprise sellers conducting capital transfer shall pay corporate income tax at the rate of 2% on the sales proceeds. The aforesaid 2% tax provision shall not apply to intra-group restructuring where the ultimate parent company of the Vietnamese subsidiary remains unchanged and no actual gains are generated.

- Indirect capital transfer: Such transfers shall be subject to taxation.

- Securities transfer: Foreign enterprise sellers transferring securities shall still pay corporate income tax at the rate of 0.1% on the sales proceeds.

- Effective time: The above new rules shall take effect on the effective date of Decree No. 320 (i.e., December 15, 2025).

- In December 2024, the government issued Decree No. 182/2024/ND-CP on provisions supporting investment funds. Eligible taxpayers in the high-tech industry may enjoy the support of this fund. The decree has taken effect since the 2024 fiscal year.

Part two: Personal Income Tax

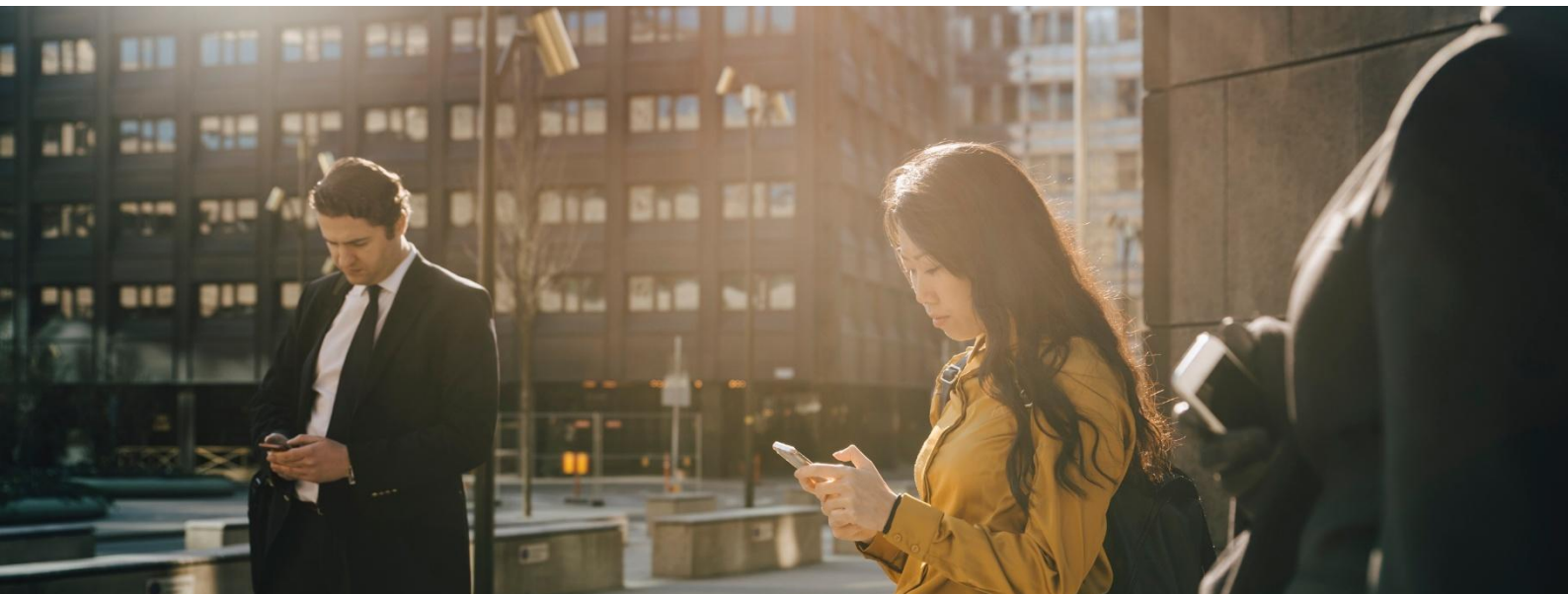
1. The National Assembly adopted the new Personal Income Tax Law on December 10, 2025, which is scheduled to take formal effect on July 1, 2026. Several provisions related to salaries and business activities will be implemented in advance starting from January 1, 2026, and the relevant detailed rules of the new law are to be announced.

2. New progressive tax brackets: The progressive tax rate structure applicable to salary income has been simplified, with the number of tax brackets reduced from the original seven to five. Although the maximum tax rate remains at 35%, the threshold for applying the maximum tax rate has been raised to a monthly income exceeding 100 million Vietnamese Dong (approximately US$3,800), an increase from the original 80 million Vietnamese Dong.

3. Major changes to the capital gains tax system: The tax rate on capital transfer remains at 20%, which applies to both residents and non-residents. In addition, if the taxable gain cannot be determined, tax shall be levied at 2% of the transaction amount. Residents and non-residents transferring securities shall still be taxed at 0.1% of the transaction amount.

4. New personal income tax exemptions: Overtime income; cash compensation to employees for unused annual leave.

5. Adjustments to family and other tax deductions: The monthly deduction for taxpayers is 15.5 million Vietnamese Dong, and the deduction for each dependent is 6.2 million Vietnamese Dong. In addition, the new law provides additional tax deductions for taxpayers and their dependent relatives in respect of medical, education and training expenses, subject to various ceiling provisions. Relevant expenses must be declared with legal invoices and supporting documents in accordance with the law.



6. Raising the threshold for other income: The taxation threshold for certain income categories, including lottery winnings, copyrights, commercial franchising, inheritance and gifts, has been adjusted from 10 million Vietnamese Dong to 20 million Vietnamese Dong.

7. Five-year tax incentives for workers in the digital technology industry: Individuals deriving employment income in the digital technology field will be provided with a personal income tax exemption for a maximum of 5 years. The applicable objects include: senior digital technology professionals under specific circumstances (including R&D and production of digital technology projects in concentrated zones, key digital technologies, semiconductors and artificial intelligence systems, and digital technology labor training activities); high-tech professionals engaged in the R&D of advanced or strategic technologies, which must be designated as priority investment categories or strategic technology and product categories in accordance with high-tech regulations.

8. Personal income tax applicable to gold transactions: Gold transfer shall be taxed at 0.1% on the transaction. The new law empowers the government to determine the taxable value threshold, implementation time limit, and adjust the tax rate in accordance with the gold market supervision roadmap.

9. The government plans to issue a proposal on tax administration for e-commerce platforms, requiring domestic and foreign e-commerce platforms to withhold and remit personal income tax on behalf of the following entities: tax residents selling through e-commerce platforms and deriving global income; non-tax residents selling through e-commerce platforms and deriving income from within Vietnam. The proposal is expected to take effect on April 1, 2025.

10. The amendments to the Personal Income Tax Law under Law No. 56/2024/QH15 stipulate that e-commerce platform entities are liable to withhold, remit, declare and pay personal income tax on behalf of individuals and businesses transacting through the platforms, so as to be consistent with the amendments to the Tax Administration Law.

Part three: Other Tax Matters

1. Law No. 56/2024/QH15 was promulgated on November 29, 2024, amending 9 laws including the Tax Administration Law and the Personal Income Tax Law, with most of them taking effect on January 1, 2025.

2. Main changes to the Tax Administration Law:

    - Adjustment to the scope of taxpayers: In accordance with the current Tax Administration Law, foreign suppliers without a permanent establishment in Vietnam must complete relevant tax registration, declaration and payment directly or entrust other entities to do so when conducting e-commerce business, digital platform business and other services. Under the amendment of Law No. 56, this requirement is extended to foreign suppliers with a permanent establishment in Vietnam. This amendment aligns the definition of taxpayers under the Corporate Income Tax Law with the scope of application of the foreign contractor tax regulations.

    - Provisions on amendment of tax returns: Law No. 56 abrogates the provisions on amending tax returns when a tax inspection decision notice is issued and when tax inspection is completed. Therefore, taxpayers are not allowed to amend their tax returns under these circumstances. However, if the tax year relevant to the tax declaration has undergone tax inspection but the tax return is not within the scope of tax inspection, the taxpayer may amend the tax return within 10 years from the declaration deadline.

- Matters relating to unfulfilled tax obligations: In accordance with the current Tax Administration Law, the legal representative of a company shall be prohibited from leaving Vietnam if the company fails to fulfill its tax obligations. Law No. 56 has introduced a threshold amount for unpaid taxes, and the tax authorities are also required to notify taxpayers of any travel ban. This is a positive provision for taxpayers, and it is believed that the government will also provide guidance on the threshold level.

- Matters relating to tax refund: The payment of interest on tax refunds obtained from successful appeals/litigations is abolished; certain changes to the tax refund procedure are introduced, and the scope of personnel authorized to issue tax refund decisions is extended to the person-in-charge of district-level tax departments.

- Calculation of overdue interest: The latest guidelines on the starting date for calculating overdue interest are provided, offering a clearer interpretation of the ambiguous "from the date on which overdue interest accrues" under the current tax administrative law.

Part four: Withholding of Taxes by E-Commerce Platforms on Behalf of Individual Businesses

The annual tax-exempt revenue threshold for individual businesses will be raised from the current 10 million Vietnamese Dong to 50 million Vietnamese Dong. In conjunction with this adjustment, individual businesses and individual operators with an annual revenue of no more than 50 million Vietnamese Dong shall be exempt from VAT on the goods and services they provide.

The government plans to issue a proposal on tax administration for e-commerce platforms, requiring domestic and foreign e-commerce platforms to withhold and remit VAT on behalf of the following entities: tax residents selling through e-commerce platforms and deriving global income; non-tax residents selling through e-commerce platforms and deriving income from within Vietnam. The proposal is expected to take effect on April 1, 2025.

After the amendment of Law No. 56/2024/QH15, domestic and foreign organizations engaged in e-commerce transaction platforms, digital platforms with payment functions, and other digital economic activities (hereinafter referred to as “e-commerce platform entities”) must withhold, remit and declare VAT on behalf of platform users, including individuals and businesses. The relevant tax compliance requirements shall take effect on April 1, 2025. However, under certain circumstances, individuals and businesses are required to complete tax registration, declaration and payment on their own. At present, it is unclear how to classify the types of e-commerce platform management entities, and it is expected that more guidance will be provided in the new decree.

Tax revenue in the e-commerce industry has increased by 60% due to tax recovery and strengthened data management. The tax authorities stated that, as discussed at the meeting of the Ministry of Industry and Trade Committee on October 7, 2025, e-commerce tax revenue has increased significantly due to retroactive assessment and more stringent data management. The draft E-Commerce Law has added data security obligations for large platforms and adopted the opinions of the Ministry of Public Security to strengthen data protection requirements for e-commerce activities, especially for large digital platforms.

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Japan

Corporations are generally taxed on profits earned in Japan through a combination of national and local corporate taxes. The main national tax is corporation tax, and this is supplemented by several local taxes imposed by prefectures and municipalities. While most of these taxes are calculated based on taxable income, certain local taxes also include components that depend on factors such as the company's capital or size. Taken together, these taxes form Japan's corporate income tax system.

Separately, companies engaged in certain kinds of transactions in Japan are subject to consumption tax, a value-added-type tax generally imposed on the supply of goods and services in Japan. Businesses collect consumption tax from sales to customers and remit it to the tax authorities, typically after offsetting the tax they paid on their own purchases.

For detailed information, please refer to PwC Worldwide Tax Summaries – Japan and Japan Tax Update Newsletters.

The following summarizes several key considerations for foreign investors in Japan, and highlights recent developments in Japanese tax policy.

Part one: Key tax issues relevant for foreign investors

1.Establishing a Japanese entity

When companies set up a legal entity in Japan, the two common corporate forms considered are the KK (kabushikikaisha) and the GK (godo-kaisha). When choosing the appropriate legal form for a new Japanese business, a number of considerations must be taken into account, including governance, ability to operationalize, and home-country tax classification of the entity.

From a Japanese tax perspective, both are taxable as corporations and subject to the same corporate income and local taxes. However, when contributing funds to Japan the application of the 0.7% registration tax on stated capital can differ. At least half of such amount needs to be treated as stated capital in the case of a KK, whereas a GK does not have any such requirement. Further, to the extent that stated capital exceeds 100M JPY (or that certain other conditions are met), a size-based enterprise tax separately applies, though in turn the effective statutory tax rate is reduced (to approximately 30.6%, from the 34.6% otherwise applicable where stated capital is 100M JPY or less). The amount of tax liability that applies in respect of each regime varies on a case-by-case basis.

2.Financing Japanese operations

In funding Japanese subsidiaries and their operations, foreign parented companies need to consider Japanese thin capitalization and earnings stripping rules.

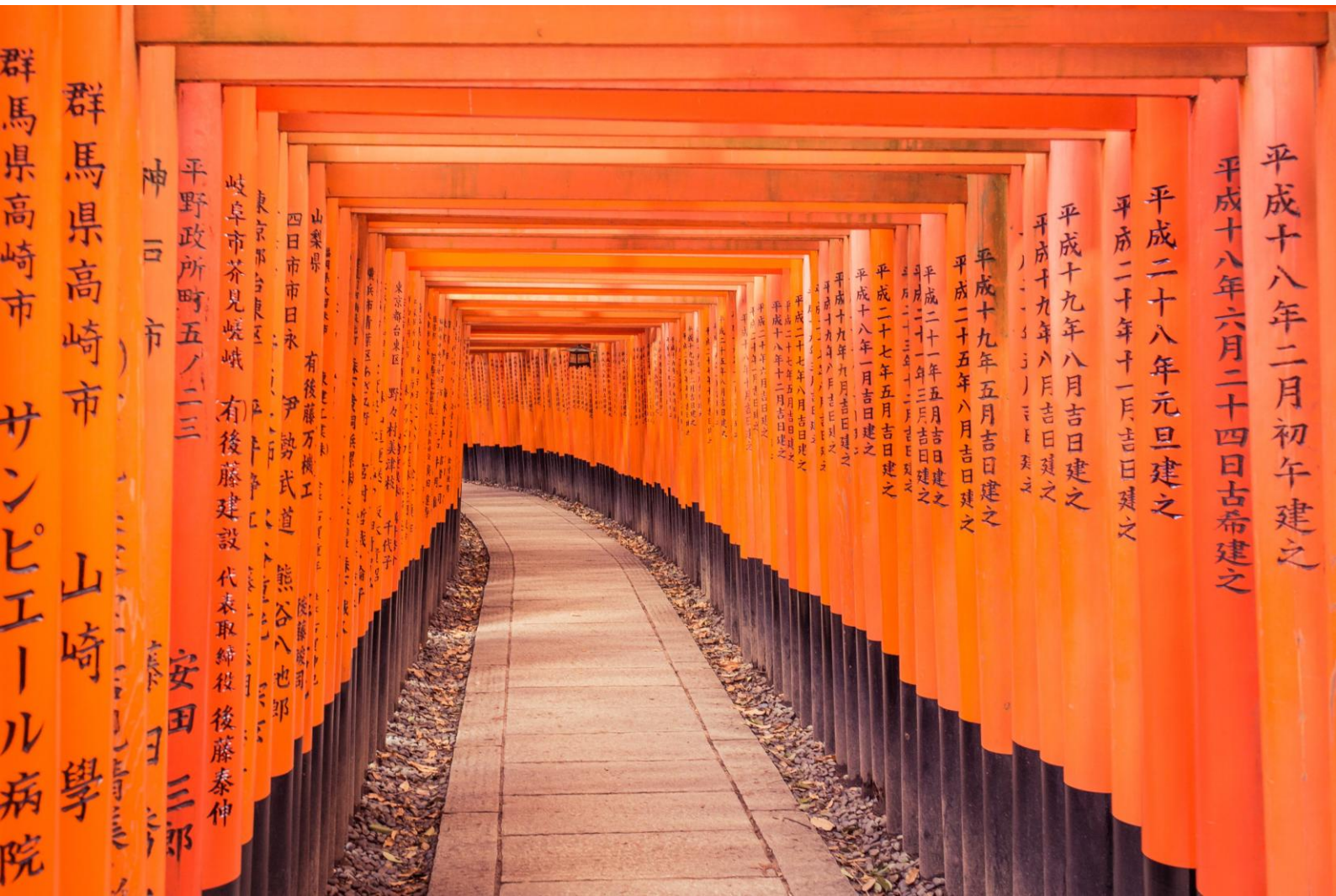
Under Japan’s thin capitalization regime, interest paid on debt to controlling foreign shareholders is generally disallowed to the extent the average balance of debt on which that interest is paid is more than three times the equity of controlling foreign shareholders. Disallowed amounts cannot be carried over to later tax years.

