THE GLOBAL TAX CHRONICLE

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PREFACE

On behalf of the tax team at BDO India, I am privileged to present the tenth issue of The Global Tax Chronicle.

This quarterly publication delivers critical tax developments from an international perspective, covering core subjects of direct & indirect taxation and transfer pricing. BDO India's International Tax team has authored and compiled this publication.

The publication brings forth an expert's perspective on pertinent trends in the area of taxes across countries, aiming to provide comprehensive yet relevant coverage of the developments in the tax world.

The tenth issue of the GLOBAL TAX CHRONICLE focuses on the newer forms of a permanent establishment in the evolving digital economy and its interplay with each of the tax laws viz. corporate, indirect taxes, and transfer pricing.

Tax Conversations

- The opening article provides an overview of the concept of Virtual/Digital Permanent Establishment & laws around such tax triggers on digital businesses in key countries
- The second article discusses the implications under the indirect tax laws on digital services provided by overseas businesses without having a substantial presence in the recipient country
- The closing article discusses the transfer pricing nuances around the concept of virtual permanent establishment

Canada is stable on political and economic aspects, has a skilled, multicultural and diverse workforce, offers access to large trade networks and has been known as a country welcoming immigrants from across the globe which can play the role of a strong foundation for global growth. **The World Tax File Focussing On: Canada**, sheds light on the tax and regulatory environment in the country, highlighting the ease of doing business in Canada and its attractive economic position.

Lastly, the publication covers **Tax News from Around the Globe** - a round-up of recent and crucial tax developments worldwide and provides a window to the upcoming compliance calendar for the current and upcoming 2 months.

We hope you find this an interesting and relevant read for your business and related international strategies.

We look forward to receiving your valuable feedback and comments.

MILIND KOTHARI
Managing Partner
BDO India

TAX CONVERSATIONS

VIRTUAL/DIGITAL PERMANENT ESTABLISHMENT: A GLOBAL PERSPECTIVE

SYNOPSIS

Globally, concept of Permanent Establishment (PE) has been embedded into domestic tax laws to bring foreign businesses operating within the local jurisdiction to the tax net. Typically, scope for a presence to be regarded as a PE is the same under the domestic tax law as well as the tax treaty.

rapid rise of technology and the evolving digital economy in recent years has led to newer ways in which businesses operate on a global platform and without having the need to have any substantial presence in the source country. The PE laws on the other hand have been defined prior to over 100 years and even with the amendments over time, have not kept pace with the nuances of the digital economy.

Recently, countries have chosen to expand the horizon of the forms of PE and inter-alia have proposed the concept of a Virtual PE under their laws, to target bringing businesses operating into the digital space and without significant in-country presence, within their tax net.

This article discusses the concept of a Virtual PE & measures adopted by a few key countries in relation to such PEs.

INDIA:

India has always proposed source-based taxation and has been proactive in implementing measures aimed at expanding its tax base when it comes to overseas businesses doing business in India. India is one of the first countries in the G-20 to adopt digital taxation. The measures adopted by India in relation to digital economy taxation are:

- Introduction of an Equalisation Levy in 2016 on online/digital marketing
- In 2018, the introduction of the concept of Significant Economic Presence within its domestic laws, which will create tax exposure for overseas
- In 2020, the expansion of the scope of Equalisation Levy to e-commerce operations

Apart from this, Indian tax authorities have persistently adopted the judiciary route of bringing foreign businesses into the Indian tax net by adopting an innovative interpretation of laws; which have been largely struck down when appealed. However, this provides valuable insight into the mindset of tax authorities worldwide while determining taxable presence.

ITALY:

Italian authorities are continuously trying to adapt to the evolving aspects of taxation in the digital economy. The Netflix Case demonstrates the innovative and unique approach adopted by the Italian Tax Authorities on digital economy taxation.

TAX CONVERSATIONS

In the Netflix case, the tax authorities considered the sole presence of an advanced technological infrastructure on Italian territory, at data centers belonging to third parties, that were used exclusively by Netflix with the purpose of facilitating the transmission of information (thus qualifying the data centers as servers), could be considered to be a fixed place of business, even in the absence of any staff in Italy. The authorities held that the relevant role of the said “content delivery network” was not ancillary or auxiliary to the business activity. The tax authorities thus went beyond the conventional interpretation of PE while holding that Netflix was liable to pay tax in their territory.

BELGIUM:

Belgium’s domestic tax provides for the concept of digital services permanent establishments and has been applicable since 10 July 2019.

A ‘significant digital presence’ shall be considered to exist in Belgium if the business carried on through it consists wholly or partly of the supply of digital services through a digital interface and one or more of the following conditions is met with respect to the supply of those services by the entity carrying on that business, taken together with the supply of any such services through a digital interface by each of that entity's associated enterprises in aggregate:

a) The proportion of total revenues obtained during the taxable period and resulting from the supply of those digital services to users located in Belgium in that taxable period exceeds EUR 7,000,000

b) The number of users of one or more of those digital services who are located in Belgium during the taxable period exceeds 100,000

c) The number of business contracts for the supply of any such digital service that is concluded in the taxable period by users located in Belgium exceeds 3,000

These rules apply to Non-resident companies with a significant digital presence in Belgium.

ISRAEL:

To combat tax leakage due to digitalisation, the Israel tax authorities in a circular have defined significant digital presence and laid down conditions for its applicability viz:

- The foreign supplier has a significant number of contracts for online services with Israeli customers
- Foreign suppliers’ online services are highly used by Israeli customers
- Foreign suppliers’ website has been adapted for use by Israeli customers
- There is a high volume of web traffic between Israel and foreign suppliers’ websites/services.
- Other factors

This approach, however, has proven unsuccessful and the Digital Service Tax regime is intended to replace it.

CONCLUDING THOUGHTS:

Governments around the world are racing to try to catch up with the evolving digital world we are living in, and virtual permanent establishment is just one example of this. However, tackling such challenges is complicated and involves thinking much about the future. OECD’s base erosion and profit shifting