On the other hand, Japan’s earnings stripping rules limit the deductible portion of a corporation’s net interest expense (including third-party interest) to 20% of “adjusted income” unless the interest income is subject to Japanese income tax in the hands of the recipient. Adjusted income is defined as taxable income, adding back interest expense and depreciation expense, but excluding extraordinary income or loss.

Limitations on application of the earnings stripping interest expense deduction limitation include (i) where the net interest expense in a tax year is JPY 20 million or less, or (ii) the aggregated net interest expense on a Japanese corporate group basis is 20% or less of the aggregated adjusted income of the same group.

Non-deductible interest incurred in the past seven years will be deductible up to 20% of the current adjusted taxable income. Under the 2024 Tax Reform Act, the carryover period of seven years is extended to ten years for interest incurred in the years beginning 1 April 2022 until 31 March 2025.

For each taxable year, taxpayers need to perform computations under both the thin capitalization and earnings stripping rule above, with the allowable interest deduction capped by the rule that yields the higher disallowance.



3. Transfer pricing documentation and tax controversy

Japanese companies engaged in related-party transactions with foreign related parties are required to prepare a transfer pricing local file and submit such file upon request in an audit. Moreover, where certain thresholds are met (where, in the preceding fiscal year, the amount of related-party transactions with a single foreign related party exceeds JPY 5 billion or the amount of intangible property transactions exceeds JPY 300 million), the transfer pricing local file must be prepared by the deadline for filing the corporate tax return. In practice, in Japan, when a corporate tax audit is conducted on a Japanese subsidiary of a foreign multinational, the submission of the transfer pricing local file is almost always requested. Transactions involving intangibles (royalty rates for licenses to use intangible property) have long been transactions that are invariably reviewed in tax audits. In recent years there has also been increased scrutiny of interest rates and other aspects of intercompany financial transactions.

Japanese resident corporations and foreign corporations with a permanent establishment in Japan that are constituent entities of a multinational enterprise group meeting the revenue threshold of JPY 100 billion or more in the immediately preceding fiscal year of the ultimate parent are required to submit a master file and a Notification of Ultimate Parent Entity of a Specific Multinational Enterprise Group to the Japanese tax office.

In Japan, bilateral APAs are very widely used to manage transfer pricing risk. Between July 2024 and June 2025, 194 bilateral APAs were filed and 194 bilateral APAs were processed.

Part two: Recent tax developments

1. 2026 Tax Reform

On March 31, 2026, the Japanese government passed the 2026 Tax Reform. Multinational enterprises in the e-commerce industry will be interested in the consumption tax proposals, while those contemplating capital investments in Japan may benefit from some of the new tax incentives.

Specifically, as to cross-border e-commerce, new provisions related to low-value goods and platform taxation for physical goods have been introduced.

1.1 Low-value goods

The import of goods into Japan by mail order with a tax-exclusive price of JPY 10,000 or less per item will be subject to local supply consumption tax at the level of the seller (previously this was exempted). Concurrently, measures will be implemented whereby a seller may register as a seller of such low-value goods and assume the consumption tax liability, exempting the consumer (importer) from such consumption tax. This amendment will apply to transactions occurring on or after 1 April 2028.

1.2 Platform taxation for physical goods

Through the 2024 Tax Reform, transactions occurring on or after 1 April 2025 involving the provision of electronic services through certain designated platforms (“Type 1 Platform Operators”) were subject to consumption tax at the level of the platform, rather than at the level of the seller. By the 2026 Tax Reform, such “platform taxation” has been extended to certain transactions involving the sale of physical goods through another category of designated platforms (“Type 2 Platform Operators”) occurring on or after 1 April 2028. Those transactions are:

(1) The supply of physical goods in Japan by a foreign business; and

(2)The supply of low-value imported goods made by any business, including domestic businesses.

Where consideration is received through a Type 2 Platform Operator, the supplies described in 1. and 2. above would be deemed to be made by that platform operator for consumption tax purposes. In addition, with the prior consent of the relevant foreign merchant, import consumption tax and other input taxes attributable to supplies under 1. may be treated as incurred by the Type 2 Platform Operator for purposes of the input tax credit.

2. Pillar 2

In Japan, the first Pillar Two legislation was introduced by the 2023 Tax Reform, which enacted the Income Inclusion Rule (“IIR”) in line with the OECD’s Pillar Two Global Anti-Base Erosion rules (“GloBE Rules”), effective for fiscal years beginning on or after 1 April 2024.

A Qualified Domestic Minimum Top-up Tax (“QDMTT”) and an Undertaxed Profits Rule (“UTPR”) were introduced in the 2025 Tax Reform, effective for fiscal years beginning on or after 1 April 2026.

2.1 IIR Filing in Japan

Consistent with the GloBE Rules, the Japan IIR adopts a top-down approach, whereby the determination of which constituent entity is responsible for IIR filing starts from the highest point in the ownership chain, i.e., the ultimate parent entity (“UPE”) and works down. Accordingly, if the UPE of a foreign multinational enterprise group that operates in Japan is required to complete an IIR filing under the laws of the jurisdiction in which that UPE is located, no IIR filing will be required in Japan.

If an IIR filing is not required in the jurisdiction of the UPE, it is necessary to move down the ownership chain. To the extent an IIR filing is required in the jurisdiction of any foreign intermediate parent entity (“IPE”) between the UPE and a Japanese CE, no IIR filing is required in Japan.

Caution is required, however, if neither the jurisdiction of the UPE nor of any foreign IPE have an IIR filing requirement. Even in this case, to the extent the Japanese CE does not wholly or partially own any foreign subsidiaries or branches, the IIR filing requirement under the Japanese tax law will not apply to that Japanese CE. Conversely, if the Japanese CE does wholly or partially own foreign subsidiaries or branches, and if a top-up tax under the Japanese IIR arises in a fiscal year for the jurisdictions where such foreign subsidiaries or branches are located, an IIR filing obligation will arise in Japan. The deadline for this filing, and for payment of the top-up tax is 15 months from the day following the end of the relevant fiscal year (18 months as a transitional measure may apply to the first fiscal year in certain cases).

Regardless of whether there is an IIR filing obligation in Japan, all Japanese CEs (including Japanese domestic corporations and Japanese branches) that are members of an Inbound MNE group have an obligation to file a return equivalent to the OECD's GloBE Information Return ("GIR"). This Report on Specific Multinational Enterprise Groups ("Japan GIR") is required to be filed within 15 months (18 months for the initial year) from the day following the end of each relevant fiscal year. If there are multiple Japanese CEs of an Inbound MNE group, any one of them may file the Japan GIR as a representative on behalf of the others.

Where a UPE or IPE of an Inbound MNE group is required to file a GIR in its jurisdiction, and a Qualifying Competent Authority Agreement covering the exchange of information is in place between that jurisdiction and Japan, the filing of the Japan GIR will not be required. Instead, a Notification of Ultimate Parent Entity of a Specific Multinational Enterprise Group ("P2 NUPE") will be required to be filed by any Japanese CE. In this case too, if there are multiple Japanese CEs of an Inbound MNE group, any one of them may file the P2 NUPE as a representative on behalf of the others. The due date is the same as that for the Japan GIR.

For clarity, note that the filing of a Notification of Ultimate Parent Entity of a Specific Multinational Enterprise Group is already mandatory under Japan's Country-by-Country Reporting legislation. However, the newly introduced P2 NUPE is a different notification, and the format and filing due dates are also different.

Consistent with the GIR under the GloBE Model Rules, the Japan GIR requires a significant amount of detailed information be collected and submitted, including information about the Inbound MNE group, jurisdictional safe harbours and exclusions, and GloBE computations.

2.2 QDMTT and UTPR Filing in Japan

A QDMTT and UTPR were both introduced by the 2025 Tax Reform and will apply to fiscal years beginning on or after 1 April 2026. Japanese CEs with tax payable under either the QDMTT or UTPR will also have a QDMTT or UTPR filing obligation, respectively.

2.3 2026 Tax Reform guidance

The 2026 Tax Reform incorporates a Side-by-Side Safe Harbour consistent with the OECD'S January 2026 Administrative Guidance, with effect for fiscal years beginning on or after 1 January 2026. While the Simplified ETR Safe Harbour also introduced in the January 2026 Administrative Guidance is not included in the 2026 Tax Reform, it is expected to be incorporated in future years.

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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, 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.

Part one: Tax incentives and credits

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%.

In order 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.

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.

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.

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.

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.

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

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.

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.

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.

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.

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.

Tax Procedure Law and VAT Law Updates

In November 2025, the UAE Ministry of Finance (MoF) announced two important legislative updates: (i) Tax Procedures Law (TPL), and (ii) the Value Added Tax (VAT) Law, both are effective 1 January 2026.

The Tax Procedures Law updates include tax refund processes, voluntary disclosure requirements, audit timelines, and the Federal Tax Authority's administrative guidance framework, to guide businesses to review and prepare for compliance.

The VAT Law updates include the RCM and input VAT rules, i.e., excess input VAT recovery rule, recoverable input VAT refund, and status of limitation.

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Indonesia

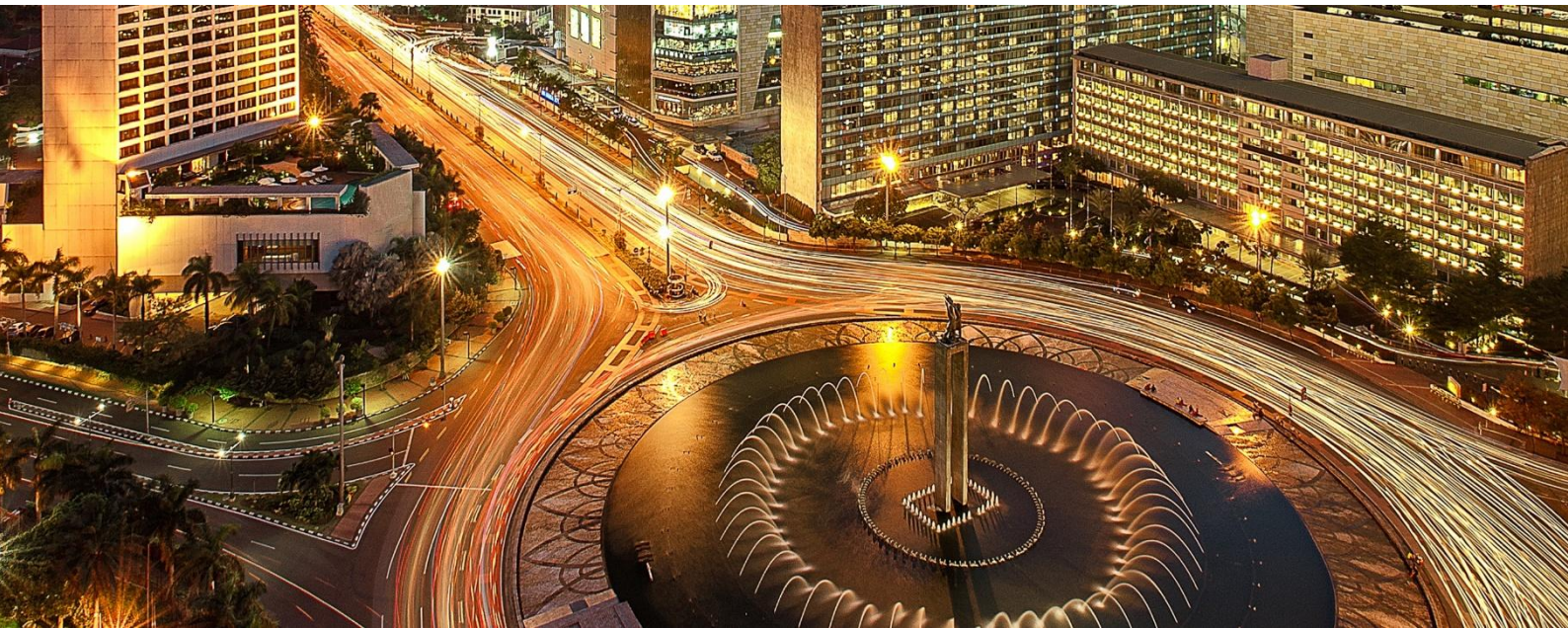
In recent years, Indonesia's tax policy has shown a trend of "two-way tightening": on one hand, strengthening revenue collection through tax reforms and enhanced administration, and on the other hand, "channeling" investments through specific incentives. For Chinese enterprises already operating in Indonesia or planning to invest there, this represents both increased compliance pressure and opportunities for tax planning. The following summarizes key tax policies introduced in Indonesia for 2025-2026:

1. Amendments to Tax Treaty Implementation Procedures

According to the Minister of Finance Regulation PMK-112/2025 (effective from December 31, 2025), the implementation procedures for tax treaties have been comprehensively revised. The core changes are reflected in stricter procedures, clearer anti-abuse requirements, and more defined responsibilities. Key provisions include:

- Non-resident taxpayers: A DGT form certified by the competent authority of the other contracting state should be submitted to the Indonesian withholding agent to enjoy treaty benefits. The form is valid for 12 months.

- Principal Purpose Test: Treaty benefits will be denied if the principal purpose of a transaction or arrangement is to obtain treaty benefits.



- Beneficial Owner: The recipient of income must be the beneficial owner and cannot be an agent or conduit company. For companies, control over income and assets is required, and income used to fulfill obligations to third parties must not exceed 50%.

- Economic Substance: Foreign taxpayers or entities must demonstrate economic substance, including appropriate legal form, independently managed business activities, and adequate assets and personnel.

- Holding Period: To enjoy lower dividend tax rates, a minimum shareholding of 25% held for at least 365 days is generally required.

- Anti-Avoidance Clause for Permanent Establishments: The Director General of Taxes has the authority to prevent artificial avoidance of permanent establishment status.

- Combination of Time for Permanent Establishments: For construction projects, the duration of activities by non-resident taxpayers and their closely related parties at the same location will be combined to determine whether a permanent establishment exists.

2. Withholding Income Tax by E-commerce Platforms on Domestic Sellers

Minister of Finance Regulation PMK-37/2025, effective from July 14, 2025, authorizes e-commerce platforms (officially referred to as “Providers of Electronic System Transactions” or PPMSE) to act as withholding agents. The regulation requires platforms to withhold and remit Article 22 Income Tax (PPh Pasal 22) at a rate of 0.5% on transactions by domestic sellers with annual revenue exceeding IDR 500 million. Major e-commerce platforms meeting specific criteria (whether registered domestically or overseas) are designated as statutory withholding agents.

This measure is a key step in integrating the digital economy into Indonesia’s formal tax system. By leveraging the transaction data and payment systems of large platforms, tax authorities aim to bring a significant number of previously hard-to-track online businesses into the tax net while promoting a level playing field between online and offline businesses.

3. Tax Audit Procedures Regulation

The revised “Tax Audit Procedures Regulation” (PMK-15/2025) took effect on February 14, 2025. The new regulation significantly shortens audit timelines, requiring faster responses from both taxpayers and tax authorities. PMK-15/2025 classifies compliance tax audits into three categories:

- Comprehensive Audit: Covers all items in tax returns and/or tax assessment notices, similar to traditional field audits.

- Focused Audit: Involves an in-depth examination of one or a few items in tax returns and/or tax assessment notices. Auditors must issue written notifications to taxpayers regarding the items under review.

- Specific Audit: A simplified examination of one or a few items, allowing auditors to omit certain routine procedures, such as interim result discussions.

Tax audits are conducted in two stages:

- Examination Stage: From the delivery of the “Tax Audit Notification” to the delivery of the “Tax Audit Results Notification”. The timeline is 5 months for comprehensive audits, 3 months for focused audits, and 1 month for specific audits. For group taxpayers and/or transfer pricing audits, this stage can be extended by up to 4 months (previously 6 months).

- Finalization and Reporting Stage: From the delivery of the “Tax Audit Results Notification” to the completion of the “Tax Audit Results Report”, with a maximum of 30 working days (previously 2 months). Taxpayers must submit written responses within a maximum of 5 working days (previously 7 working days, with possible extensions of up to 3 working days).

Conclusion

Indonesia’s tax system is constantly evolving, presenting both opportunities and increased scrutiny for businesses. It is advisable for Chinese enterprises investing in Indonesia to closely monitor tax policy changes, thoroughly review tax compliance, and ensure accurate and timely reporting and payment of taxes such as VAT and income tax.

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Thailand

In recent years, Thailand's government and public sector have improved the country's position as a regional business centre, giving entrepreneurs access not only to the domestic market but also facilitating trade with CLMV (Cambodia, Laos, Myanmar and Vietnam) and major economies like China and India.

Thailand's Board of Investment (BOI), a government agency under the Office of the Prime Minister, provides both tax and non-tax incentives aimed at attracting foreign experts to support high value-added industries. Its policy framework aligns with Thailand's industrial upgrade strategy and the Eastern Economic Corridor (EEC) development plan, which targets three eastern provinces with specific incentives and robust private-sector backing. The private sector and foreign investment play a vital role in stimulating growth and advancing technology for Thailand's economy.

Thailand's tax system is well-established. In past years, the Thai Revenue Department (TRD) has actively promoted electronic filing to enhance tax administration efficiency, improve taxpayer convenience and increase regulatory transparency. At the same time, Thailand is proactively aligning with international tax rules, including the introduction of transfer pricing regulations, the signing of the multilateral instrument (MLI) and the implementation of the Pillar Two. Thailand also emphasises the coordination of investment incentives with its tax regime.

Part one: Hot tax issues

1.1 BOI tax incentives and general CIT compliance

Thailand's BOI, under the Investment Promotion Act of 1977 (including its amendment No.4 [2017]) and the Competitive Enhancement Act (2017), grants tax incentives to Bio-Circular-Green (BCG) industries (i.e., agriculture, biotech, medical), advanced manufacturing, basic/supporting industries and digital/creative/high-value services.

The core tax incentives available include the following:

- Exemption from or reduction of import duties on imported machinery.
- Exemption from import duties on raw and essential materials imported for manufacturing for export.
- Exemption from import duties on items used for research and development purposes.
- Exemption and/or reduction of corporate income tax (CIT) rate up to certain years depending on the project category.
- Exemption from corporate income tax on dividends derived from the promoted activities within six months after the expiration of corporate income tax exemption period.
- The tax incentives are the general privileges granted under the BOI scheme and are subject to change depending on the prevailing BOI policy and actual privileges stipulated in the BOI certificate.

Only net profits arising from BOI business can be exempt from CIT. Computation of net profits of BOI and non-BOI business (if any) must be made separately for CIT purposes.

1.2 Tax incentives under international business centre scheme

An international business centre (IBC) regime has been launched to promote Thailand as a regional hub for providing management, technical, support or treasury management services to its associated enterprises or for undertaking international trade business.

IBC can enjoy the following tax benefits for 15 accounting periods:

- Reduced rates of corporate income tax on qualifying income with the expenditure paid to recipients in Thailand during the accounting period:
  - 8% if the IBC has incurred expenditure of at least Baht 60 million
  - 5% if the IBC has incurred expenditure of at least Baht 300 million
  - 3% if the IBC has incurred expenditure of at least Baht 600 million

- Exemption from tax on dividends derived by the IBC from its affiliates.
- Exemption from withholding tax on dividends paid by the IBC to a non-resident company out of profits derived from qualified service income subject to the reduced rate of tax.
- Exemption from withholding tax on interest paid by a treasury centre on borrowed funds which are re-lent to affiliates.
- Exemption from specific business tax on income received by a treasury centre.
- Personal income tax rate of 15% for expatriate full-time employees of the IBC and working for the IBC. If the company undertakes IBC as well as other businesses, the revenue derived from the IBC must not be less than 70% of the company's total revenue.

Income of the IBC means the following:

- Income from the provision of management, technical, support services or treasury management to its associated enterprises.
- Royalties from associated enterprises arising from a result of research and development carried out in Thailand by the IBC or other entities hired by the IBC, according to the rules, procedures and conditions prescribed by the Director-General of the Revenue Department.

1.3 Transfer pricing compliance requirements

Thailand's transfer pricing rules adopt the arm's length principle. Revenue officers have the power to uplift or reduce taxpayers' revenue and expenses to the arm's length price. Where a transfer pricing adjustment results in a tax shortfall, a secondary adjustment, arising from imposing tax on a constructive transaction (either in the form of a deemed dividend or deemed loan), would also apply.

Thailand also requires mandatory annual transfer pricing reporting for taxpayers belonging to a group of companies for the financial years beginning on or after 1 January 2019. The reporting includes (i) partial disclosure via a TP Disclosure Form, to be submitted at the time of submitting CIT returns and (ii) full disclosure via TP documentation, to be submitted within the prescribed period upon the Revenue officer's request. Companies with annual total revenue of THB 200 million or less are exempt from transfer pricing information reporting requirements. Thailand's Local File has strict content requirements, with some nuances compared to the OECD Local File. Subordinate regulations or content requirements for the Master File have not yet been officially issued.

Additionally, Thailand also introduced country-by-country reporting (CbCR) requirements that are applicable for accounting periods starting on or after 1 January 2021. Multinational enterprises (MNE) carrying on business in Thailand with total consolidated revenues of THB 28,000 million or more are required to file the CbCR in Thailand if they don't meet the local filing exemption conditions. Where local filing is required, the Revenue Department allows a foreign company to designate a Thai entity to be its surrogate parent entity and file a CbCR on behalf of the group, with certain conditions to be met.

As a party to the Multilateral Competent Authority Agreement on the Exchange of Country-by-Country Reports, Thailand automatically exchanges CbCRs with jurisdictions that have activated automatic exchange relationships with Thailand.

Thailand also has a CbCR Notification requirement. Each MNE group operating in Thailand and meeting the CbCR threshold must designate a representative entity to notify the Revenue Department of the Group's CbCR filing.

1.4 Tax investigation and assessment

Thailand's tax system is self-assessment. Taxpayers are required to calculate, declare and pay their tax liabilities using the prescribed tax returns.

Under statutory powers the Thai Revenue Department may issue a summons requiring a taxpayer to submit documentation and respond to questions relevant to their tax position. A summons must be issued within two years from the filing date of the tax return. This may be extended to five years if there is evidence or reason to suspect fraud or tax evasion, or where it is necessary for the purposes of processing a tax refund claim. On completion of the tax audit, the TRD may issue an assessment to collect any unpaid tax. The taxpayer is entitled to appeal against the assessment but must pay the tax or provide a guarantee of payment, in order to do so.

However, most reviews by the Thai Revenue Department are conducted without issuing a summons. The taxpayer is asked to submit documents which are reviewed by the TRD. The taxpayer may also be interviewed by the investigating officer. The amount of tax payable or refundable is adjusted based on the information obtained. The taxpayer is then invited to resubmit the returns based on the adjusted position. If the taxpayer does not resubmit the returns, the Thai Revenue Department must issue an assessment to collect the unpaid tax.

The Thai Revenue Department now uses an AI-driven risk-based audit (RBA) model, leveraging data analytics to identify potential issues for specific tax audits, rather than traditional manual inspections. The system integrates digital big data of the taxpayer such as records of electronic tax filing or electronic tax invoice to identify taxpayers exhibiting significant financial discrepancies.

Given that the RBA framework examines not only the accuracy of reported figures but also the consistency of its information from various sources, non-compliance issues could be easily flagged by the TRD's automated screening tools. Accordingly, taxpayers are encouraged to move from reactive audit defence to proactive compliance and to strengthen their internal control and supporting documents.

Penalty and surcharge

Where there is a tax shortfall, this can attract a surcharge of 1.5% per month on the outstanding tax, capped at the amount of tax shortfall. Penalties would also be imposed for more serious findings during assessments, such as underreported income or failure to file the tax return, often resulting in penalties of 100% to 200% of the tax shortfall, depending on the tax type and the nature of the non-compliance.

A ‘criminal fine’ may also be imposed for basic administrative lapses, including late return filing or improper recordkeeping. These fines typically range from a few hundred to a few thousand Thai Baht per offence.

Taxpayers found to be wilfully evading tax through fraudulent means, such as using false invoices, face far harsher consequences. Beyond monetary sanctions, punishment can include substantial imprisonment terms from several months to multiple years, together with significant financial sanctions.

Part two: Significant tax developments

On 26 December 2024, the Royal Gazette officially promulgated the Emergency Decree on Top-up Tax, B.E. 2567 (2024) (the Decree), implementing the Pillar Two global minimum tax rules under Thai law. This Decree impacts large multinational enterprises (MNEs) with consolidated financial statement revenues of at least 750 million euros (EUR). The Decree has come into effect for accounting periods commencing on or after 1 January 2025.

As of 31 December 2025, the Thai Revenue Department has issued eight Notifications of the Director-General (DGNs) under the Decree, and the Ministry of Finance has issued one Notification of the Minister of Finance (MFN) under the Decree, expanding definitions and providing additional criteria, guidance and procedures on certain provisions within the Decree, to ensure that Thailand's Pillar Two rules align with the GloBE Rules as published by the OECD/G20 Inclusive Framework on BEPS. These supplemental regulations all take effect for determining the top-up tax under the Decree for fiscal years starting on or after 1 January 2025.

In-scope Thai entities must annually submit a Notification, the GloBE Information Return (GIR) and, if there is tax to be paid in Thailand, the Top-up Tax Return (ToTR), to the Thai Revenue Department within 15 months from the last day of the ultimate parent entity (UPE)'s accounting period. In the initial in-scope year, the deadline for MNE to submit the Notification, and file the GIR as well as the ToTR, if any, is extended to 18 months from the last day of the UPE's accounting period. For example, for MNE groups whose fiscal year ends on 31 December 2025, the first compliance deadline in Thailand is 30 June 2027.

If there are multiple Thai Entities in the group, a single Thai Entity can be designated to submit the Notification on behalf of the other Thai Entities. Additionally, filing of the GIR could also be exempted if:

- Another Thai entity within the MNE group has already filed the GIR with the TRD and is the designated constituent entity (CE) to be filing the GIR stated within the Notification.

- Another entity outside of Thailand within the MNE group is the designated CE and has filed the GIR with another tax authority, provided that the tax authority of the respective jurisdiction has a qualified exchange of information protocol for the GIR with Thailand.

Additionally, the Thai Revenue Department has announced on 30 December 2025 that the Thai Cabinet has approved in-principle drafts of additional secondary legislations to provide further rules and guidance on the Decree. These secondary legislations remain to be promulgated into effect but it is expected that once published will have effect, similarly, also for fiscal years starting on or after 1 January 2025.

Part 3: Strategic recommendation for foreign investors

To thrive in Thailand's fast-evolving market, foreign investors should take a strategic approach that prioritises compliance, local insight and proactive planning. Here are the key recommendations:

- For foreign investors who would like to enter the Thai market, it is important to understand the market dynamics, including market size, growth potential, key drivers and inhibitors, and the regulatory environment. In addition, it is also critical to understand what the competitive landscape is, including key players and what their winning propositions and business model are. With thorough market study, foreign investors can be able to articulate market entry strategies, business model and develop a robust and solid business plan tailored to Thailand.

- Make full use of available tax incentives, build a tax-efficient structure and put in place an appropriate transfer pricing policy that follows local rules and is supported by proper documentation.

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India

India has a comprehensive and evolving tax and regulatory system overseen by the Central Board of Direct Taxes (CBDT) and the Central Board of Indirect Taxes and Customs (CBIC). Core taxes include income tax (corporate and individual), withholding tax, capital gains tax, Goods and Services Tax (GST), customs duty, securities transaction tax, and state levies such as stamp duty.

India continues to align its tax framework with global standards to ensure simplification, improved transfer pricing documentation, digital compliance, and rationalized GST rates, while deploying targeted incentives to attract manufacturing, services, financial sector activity, and large-scale investments. Foreign Direct Investment ('FDI') remains central to growth, helping new and existing businesses scale and enhancing competitiveness.

Below is a concise analysis of key developments, judicial rulings, legislative changes, and regulatory updates, followed by the outlook for 2026.

Part one: Key tax and business regulatory issues relevant for foreign investors

1. Restrictions on inflow of FDI from land-bordering nations

On April 17, 2020, India issued Press Note 3 (2020 Series) to prevent opportunistic acquisitions during the COVID-19 downturn. It requires prior government approval for any FDI from entities incorporated in, or citizens/ beneficial owners located in, countries sharing a land border with India i.e., China, Pakistan, Bangladesh, Nepal, Bhutan, Myanmar, and Afghanistan.

Since then, FDI approvals for investment from China have been selective. While there are reports that the government is reviewing this framework to relax certain conditions, no official notification had been issued in relation to the investment as of January 16, 2026. There are also news report that suggest the Indian government plans to roll back restrictions imposed in the year 2020, on Chinese companies bidding for government tenders, as border tensions India looks to revive commercial ties with China.

Investors from these jurisdictions, particularly China, should factor in these constraints and monitor potential policy easing.

2. Corporate taxation

2.1 Simplification of income-tax laws by introducing Income-tax Act, 2025

This year, a journey of more than a decade to simplify the existing 1961 income-tax law culminated in the enactment of the new Income-tax Act, 2025. In the spirit of continuity and stability, the new law did not introduce any policy level changes. It aims to create a tax regime that is simpler, transparent and globally competitive, enabling businesses to thrive in an increasingly dynamic economic environment. Businesses can anticipate a more streamlined and structured law regime aimed at fostering growth.

2.2 Indian Supreme Court decision that Tax Residency Certificate (TRC) is not sacrosanct

In its January 15, 2026 decision, the Supreme Court of India issued a landmark ruling that reasserts India's tax sovereignty in the realm of cross-border transactions and the application of anti-avoidance measures. The Court clarified that a tax residency certificate (TRC) alone does not automatically entitle a taxpayer to treaty benefits. Tax authorities may look beyond form to the substance of an arrangement, particularly in light of statutory amendments made over the years. The Court further held that the grandfathering protection under the General Anti-Avoidance Rules (GAAR) for investments made before April 1, 2017 is not absolute and GAAR may be invoked for any arrangement, regardless of when it was entered into, if a tax benefit arises on or after April 1, 2017.

For taxpayers, the ruling underscores the need to ensure that cross-border structures have genuine commercial substance and are not merely vehicles for obtaining treaty relief. The risk of denial of treaty benefits has significantly increased for transactions lacking substantive commercial purpose. This judgment signals a decisive shift towards a substance-first approach for cross-border transactions involving tax treaty claims, with far reaching implications across industries.

2.3 Indian Supreme Court's decision that involvement in substantive operational control and implementation functions shall constitute a Fixed Place PE under Article 5(1) of the India-UAE tax treaty

In a landmark judgment, the Supreme Court upheld the Delhi High Court's findings that the taxpayer's role in substantive operational control and implementation functions under a long-term contract created a fixed place Permanent Establishment (PE) under Article 5(1) of the India-UAE treaty. Drawing on the Formula One tests of stability, productivity, and dependence, the Court held that exclusive possession of premises is not necessary but shared or temporary access suffices if core business functions are performed there. Continuity of the business presence matters more than how long individual employees stay. It also clarified that PE activities must be independently evaluated for profit attribution, irrespective of global profits or losses.

This Supreme Court's decision has given precedence to economic substance, actual control and conduct over the form-based taxation approach. Practically, Indian businesses such as Global Capability Centres (GCC), franchisees, Limited Risk Distributors etc. wherein substantial control is exercised by the overseas entity will need to rebalance their offshore decision-making and on-ground conduct in India. The business should establish clear guidelines for legitimate shareholder oversight functions and Indian operational autonomy.

2.4 GIFT City incentives

GIFT City, India's International Financial Services Centre (IFSC), offers substantial tax benefits, including a tax holiday for any 10 consecutive years within a 15-year window. Beyond its financial services strengths, recent policy expansions enable non-financial activities such as global treasury operations, bookkeeping, accounting, taxation, financial crime compliance for non-residents, aircraft and ship leasing, TechFin and ancillary services, and direct listing of Indian unlisted public companies on IFSC exchanges. These developments make GIFT City a versatile platform for regional and global operations.

3. Transfer pricing

India's transfer pricing regime emphasizes arm's-length outcomes and requires taxpayers to self-assess compliance when filing income tax returns. The Advance Pricing Agreement (APA) program retained strong momentum. The seventh APA Annual Report, released last year, recorded the highest number of annual APA signings, the most bilateral and unilateral filings in a single year, and India's first multilateral APA. As of March 31, 2025, 815 APAs had been signed. Processing times remain relatively long, so proactive APA planning is advised.

Recent Safe Harbour Rule amendments in Budget 2025 raised monetary thresholds for certain transactions, a positive step that could be further enhanced by rationalizing margins and widening eligible transaction categories to improve certainty and reduce litigation.

4. GST 2.0 – From rationalisation to trust – charting the next phase of India's indirect tax reform

India introduced the Goods and Services Tax (GST) on July 1, 2017, replacing a fragmented system of central and state levies with a destination-based tax. Over time, key reforms have included rate rationalization, technology adoption (e-way bill, e-invoicing), tighter input tax credit (ITC) controls, compliance refinements, and judicial and administrative guidance on classification, place of supply, anti-profiteering, and anti-evasion.

The 56th GST Council meeting on September 3, 2025, marked the start of "GST 2.0," pivoting from adversarial enforcement to a trust- and technology-enabled framework. Wider e-invoicing, real-time analytics, and stronger invoice matching aim to improve ITC integrity and curb fake credits while speeding access to legitimate credits. Importantly, the Council removed the specific place-of-supply provision for "intermediary services," which had often led to GST on services provided to foreign recipients and denied zero-rating. With this change, cross-border services previously classified as intermediary should now be treated as exports and zero-rated, providing relief and clarity to Indian service providers.

5. Customs Duty

India's customs and trade regime is being retooled to support manufacturing, efficiency, and digital administration, aligned with the "Make in India" agenda. There have been various structural reforms over the past years which include tariff rationalization, streamlining of compliances etc. Further, India's Free Trade Agreement (FTA) strategy has shifted from caution to proactive, balanced engagement with developed economies and key partners, prioritizing commercially meaningful deals that diversify supply chains, secure market access, and attract FDI. Recent efforts include negotiations with the UK, EU, and EFTA, and agreements with partners such as Australia and the UAE.

Drawing on lessons from India's trade agreement with the UAE, where tariff concessions were extended to bullion imports, policymakers may opt to exclude bullion from tariff concessions in future FTAs to mitigate risks of rerouting and rules-of-origin circumvention. Additionally, a recent NITI Aayog report indicates that India's trade deficit with FTA partners has widened year over year. Consequently, forthcoming FTAs are likely to emphasize measures that strengthen domestic manufacturing and enhance export competitiveness to help narrow the overall deficit.

6. Global Capability Centre (GCC) in India

India has firmly established itself as the world's largest hub for GCC, with nearly 3,000 centres employing around 2 million professionals. GCCs have evolved beyond cost arbitrage to become strategic engines for R&D, AI, digital transformation, compliance, sustainability, and cybersecurity.

State governments aggressively court GCCs with capital incentives, duty reimbursements, rebates, interest subsidies, power tariff concessions, and other benefits. Location strategies increasingly hinge on state-level tax breaks and infrastructure rather than national incentives.

With rising strategic importance comes heightened regulatory visibility, making compliance and governance critical priorities. Robust transfer pricing documentation and systems are essential, and Safe Harbour Rules, despite recent expansions, could further protect routine transactions and clarify treatment of intangibles and data-centric services. The Permanent Establishment (PE) risks require careful management in hybrid and remote work models. Activities such as negotiation, approval, and facilitation can trigger PE status. GCCs should therefore reassess staffing models, delegation of authority, and the nature of customer/supplier interactions, balance compliance with opportunity, and leverage state incentives intelligently.

Part two: Outlook for 2026

As we step into 2026, India's economic and regulatory landscape is poised for transformative changes that will redefine business strategies and compliance frameworks.

The new Income-tax Act will come into force on April 1, 2026, ushering in a simpler, more transparent, and globally competitive tax environment intended to facilitate growth and ease compliance. Businesses should expect a more structured law, clearer definitions, improved administration, and enhanced digital processes.

On the indirect tax front, GST 2.0 is set to advance a trust-based, liberal, and judicious regime. Changes will focus on lowering compliance burdens, enabling ease of doing business, and deploying technology for real-time monitoring, analytics-driven risk management, and faster dispute resolution.

Customs and trade policy in 2026 will likely deepen digital integration, embed defined service standards for assessments and dispute resolution, and push outcome-oriented FTAs (India is in active discussion on FTA with EU and United States) with strong market access and investment linkages.

Overall, 2026 is poised to deliver simplification, stability, and sustainable growth. Businesses that proactively adapt the developments such as revisiting PE risk, optimizing transfer pricing strategies, leveraging GIFT City, effective GCC planning, and digitizing compliance will be well-placed to capitalize on India's evolving regulatory landscape and growing role in global commerce.

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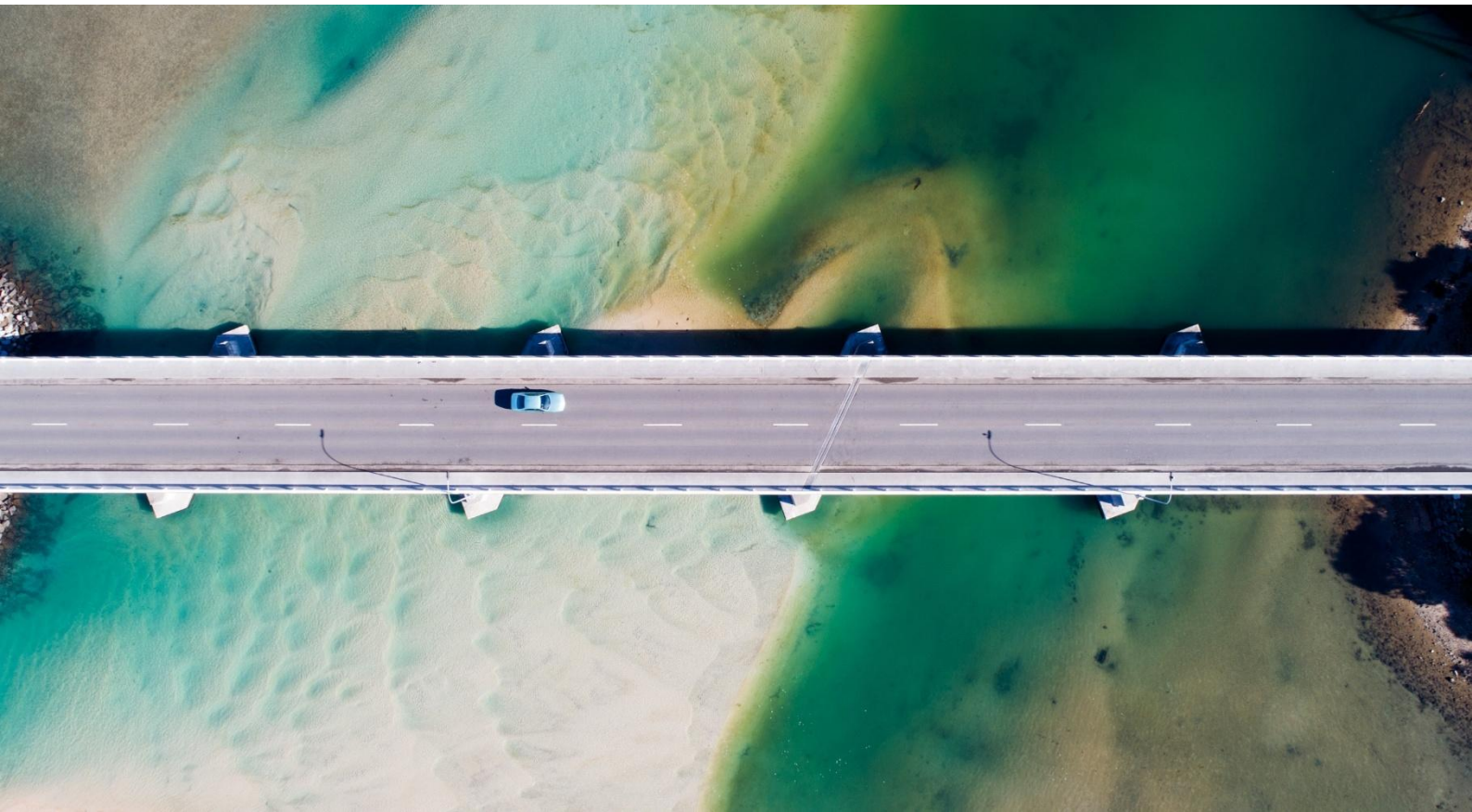
Australia

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 familiarise 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. The major types of federal tax incentives in Australia include:

- **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 encompassing the group's activities and 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.

- **Immediate Asset Deduction for Small Businesses - Small businesses** (i.e., those with aggregated annual turnover of less than AUD 10 million) are able to immediately deduct the full cost of eligible assets costing less than AUD 20,000 that are first used or installed ready for use before 30 June 2026.

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. While the ATO released the final guidance on public CbCR exemptions in December 2025, full exemptions are likely to be rare due to stringent criteria. Businesses will need to demonstrate that making historical data public would cause harm or detriment to the organisation that outweighs the public interest in transparency.

1.4 Thin capitalisation rules and debt deduction creation 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.

Furthermore, debt deduction creation rules are intended to disallow debt deductions to the extent that they are incurred in relation to certain debt creation schemes that typically lack genuine commercial justification. These rules can apply to deny deductions for costs of related-party debt used to fund the acquisition of certain capital gains tax (CGT) assets from an associate or to fund certain payments and distributions to associates.

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 transfer duty (including stamp duty and landholder duty) on a wide variety of transactions at different rates. All jurisdictions commonly impose 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 duty implications are observed and considered on a transaction-by-transaction basis.

1.10 Crypto Asset Reporting Framework

The Australian government will implement the OECD-developed Crypto Asset Reporting Framework (CARF), a tax transparency framework that provides an international standard for the automatic exchange of crypto-related account information between revenue tax authorities, commencing in 2027. The first exchange of information with foreign tax authorities will take place in 2028. A domestic crypto tax reporting regime will also be implemented to commence in 2027, requiring information to be reported to the ATO in 2028.

1.11 Superannuation guarantee (SG) levy

Under the superannuation guarantee (SG) scheme, which requires employers to contribute a certain percentage of an employee's earnings base, subject to limited exceptions, to a registered superannuation fund or retirement savings account on behalf of the employee, the required SG percentage permanently increased to 12% from 1 July 2025. Inbound businesses should budget for higher on-costs for Australia-based employees. Ensuring payroll systems are updated for these rates is critical to avoid underpayment penalties.

Part two: Outlook for 2026 and beyond

The Australian tax landscape for inbound investors has evolved towards greater integrity, transparency, and alignment with global norms. 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 2026, inbound MNCs remain crucial to Australia's economy and the tax system. The recent changes underscore a balance: Australia welcomes foreign investment but insists it be accompanied by a fair tax contribution and transparency. By staying informed and adapting to these changes (ensuring compliance and aligning tax structures with substance) inbound investors can successfully navigate the Australian tax environment. It is advisable to treat tax as a key part of strategic planning (not an afterthought), because missteps can be costly, whereas robust tax planning aligned with the new rules can support business objectives with certainty.

In summary, for inbound multinationals the imperative is to "get ahead of change": restructure now rather than react under audit pressure later, invest in good governance, and leverage available concessions. With this approach, multinationals can turn what might seem a harsher tax landscape into a stable and predictable framework in which to operate and succeed in Australia.

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U.S.

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 2.25% 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.

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 investments in the United States

The United States offers a diverse range of incentives for foreign investment at both the federal and state/local levels, primarily through tax credits, grants, and subsidies. The most significant incentives are often found at the state and local levels, where jurisdictions actively compete to attract businesses.

Federal incentives

Federal incentives tend to focus on specific economic objectives, such as innovation, sustainability, and the development of critical industries.

- **Research & development (R&D) tax credits**: Companies engaged in qualified R&D activities in the U.S. may be eligible for a federal R&D tax credit, which can amount to 5%-10% of their qualified expenditures.

- **Advanced manufacturing investment credit**: Established by the Creating Helpful Incentives to Produce Semiconductors (“CHIPS”) and Science Act, this credit is equal to 25% of the qualified investment for facilities primarily used for manufacturing semiconductors or semiconductor manufacturing equipment.

- **Specialized loan programs**: Federal agencies like the Economic Development Administration (“EDA”), Small Business Administration (“SBA”), and the U.S. Department of Agriculture (“USDA”) offer subsidized loans or loan guarantees for projects that create jobs and expand activity, particularly in specific geographic areas.

- **SelectUSA**: This federal program, administered by the Department of Commerce, facilitates foreign business investment by providing information and connecting investors with relevant state and local economic development organizations.

State & local incentives

State and local governments are the primary sources of incentives and offer a wide variety of programs tailored to specific regional needs and industries.

- **Tax abatements and exemptions**: These are common and can include property tax abatements, sales tax exemptions on equipment purchases, and reductions in business license fees.

- **Cash grants and subsidies**: Discretionary cash grants or wage subsidies are frequently offered, often tied to job creation and capital investment metrics negotiated on a case-by-case basis.

- **Workforce training support**: Many states offer programs to help fund the customized training of a new workforce, which can help foreign firms overcome skill gaps.

- **Infrastructure assistance**: In some cases, governments may provide land subsidies or funding for necessary infrastructure improvements such as road upgrades or utility hookups to facilitate a new project.

- **Targeted geographic zones**: Investment in designated areas like Opportunity Zones (“OZs”) or Foreign Trade Zones (“FTZs”) can offer unique federal and local tax benefits, such as capital gains tax deferral or reduced duty/customs costs.

Foreign investors should engage with relevant economic development agencies early in their planning process to ensure they meet the specific eligibility requirements for these diverse programs, as benefits often must be secured before a project commences.

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).

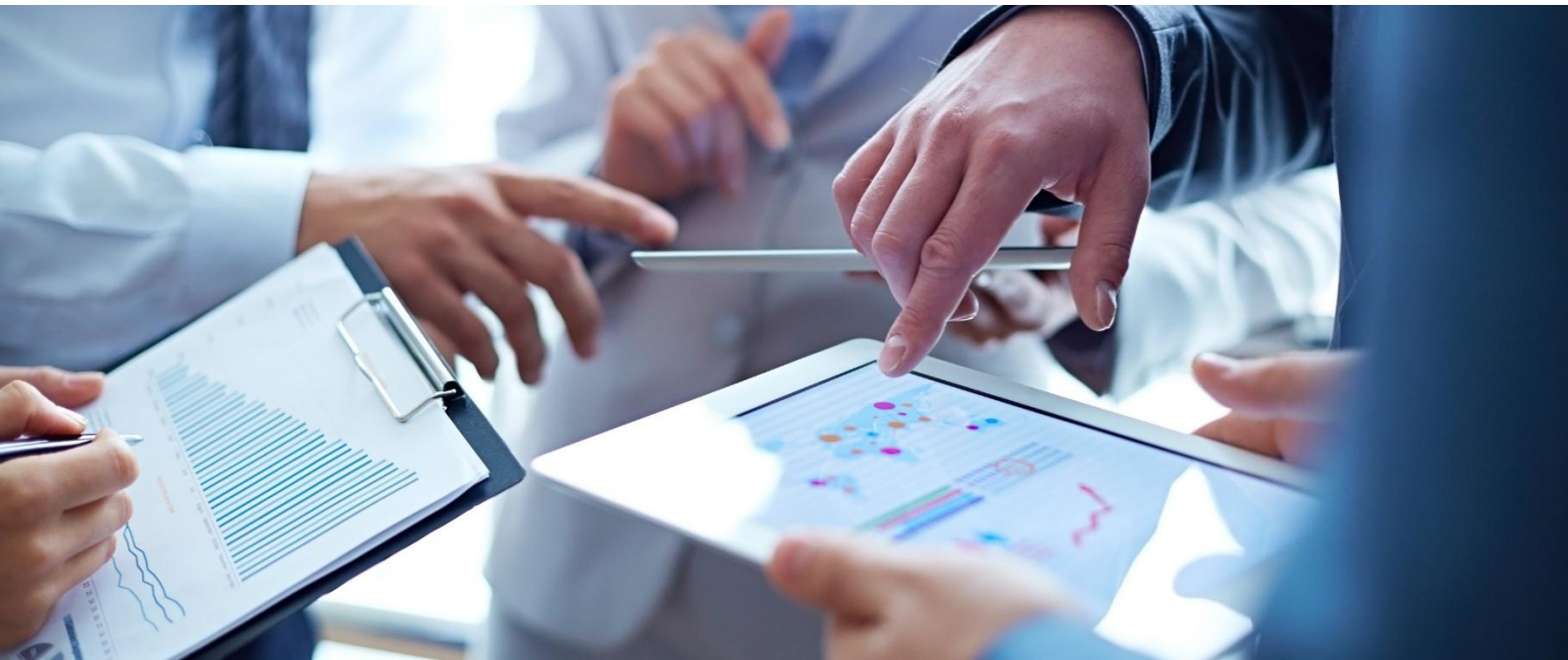
Taxpayers can be subject to significant penalties if the IRS determines that the price for a transaction between related parties is set inappropriately, and the taxpayer cannot produce upon request contemporaneous documentation regarding the transaction subject to the transfer pricing rules.

1.5 U.S. income 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 include 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. Generally, the seller of goods and services, whether US or foreign, are responsible for the collection of such taxes from end users and remittance to the state tax authorities.

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: the 2025 new tax legislation – the One Big Beautiful Bill Act ("OBBBA")

The new tax legislation was signed into law and took effect on July 4, 2025. The Act includes a number of tax changes, including permanent and limited modification of many soon-to-expire tax provisions of the 2017 Tax Cuts and Jobs Act ("TCJA"), new provisions promised by President Trump during the presidential election campaign, elimination or modification of most clean energy provisions. The major provisions that concern investors and businesses based in Asia are summarized below.

2.1 International tax provisions

Limitation on downward attribution of stock ownership

The OBBBA limits the downward attribution of stock ownership in applying constructive ownership enacted in the 2017 TCJA. Beginning after December 31, 2025, a foreign parent's ownership of foreign corporations will not be attributable to the foreign parent's U.S. subsidiaries unless the new Code Section 951B applies. As a result, many foreign corporations that became controlled foreign corporations ("CFC") because of the downward attribution of stock ownership will cease to be CFCs for the taxable year starting on or after January 1, 2026.

Adjustments for the effective tax rates for global intangible low-taxed income (“GILTI”) and foreign-derived intangible income (“FDII”)

The OBBBA renamed GILTI as “net CFC tested income” (“NCTI”) and FDII as “foreign-derived deduction eligible income” (“FDDEI”). Beginning in 2026 the deductions for NCTI and FDDEI have been reduced to 40% and 33.34% respectively, resulting in effective U.S. federal corporate income tax rates of 12.6% for NCTI and 14% for FDDEI before the use of any foreign tax credit.

Global Anti-Base Erosion (“GloBE”)

The United States is not a signatory to the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting. Therefore, the United States will not directly implement the OECD’s Pillar Two rules; instead, a “Side-by-Side” agreement formalized with the G7 countries in mid-2025 will exempt U.S.-headquartered multinationals from the Pillar Two taxes. The G7 countries recognize U.S. companies’ business outside the United States face the existing U.S. tax system that has an effective minimum tax. The agreement will let U.S. companies continue to operate under U.S. tax rules (like NCTI); U.S. company will not be subject to the 15% minimum tax imposed by foreign countries under their Pillar Two laws; and the agreement protects U.S. manufacturing and innovation by not penalizing R&D credits that may cause U.S. companies’ tax to fall below 15%.

2.2 Business tax provisions

Research and experimental expenditures

Beginning after December 31, 2024, taxpayers can fully deduct 100% of their domestic R&D costs in the year they are incurred.

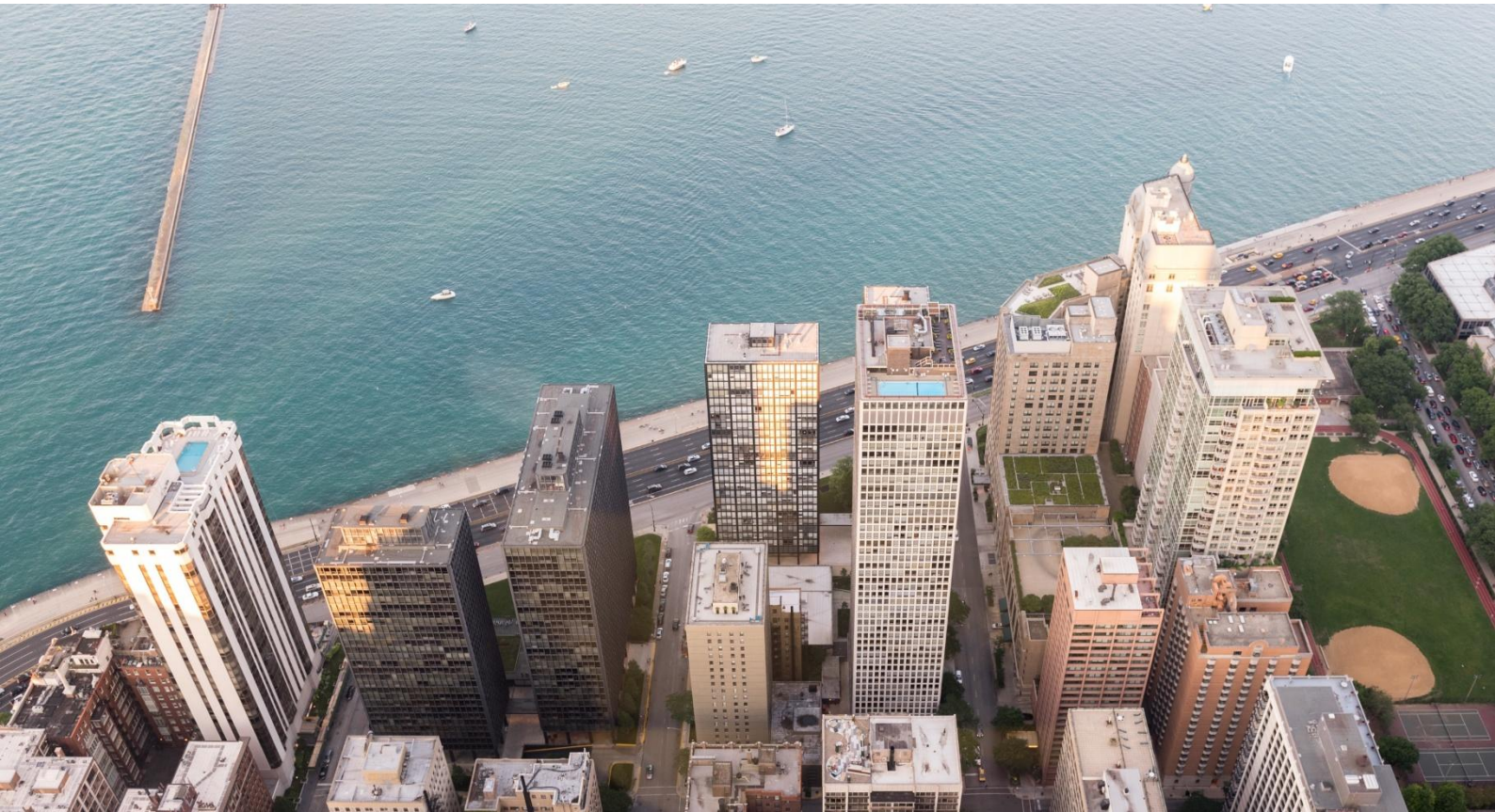
Taxpayers have the alternative option to capitalize and amortize domestic R&D expenditures over a period of 60 months (or 10 years via a separate election) if they choose not to expense the costs immediately.

Costs for R&D activities conducted outside the United States must still be capitalized and amortized over a 15-year period.

Bonus depreciation

The OBBBA makes 100% bonus depreciation permanent for property acquired after January 19, 2025 and before January 1, 2030.

Also a new elective 100% bonus depreciation allowance for certain nonresidential real property that is treated as qualified production property (“QPP”).



Changes to credits for clean energy

The OBBBA modified, terminated, and accelerated the phase out of a wide range of energy credits enacted by the Inflation Reduction Act (“IRA”) of 2022.

Credits for clean energy will not be available for electric vehicles acquired after September 30, 2025, clean energy property placed in service for home improvement after December 31, 2025, clean energy property acquired or constructed for new homes and commercial buildings after December 31, 2026, and wind and solar energy projects placed in service after December 31, 2027.

Disallowance of clean energy credit if taxpayer is a Specified Foreign Entity (“SFE”) in tax years beginning after July 4, 2025, or a Foreign Influenced Entity (“FIE”) for tax years beginning after July 4, 2027. SFE are entities Entities owned or controlled by governments of concern (such as China, Russia, North Korea, and Iran), entities on US government watchlists, and those majority owned by such governments or their citizens (unless also US citizens or lawful permanent residents). FIE are entities that are considered to be under significant control or influence by a specified foreign entity, based on an evaluation of several factors including control, ownership, debt, etc.

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German

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 Introduction of Act on an Immediate Investment Tax Incentive Program

The Act on an Immediate Investment Tax Incentive Program to Strengthen Germany as a Business Location was promulgated in the Federal Law Gazette on 18 July 2025. Its key provisions include as follows:

- Gradual reduction of the corporate income tax (“CIT”) rate of 1% annually from the 2028 assessment period, reaching 10% as of the 2032 assessment period.

- Reintroduction and expansion of the declining-balance depreciation option for movable fixed assets acquired or manufactured after 30 June 2025 and before 1 January 2028. The applicable depreciation rate has been increased to 30%, capped at three times the straight-line depreciation rate.

- Tax incentives to promote the use of electric vehicles that are acquired or manufactured after 30 June 2025 and before 1 January 2028. The depreciation rate amounts to 75 percent in the year of acquisition, 10 percent in the first subsequent year, 5 percent in the second and third subsequent years, 3 percent in the fourth year, and 2 percent in the fifth year following acquisition.

- The tax base for the research allowance has been expanded to include additional overheads and other operating expenses incurred in connection with an eligible research and development project that commenced after 31 December 2025. A flat-rate amount of 20 percent of the eligible expenses incurred during the fiscal year is to be taken into account. In addition, the maximum tax base for the research allowance has been raised in Sec. 3 (5) FZulG to EUR 12 million for eligible expenses incurred after 31 December 2025.

1.2 Updated guidance of German tax authorities on application of anti-treaty shopping rules

General

Full or partial relief from German withholding tax (“WHT”) on dividends, interest and royalties under an applicable double taxation treaty (“DTT”) or EU directive is in certain cases only granted if specific conditions are met (namely the provision of evidence of substance according to § 50d (3) EStG).

On March 17, 2025, the German Federal Central Tax Office (“BZSt”) published a new information leaflet regarding the eligibility for a relief (exemption or reduction) of German WHT for dividend under § 50d (3) EStG. The updated information includes an important relaxation by reintroducing the so-called “look-through approach” that may allow the German anti-treaty shopping rules to be applied at the indirect shareholder level if the application of the rules at the direct shareholder level would result in the benefits of a treaty or the directive not being available.

Further, on 30 March 2025, to align with the updated information leaflet, the BZSt also published a new questionnaire for the assessment of eligibility requirements under § 50d (3) EStG regarding relief from German WHT for dividend.

Recommendation:

Despite of the relaxation, taxpayers are still advised to maintain sufficient documentation to substantiate that the applicant (or its immediate shareholder) has sufficient business substance to fulfil German anti-treaty shopping rules.

1.3 Public CbCR for Germany

a) overview

For financial years beginning on or after June 22, 2024, multinational groups with ultimate parent entities (“UPE”) based in non-EU/EEA countries are required to make country-specific financial and tax data publicly available if the group’s consolidated turnover exceeds EUR 750 million in two consecutive financial years. For inbound clients in Germany, medium-sized or large subsidiaries or branches of such multinational groups in the EU are directly affected by these regulations.

The data to be disclosed includes:

- Name of the entity
- Reporting year
- Currency
- Description of business activities
- FTEs
- Revenues (unrelated and related)
- Earnings before tax
- Income tax accrued
- Income tax paid
- Accumulated earnings

The existing OECD CbCR can generally serve as a basis, though some adjustments to scoping and definitions may be required.

Reports must be published within 12 months after the end of the relevant financial year. The first deadline for companies with a financial year matching the calendar year to publish their CbCR data for FY 2025 is December 31, 2026. Companies with a financial year ending March 31 will need to publish their CbCR data for FY 2026 (ending March 31, 2026) by March 31, 2027.

b) filing obligations and exemptions in Germany

The public CbCR should generally be prepared by the UPE.

However, if the UPE does not prepare a legally compliant report, at least one EU subsidiary or branch is obligated to prepare and disclose the report itself based on available information. In Germany, disclosure must be made in the German company register, and the report must remain accessible free of charge for at least five years.

Non-compliance fines or penalties vary by country. In Germany, non-compliance may result in fines and administrative penalties of up to EUR 250,000, which may be imposed on both the entity and the members of its authorized representative body.

In Germany, entities may rely on an exemption from filing if all of the following conditions are met:

- The UPE prepares and provides a rule-compliant report;
- The report is accessible on the UPE's website;
- The report is published by another entity in the EU in accordance with local laws;
- The publishing entity is disclosed in the report; and
- The report is available in German or another accepted language (typically English).

Recommendation:

Enterprises are advised to assess the impact and Public CbCR compliance obligations. Mechanism should be set up to capture the data for Public CbCR.

1.4 Guidance on the Transaction Matrix

Effective 1 January 2025, the Fourth Act to Reduce Bureaucracy introduced expanded transfer pricing documentation requirements, including the addition of a mandatory transaction matrix under Sec. 90 (3) of the German Fiscal Code (AO). In its circular issued on 2 April 2025, the German Ministry of Finance (BMF) further clarified the scope, structure, and application of this new documentation element. The transaction matrix is defined as a structured, tabular overview containing key information on the taxpayer's cross-border transactions with related parties and permanent establishments.

The BMF specifies that a compliant transaction matrix must include:

- the nature and type of the business transactions (e.g., goods deliveries, ongoing arrangements),
- the parties involved, with identification of service provider and service recipient,
- the transaction volume and remuneration stated in euros (e.g., loan principal and interest, pricing for goods or services),
- the contractual basis (referencing the underlying agreement),
- the transfer pricing method applied (e.g., cost-plus, comparable uncontrolled price),
- the tax jurisdictions involved, and
- whether any transactions deviate from standard taxation in the relevant jurisdiction.

The circular also allows deviations in exceptional cases regarding format, content, or scope, provided these deviations are communicated and justified early—at the latest within the 30-day deadline. Importantly, the new documentation requirements also apply retroactively to years preceding 2025 if covered by the audit period. For audit notices issued after 31 December 2024, the transaction matrix must be submitted within 30 days of notification, even without an explicit request. If the audit notice was issued before 1 January 2025, submission is only required upon explicit request, and the 30-day clock begins upon such request.

Failure to submit the transaction matrix triggers a penalty of EUR 5,000 under Sec. 162(4) AO.

Part two: Outlook for 2026 and beyond

2.1 Planned legislative changes for real estate tax “signing / closing” scenarios

On 14 January 2026, the Federal Cabinet approved the draft of the Ninth Act Amending the Tax Consultancy Act and Other Tax Regulations, introducing a draft amendment to the supplementary real estate transfer tax (“RETT”) regime applicable to share deals involving German real estate-owning companies.

Under the current legal framework, taxation in share deal structures is primarily driven by § 1 (2a) and (2b) GreStG (RETT Act) (Transfer of the shares / partnership interest), while § 1 (3) GreStG (Establishing right to German real estates, e.g. signing) applies only on a subsidiary basis. This has led to considerable legal uncertainty, most notably in the form of the “signing/closing problem”, under which both the conclusion and the execution of a share purchase agreement might give rise to two times RETT exposure However, the RETT triggering event under signing could be mitigated if German RETT notifications for the respective German RETT triggering events with the required information are submitted on a timey manner.

The draft law introduces a clear legislative shift by granting priority to taxation under § 1 (3) GrEStG at the time of signing. Once taxation is triggered at this stage, subsequent transfers of shares carried out in fulfilment of the signed agreement will no longer be subject to RETT under Sec.s 1 (2a) or (2b) GrEStG. This change not only clarifies the decisive tax point in time but also reshapes the allocation of tax liability and the relevance of related RETT provisions, including exemption rules and group-related reliefs.

In procedural terms, the draft expands the group of tax debtors in certain cases to include the real estate-owning company itself and simplifies compliance by extending the statutory notification period for domestic taxpayers from two weeks to one month.

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Uniter Kingdom

Over the past year, PwC remained in close conversation with many Chinese companies operating in, or preparing to enter, the UK market. Despite global volatility, three themes consistently emerge from these discussions: the need for stability, predictability, and strategies that support long-term development. In this context, the UK government's latest tax updates carry meaningful implications for Chinese investors. We hope that this concise narrative provides clarity and direction as you plan your business priorities for the year ahead.

The UK government has stated its intention to keep the main Corporation Tax rate at 25% for the life of this parliament, offering a relatively stable tax environment. At the same time, the government continues to refine incentives to support capital investment. The full expensing regime for main-rate plant and machinery will remain in place, and from 2026, many assets that do not qualify for full expensing will be eligible for a 40% first-year allowance. The main writing-down allowance will also adjust from 18% to 14%. These changes suggest that companies may need to revisit their capital expenditure planning, asset classification, leasing versus ownership models, and financing strategy—particularly in asset-heavy sectors such as manufacturing, logistics, and engineering.

In parallel, the UK is modernising the core pillars of its international tax framework. From 2026 onwards, transfer pricing documentation requirements, permanent establishment principles and diverted profits rules will all be updated. These reforms aim to introduce clearer standards and a more aligned approach to scrutinising cross-border activities. For Chinese companies with sales teams, procurement functions, warehousing operations, or technical support personnel in the UK, this could mean re-evaluating whether existing activities trigger UK taxable presence and ensuring that transfer pricing documentation remains robust under a more stringent audit environment.

Another notable development is the UK government's plan to introduce an "Advance Tax Certainty" service for major investment projects from July 2026. This mechanism will allow businesses to obtain clarity on complex tax matters before committing significant capital. For companies considering the establishment of manufacturing facilities, R&D centres, data centres or regional headquarters in the UK, this could meaningfully reduce uncertainty and accelerate project timelines.

Labour-related costs are also expected to increase. From 2026, the National Living Wage will rise to £12.71 per hour, and minimum wages for younger workers and apprentices will also increase. Additionally, from 2029, employer and employee National Insurance contributions will apply to salary-sacrificed pension contributions above £2,000. These developments imply upward pressure on operating costs, with more pronounced impact on labour-intensive industries such as retail, warehousing, logistics and manufacturing.

The UK's VAT and customs landscape is entering a new phase of digitalisation. The government intends to mandate electronic invoicing for VAT purposes from 2029. In addition, there are already changes announced which adjust rules relating to cross-border VAT grouping, and remove the current tax relief for low-value imports of £135 or below. Businesses reliant on cross-border e-commerce or small-parcel imports may therefore need to reassess supply chain design, pricing, and compliance workflows to accommodate these changes.

At the administrative level, HMRC is strengthening its digital infrastructure. Real-time compliance prompts will gradually be incorporated into VAT and corporate tax filing software, and penalties for late corporation tax filings will double from 1 April 2026. A new enforcement unit focused on the hidden economy will also enhance supervision in sectors with higher labour and compliance risks. These developments signal that tax compliance expectations in the UK are becoming increasingly stringent, and companies should consider implementing routine tax health checks to identify and resolve potential exposures.

In light of these developments, Chinese businesses may wish to prepare in advance by:

- Reassessing the functional profile and tax exposure of their UK operations, and ensuring alignment with updated transfer pricing and documentation standards.
- Modelling the impact of rising labour costs and integrating this into budget and workforce planning.
- Reviewing supply chain arrangements, import channels and VAT processes in anticipation of digitalisation and customs reforms.
- Considering the new advance certainty mechanism when evaluating large investments or expansion projects.
- Establishing regular tax health-check routines to mitigate risks in an increasingly proactive audit environment.

Taken together, the latest UK tax developments present both stability and challenge. While the corporate tax rate remains unchanged, the broader direction points toward heightened compliance requirements and a more digital, transparent and tightly governed environment. For Chinese companies, integrating these developments early into commercial, operational and structural decision-making will be essential in maintaining competitiveness and managing risk.

PwC China and PwC UK continue to work closely together to support Chinese businesses across the full investment lifecycle—from early-stage planning and transaction execution to tax modelling, operational structuring and ongoing compliance. We would be pleased to discuss how these developments may affect your organisation.

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Hungary

Hungary is located in the middle of Europe, which enables companies to easily access other European, conduct morning calls with Asian countries, and hold afternoon calls with the USA, making Hungary a preferred location for shared service centers. Furthermore, Hungary is a member of the European Union (EU), which facilitates easier intra-EU trade and provides harmonized legislation. Hungary provides a well-qualified workforce at an advantageous cost.

Part one: Introduction to the Hungarian tax regime

Hungarian direct taxes relevant to corporations include corporate income tax (“CIT”), local business tax (“LBT”), 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.

Effective from January 1, 2026, the law also provides an opportunity for companies that establish new capacities for the production of clean technologies (for example, within the framework of green investments) to claim development tax incentives. The condition for this is that, before starting the investment, they must notify the minister responsible for tax policy, and the amount of support can be up to 15% of the eligible costs of the investment in Budapest, and up to 35% outside Budapest.

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.

A novelty in 2025 is the introduction of a separate type of **tax benefit for environmental protection investments** exceeding at least 100 million forints. Such investments may include the elimination of environmental damage, habitat rehabilitation, protection of biological diversity, or the implementation of climate protection investments. Depending on the type of investment, the benefit can be up to 100% of the costs, while in other cases it is 70%, but no more than 30 million euros. For small and medium-sized enterprises, this rate can be further increased. To claim the benefit, notification must be made before starting the investment, and in certain cases, an independent expert certificate is also required.

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 LBT and innovation contribution base. Alternatively, the deduction can be made from the social tax base instead of the CIT 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 CIT 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 2 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 in at least two of the last four consolidated financial statements of the group's ultimate parent entity are subject to the new rules. Based on the rules, a minimum 15% effective tax rate should be achieved by an MNE in Hungary. For effective tax rate calculation purposes not only corporate income tax qualifies as a so-called covered tax (but e.g., 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 2 collection mechanisms, including a Qualified Domestic Minimum Top-up Tax.

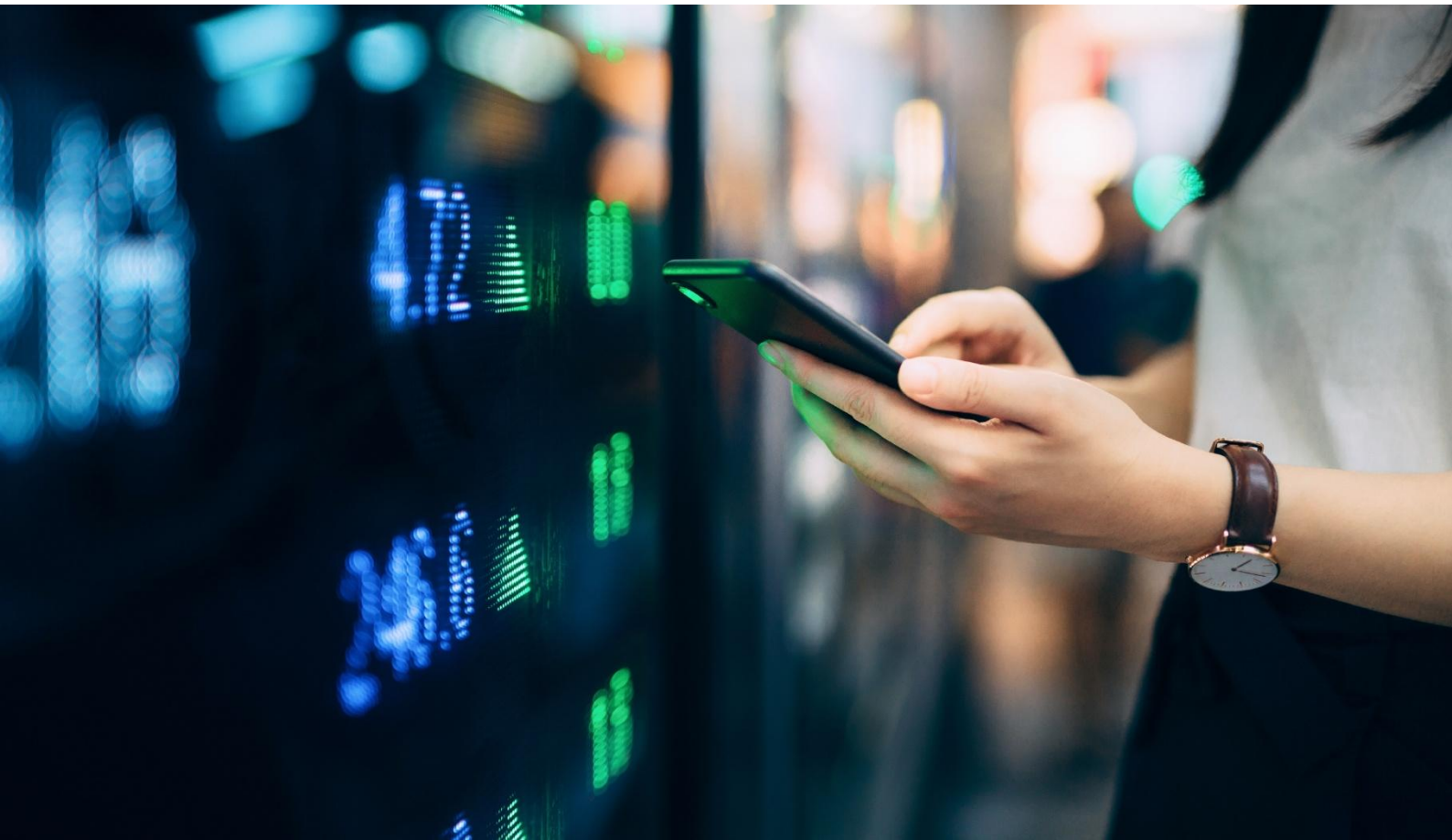
3.2 Group financing, holding, IP holding

Even though the Hungarian CIT rate is 9% and the rates of the LBT and innovation 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 innovation contribution (such as group financing, holding or IP holding) and this produces a structuring opportunity through the jurisdictional blending regulations of Pillar 2.

Hungary has been used by multinational group companies as a location for group financing, holding and intellectual property (“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 2026 and beyond

As for the tax compliance update in the near future, an **impactful digitalization change is incentivized regarding VAT tax return**. The form-filling software that is currently used in Hungary is planned to be no longer in use as of year end of 2026, which makes the transition necessary to another solution for every taxpayer. The main direction of replacement is the already operating digitalized tax return filing system implemented by the Hungarian Tax Authority **(eVAT)**, which **makes the submission of VAT return much easier with minimalization of possible errors. The eVAT system makes it possible to declare VAT based on data of the companies' ERP systems instead of filing VAT return forms**. The incentivization has already begun of the transition (with amendment to the VAT legislation). There are two options to submit the VAT return in **eVAT**, the machine-to-machine **(M2M)** and **web-based** solution. In case of M2M communication in a predefined data structure the data is sent directly and automatically to the tax authority from the ERP system via API integration. This enables the tax authority to validate the data prior to the submission of the VAT return in order to filter out data inconsistencies. After the validation the VAT return can be submitted with M2M communication as well. When using web-based eVAT, from the data reported, a draft VAT return is prepared by the Tax Authority which can be modified on a web interface by the taxpayer. This latter solution is offered for small enterprises mostly.

The several times extended reduced **VAT rate of 5% on sales of residential properties that qualify as new properties under construction or newly built properties will continue to apply** in the future **until 31 December 2026**. Properties fall under this rule in case of multi-apartment residential buildings that have a total useful floor area not exceeding 150 square metres and single-family residential properties with a total useful floor area not exceeding 300 square metres. **Under the transitional rules**, the 5% VAT rate must also be applied to advance payments received or credited after **31 December 2026 but before 31 December 2030**, as well as to supplies completed during this period if in the case of construction work requiring a building permit, the building permit for the construction of the residential property became final by 31 December 2026, or the simple notification under the Act on Hungarian Architecture was acknowledged by 31 December 2026.

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Spain

As a member state of the European Union, Spain’s tax system is based on the civil law tradition. Its legal sources include tax legislation enacted by Parliament, Royal Decrees (such as the Pillar Two implementation decree issued at the end of 2024), EU directives (such as the EU VAT Directive, EU Parent-Subsidiary Directive or EU Interest & Royalties Directive), and regulatory rules issued by the tax authority (AEAT).

The 2025-2026 Spanish tax reform focuses on three key objectives: First, implementing the OECD Pillar Two global minimum tax rule to ensure tax fairness; second, reducing the tax burden on micro-enterprises and SMEs through differentiated tax rates to stimulate economic vitality; third, advancing tax digital transformation to achieve “real-time compliance.” The reforms cover core taxes including corporate income tax, personal income tax, and VAT, while strengthening oversight of cross-border transactions, directly impacting foreign investors' business planning and compliance management.

1. Differentiated Tax Rate Structure Adjustments

1.1 Pillar Two Implementation

Spain enacted Law 7/2024 to implement the EU directive, imposing a 15% global minimum tax on large multinational and domestic groups with revenues exceeding €750 million. Implementing regulations for this tax are detailed in the Supplementary Tax Regulations, approved by Royal Decree 252/2025 on April 1. These regulations incorporate interpretive standards progressively released by the OECD through its Administrative Guidance, while specifying procedural obligations and compliance requirements related to the new tax. They clarify the tax base, adjustment items, and reporting requirements, and introduce dedicated compliance forms. This initiative positions Spain as an active participant in global tax governance, ensuring large corporations cannot evade reasonable tax burdens through profit shifting. It is foreseeable that subsidiaries belonging to group structures vastly larger than themselves and particularly beyond their control may face additional difficulties. For instance, such subsidiaries could encounter specific challenges due to the group's highly complex operational model in Spain, non-participation in Country-by-Country Reporting (CbCR) preparation, or simply not being involved in the group's Pillar Two response planning.

Simultaneously, the Temporary Safe Harbor serves as a mechanism designed to simplify and facilitate the implementation of the global minimum tax rules. It offers a time-limited simplified approach enabling businesses to more easily meet Pillar Two requirements during the initial implementation phase (2024-2026). Multinational enterprises may defer detailed Pillar Two calculations during the transition period provided they satisfy any one of three simplified "tests". A jurisdiction qualifies for exemption from detailed calculations and tax obligations if it satisfies at least one of these tests.

1.2 Graded Tax Reduction

Spain's corporate income tax employs a "differentiated by size" rate structure, with adjustments focused on micro-enterprises, SMEs, and large multinational groups, clearly reflecting a policy of "supporting the small and assisting the medium."

For companies with annual revenues below €1 million, starting from 2027, profits up to €50,000 are taxed at 17%, with the remainder taxed at 20%. A transitional period will be established from 2025 to 2027, during which the tax rate will be gradually reduced from 22% to 20% year by year (specifically, for the portion not exceeding 50,000 euros, the tax rate will be reduced from 21% to 17% year by year). This policy significantly reduces the tax burden on micro and small enterprises, freeing up more capital for innovation and expansion. For SMEs with annual revenues between €1 million and €10 million, the tax rate will gradually decrease from 24% in 2025 to 21% in 2028, and remain at 20% starting from 2029. This phased adjustment avoids disruptive policy changes that could impact business operations, providing enterprises with stable expectations.

2. Adjustments to Tax Systems Related to Social Welfare

On December 24, 2025, Spain's Official State Gazette (BOE) published Royal Decree No. 16/2025, issued on December 23, which expands certain measures to address social vulnerability and implements urgent actions regarding tax and social security matters. The revisions to corporate tax regulations align with Spain's national development objectives—including the green energy transition and post-disaster regional recovery—while addressing practical operational needs in tax administration. This corporate tax amendment represents Spain's pragmatic fiscal adjustment. For businesses operating in Spain, it is essential to accurately grasp both policy opportunities and compliance requirements: On one hand, seize the tax incentive window for renewable energy investments by formulating investment and staffing plans based on investment caps and employee retention rules; On the other hand, closely monitor deadlines for tax administration procedures such as SII system exits and complete relevant deregistration formalities on schedule. Additionally, businesses should continuously monitor upcoming detailed regulations for Verifactu, scheduled for implementation in 2027, proactively adjust their VAT management systems, and ensure full alignment with the latest tax regulatory requirements.

3. Tax Compliance and Digitalization with Cross-Border Transformation

3.1 Tax Compliance and Digitalization

Royal Decree 15/2025, issued on December 2, 2025, and published in the Official State Gazette on December 3, 2025, combines local investment incentives with the phased implementation of tax digitalization. This decree amends Royal Decree 1007/2023 and postpones the effective date of the Verifactu system to January 2027 (in general terms, for Spanish corporations). It not only provides targeted support for investment activities by local entities and autonomous regions but also alleviates digital compliance pressures on businesses while strengthening the institutional foundation for standardized invoice management and tax oversight. This initiative fully demonstrates the flexibility of Spanish policymaking, striking a balance between short-term economic stimulus and long-term regulatory optimization.

3.2 EU Regulations Drive Cross-Border Transformation

Building upon EU and OECD frameworks, the Spanish government has refined transfer pricing rules, such as strengthening source country taxation rights in natural resource extraction industries. This move bolsters the taxing authority of resource-rich source countries—particularly developing nations—reflecting the OECD's response to "taxation and development" issues and a compromise to pressure from the UN Model Tax Convention for Developing Countries. For mining and oil companies, this means significantly heightened tax risks in resource-rich countries—even short-term exploration activities may trigger permanent establishment (PE) status. Notably, these are non-mandatory rules; whether developed nations like Spain adopt them depends on their specific negotiating positions with developing countries.

Core changes related to financial transactions and interest deductions include:

1. Before applying the arm's length principle for pricing, the transaction nature must first be determined—whether a so-called "loan" should be treated as debt or reclassified as equity investment.

2. Clear distinction between "profit attribution" and "pre-tax deduction": Profit allocation between related parties is determined under the arm's length principle.

3. Limiting the obligation to make corresponding adjustments: If a country denies interest deductions due to domestic interest deduction limitation rules (rather than transfer pricing adjustments), this does not constitute economic double taxation, and the other country is not obligated to make corresponding adjustments.

The OECD enables countries to curb base erosion through domestic interest limitation rules. For multinational groups, this means transfer pricing compliance alone is insufficient; they must also monitor differences in interest limitation rules across jurisdictions. Tax advantages for financial hubs and holding companies in countries like Spain and the Netherlands have diminished; group financing structures require reassessment to ensure compliance with the arm's length principle while avoiding domestic interest deduction caps.

For foreign investors, the reforms present both opportunities—such as OSS 2.0 simplifying cross-border compliance and reduced tax rates for micro-enterprises lowering startup costs—and challenges—Pillar Two increasing tax burdens on large corporations.

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Switzerland

Part one: Switzerland tax landscape overview

1. Switzerland as a business location

Switzerland is a politically neutral, economically advanced, and legally stable jurisdiction located in the centre of Europe. It offers strong protection of property rights, predictable regulatory enforcement, and a highly developed financial and infrastructure environment. For Chinese multinational groups seeking a European or global platform, Switzerland combines the following attributes:

- Highly qualified workforce and education system
- Long-term stability and resilient economy
- A sustainable gateway to the EU and the rest of the world
- The most flexible labour law in Europe & low staff rotation
- Business-friendly environment with tax authorities acting as business partners
- Extensive free trade agreements and largest double tax treaty network

Although Switzerland is not a member of the European Union, it maintains extensive bilateral agreements with the EU and participates in the European Free Trade Association (EFTA). In addition, the Switzerland–China Free Trade Agreement, in force since 1 July 2014, provides progressive customs duty reductions and enhanced intellectual property protection. The Switzerland–China Free Trade Agreement is now subject to renegotiations to adopt latest industry and trade business trends. Switzerland is particularly attractive for holding companies, intellectual property structures, headquarters functions, trading companies, and high-value manufacturing or technology activities.

2. The Swiss corporate tax system overview

2.1 Three-levels structure

Switzerland operates a decentralized three-tier corporate tax system composed of federal, cantonal, and communal (municipal) taxation. Cantons have significant autonomy in setting their own tax rates and implementing incentives, which allows companies to choose a location aligned with their operational and fiscal strategy.

2.2 Corporate income tax

Corporate income tax is levied on a company's net taxable profit, determined based on commercial accounting profit adjusted for tax purposes.

At the federal level, the rate is 8.5% on profit after tax, corresponding to approximately 7.83% on profit before tax. Cantons and municipalities levy additional corporate income taxes at varying rates. The effective combined tax burden typically ranges between 12% and 24% depending on the canton. The choice of location within Switzerland therefore significantly influences the overall effective tax rate.

Commercially justified operating expenses, depreciation, amortization, interest expenses subject to thin capitalization principles, and appropriate provisions are generally deductible. Advance tax rulings are available, providing binding confirmation from the tax authorities on the tax treatment of a structure or transaction before implementation.

3. Other domestic corporate taxes

3.1 Capital tax

Cantons levy an annual capital tax based on the company's taxable equity, including share capital, statutory reserves, retained earnings, and other equity components. Rates vary by canton and are generally modest. Certain cantons provide reductions of the taxable base for qualifying participations or intellectual property. In certain cantons, capital tax is offsetable against corporate income tax.

3.2 Stamp duties

Issuance stamp duty applies on contributions of equity to a Swiss company, including upon incorporation, capital increases, or additional shareholder contributions. The rate is 1% of the contributed equity. The first CHF 1 million of contributed capital benefits from a lifetime exemption. Certain restructurings and reorganizations may qualify for additional exemptions.

Securities transfer stamp duty is imposed on the transfer of securities where a Swiss securities dealer is involved. The term securities dealer is broadly defined and may include certain Swiss holding companies. The rate is 0.15% for Swiss securities and 0.30% for foreign securities.

Insurance premium stamp duty is levied at a rate of 5% on certain categories of insurance contracts.

3.3 Withholding tax

Switzerland levies a 35% withholding tax on dividend distributions, certain bond interest, and certain insurance benefits. The recipient may reclaim the tax partially or fully under an applicable double tax treaty or domestic refund mechanism. There is no withholding tax on royalties and interest (other than bond and bond-like instruments).

In qualifying intercompany situations, a notification procedure may apply, allowing dividend payments without upfront cash withholding. Interest on ordinary bank loans is generally not subject to Swiss withholding tax, making Switzerland attractive for financing structures.

Qualifying capital contributions can be repaid to shareholders without Swiss withholding tax levied at the distributing company’s level and without income tax for Swiss individual shareholders holding the shares as private assets. It generally applies to share premiums, additional paid in capital, and other contributions to reserves that do not increase the nominal share capital.

Since 1 January 2020, Swiss-listed companies are subject to restrictions on the amount that may be distributed from capital contribution reserves. These restrictions do not apply to non-listed companies.

4. Participation exemption

The participation exemption is a relief mechanism designed to prevent economic double taxation of corporate profits distributed within group structures. It operates through a proportional reduction of corporate income tax rather than excluding qualifying income from the tax base.

For dividend income, the exemption applies if the Swiss company holds at least 10% of the share capital of another company or if the participation has a fair market value of at least CHF 1 million. The dividend is included in taxable profit, and a proportional tax reduction is calculated based on the ratio of qualifying participation income to total net profit. In practice, the effective tax burden on qualifying dividends is reduced to close to 0%.

For capital gains, the exemption applies if the Swiss company holds at least 10% of the participation and the shares have been held for a minimum of one year. The gain is included in taxable profit and the same proportional tax reduction applies, reducing the effective tax burden to near 0%.

This regime makes Switzerland highly attractive for regional or global holding companies of Chinese groups.

Part two: 2026 and beyond

1. Swiss tax incentives

Following the Swiss corporate tax reform effective 1 January 2020, Switzerland introduced internationally compliant incentives at cantonal level. The combined use of patent box, R&D super-deduction, and notional interest deduction is generally subject to an overall maximum relief limitation of 70% of taxable profit.

The patent box regime provides a preferential treatment for qualifying patent income. Up to 90% of qualifying patent income may be excluded at cantonal level. The regime follows OECD nexus standards, meaning the benefit is linked to Swiss R&D activity.

The R&D super-deduction allows an additional deduction of up to 50% of qualifying Swiss R&D expenses, resulting in a total deduction of up to 170% of qualifying domestic R&D costs. The incentive applies only to R&D activities performed in Switzerland.

The immigration step-up allows recognition of hidden reserves when assets, intellectual property, or business functions are relocated to Switzerland. These reserves may be amortized over time, thereby reducing taxable profit during the amortization period.

Tax holidays may be granted for new investments that create significant employment. Relief may last up to 10 years at federal and cantonal level during the qualifying period, subject to approval.

Certain cantons also offer a notional interest deduction on excess equity. Under this mechanism, a deemed interest amount calculated on qualifying equity is deductible from taxable profit.

2. International tax framework

Switzerland is not an EU Member State. Therefore, EU Anti-Tax Avoidance Directives, EU State Aid rules, and DAC6 reporting obligations do not directly apply. However, Switzerland adheres to OECD standards and international transparency frameworks.

Switzerland maintains more than 100 double tax treaties. Under the Switzerland-China treaty, dividends are generally subject to a 10% withholding tax, reduced to 5% if the recipient holds at least 25% of the distributing company.

Interest and royalties are generally subject to a 10% withholding tax (however not for outbound payments as Switzerland has no WHT on such items).

Under the Switzerland-Hong Kong treaty, dividends may be exempt from Swiss withholding tax if the beneficial owner is a Hong Kong company that holds at least 10% of the capital of the Swiss distributing company; in other cases, the standard 35% Swiss withholding tax may apply subject to possible relief under the treaty.

Interest and royalties are generally not subject to withholding tax provided the recipient is the beneficial owner.

Switzerland applies the OECD arm’s length principle for transfer pricing. There is no traditional CFC regime and no general subject-to-tax rule. Switzerland does not impose a statutory obligation to prepare and maintain formal transfer pricing documentation. There is no requirement equivalent to the documentation standards commonly found in EU or OECD member states such as China. Advance pricing agreements are available.

3. BEPS 2.0 — Global Minimum Tax (Pillar 2)

The global minimum tax rules entered into force in Switzerland on 1 January 2024. They apply to multinational groups with consolidated revenue exceeding EUR 750 million.

The minimum effective tax rate is 15%. If a Swiss entity of an in-scope group is taxed below 15%, a Qualified Domestic Minimum Top-Up Tax ensures that the minimum level of taxation is reached in Switzerland.

These rules are particularly relevant for large Chinese multinational enterprises with Swiss subsidiaries or holding structures.

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Ireland

Ireland offers one of the most competitive corporation tax rates in Europe at 12.5% on trading (i.e., active business) profits. A rate of 25% applies to non-trading income, and Capital Gains Tax is 33%, subject to important reliefs including the capital gains participation exemption on the disposal of shares. For groups within the scope of Pillar Two (consolidated revenues of at least EUR 750 million), Ireland introduced a Qualified Domestic Minimum Top-up Tax (QDMTT) from 1 January 2024, bringing the effective minimum rate to 15%. Groups below this threshold continue to benefit from 12.5%. Ireland's extensive network of 78 double tax agreements, including a treaty with China, provides relief from double taxation and reduced withholding tax rates.

Part one: Irish Tax Incentives

1. IP Amortisation Regime

The IP amortisation regime under Section 291A TCA 1997 provides a tax deduction for expenditure on qualifying IP acquired on an arm's length basis. The scope of expenditure eligible for relief is extensive, and includes capital costs related to patents, trademarks, licenses, copyrights, brands, industrial know-how, and goodwill directly linked to these intangible assets.

These IP capital allowances can be applied against the taxable income of "relevant activities" that form part of a trade, which include:

- Managing, developing, and exploiting specified intangible assets.
- Making sales that derive most of their value from the use of specified intangible assets.
- Making sales where intellectual property assets add value to goods or services.

Provided the relevant conditions are met, the annual IP tax amortisation that can be claimed should either be:

- In line with annual amortisation in the profit and loss account of the Irish statutory financial statements of the company, or
- Where an election is made, over 15 years.

The legislation provides that the amount of the IP tax amortisation is capped at 80% of the trading income arising from the "relevant trade" in any year. Any IP amortisation that is not claimed in a year (i.e., an excess amortisation charge over the 80% qualifying profits in a year) can be carried forward for offset against the relevant trading IP profits of a company in future years.

2. R&D Tax Credit

A tax credit of 35% for accounting periods commencing 1 January 2026 (recently increased from 30% for periods commencing 1 January 2025) is available on the full amount of qualifying R&D expenditure incurred by a company on qualifying R&D activities. This is effective for accounting periods for which the corporation tax return is due on or after 23 September 2027 (i.e., accounting periods commencing 1 January 2026).

Qualifying R&D expenditure includes qualifying operational R&D costs and qualifying R&D plant and equipment costs. This credit is in addition to the normal 12.5% revenue deduction available for the R&D expenditure, thereby resulting in an effective benefit of 47.5%.

The R&D tax credit is a fully payable credit that is paid in three fixed instalments as follows:

- 50% of their credit in year one.
- 30% of their credit in year two.
- 20% of their credit in year three.

Credits may also be claimed on subcontracted R&D, up to the greater of EUR 100,000 or 15% of qualifying expenditure.

3. Knowledge Development Box (KDB)

The KDB provides an effective 10% corporation tax rate on profits arising from qualifying assets (including copyrighted software and patented inventions) where some or all of the related R&D is undertaken by the Irish company. Following the most recent extension, the relief applies for accounting periods commencing before 1 January 2027.

4. Digital Gaming Credit

The Digital Games Tax credit provides an incentive to digital games developers to produce games that contribute to the promotion and expression of Irish and European culture. This credit is claimed as a cash refund.

The relief is available for expenditure incurred on the design, production, and testing of eligible digital games, provided certain conditions are met. Subcontractor payments of up to EUR 2 million and certain capital costs may also qualify for relief. The credit is in addition to any corporation tax deduction that may be claimed for the expenses in computing the developer's taxable trading profit.

The relief is 32% based on the lowest of:

- Eligible expenditure on the development of digital game in Ireland or the EEA, or
- 80% of qualifying expenditure on design production and testing of a digital game

There is a minimum spend of EUR 100,00 per project and is subject to a cap of EUR 25 million.

5. Withholding Tax and Outbound Payments Rules

Domestic exemptions are generally available for dividend withholding tax (DWT), which reduces the rate to 0%, in cases of dividends paid to companies controlled by EU or treaty country residents, or companies whose parent company is listed on a stock exchange. Where these conditions are not satisfied, DWT applies at 25%.

Subject to satisfying certain conditions, interest and royalty WHT may be eliminated to 0% under domestic law, the EU Interest and Royalties Directive, or double tax treaties. Where these conditions are not satisfied, WHT at 20% applies.

Outbound payments legislation can disapply existing WHT exemptions for payments of interest, royalties, and dividends to an "associated entity" resident in a "specified territory" (including EU-listed non-cooperative jurisdictions and zero-tax territories).

6. Double Tax Treaties

Ireland has an extensive network of double tax agreements ("DTAs") and currently has DTAs with over 70 countries. These DTAs ensure that income that has been taxed in one country is not taxed again in another country (i.e., double taxation). Ireland's wide DTA network allowing for reduced withholding tax on inbound / outbound payments and bilateral and unilateral relief for foreign tax suffered on foreign sourced income (e.g., overseas branch profits, interest, royalties, and dividends), including onshore pooling of credits in certain circumstances.

To the extent domestic withholding tax exemptions are not available as outlined above, under the China-Ireland treaty:

- Dividends paid by an Irish company to a Chinese resident shareholder are subject to a maximum WHT rate of 5% where the beneficial owner is a company that holds at least 25% of the capital of the paying company, or 10% in all other cases.

- For interest payments, the treaty provides for a maximum WHT rate of 10%.

- For royalty payments, the rate is capped at 6% (or 10% in certain cases).

These reduced rates, combined with Ireland's domestic WHT exemptions, can significantly reduce or eliminate withholding tax friction on payments between Irish and Chinese group entities.

Part two: Ireland Tax Hot Topics

1. Pillar Two

Ireland legislated for the Pillar Two rules with effect from 1 January 2024 for the Income Inclusion Rule (IIR) and Qualified Domestic Top-up Tax (QDTT), and 1 January 2025 for the Undertaxed Profits Rule (UTPR).

Pillar Two aims to ensure that in-scope businesses (those with consolidated group revenues of 750 million euros (EUR) or more in at least two of the four preceding fiscal years) pay at least a 15% effective tax rate on their profits in each jurisdiction in which they operate.

Ireland has implemented a QDTT via a short legislative provision linked very closely to the IIR and UTPR sections of the legislation. One key aspect of the Irish QDTT is that, where certain conditions are met, the QDTT is calculated using a local financial accounting standard and local financial accounts rather than the ultimate parent entity's financial accounting standard used in the consolidated financial statements.

In addition to the QDTT, Ireland has implemented the Income Inclusion Rule (IIR) and Undertaxed Profits Rule (UTPR) simultaneously. The IIR imposes top-up tax obligations on the parent entity of an MNC group when constituent entities are taxed below the minimum rate.

2. Participation Exemption for Foreign Dividends

A participation exemption for certain foreign distributions was introduced under Finance Act 2024, with effect for dividends and other distributions, received from 'relevant territory' resident companies from 1 January 2025.

Under the new regime, dividends received by an Irish resident company from a subsidiary resident in a country with which Ireland has a double tax agreement (or an EU/EEA member state) may be fully exempt from Irish corporation tax, provided certain conditions are met. These conditions include a minimum shareholding requirement (typically 5% of ordinary share capital) and a trading or holding company requirement in respect of the subsidiary paying the dividend. Prior to this reform, foreign dividends received by Irish companies were generally taxable, albeit at an effective rate of 12.5% where the dividend was paid out of trading profits and credit relief was available for underlying foreign taxes.

For Chinese MNCs with multiple international subsidiaries held through an Irish entity, the participation exemption can significantly simplify the tax treatment of inbound dividends, eliminate residual Irish tax on dividend repatriation flows, and enhance Ireland's competitiveness as a holding company location alongside jurisdictions such as the Netherlands, Luxembourg, and Singapore. MNCs should review their existing structures to determine whether conditions for the exemption are met and whether any restructuring may be warranted to take advantage of this new relief.

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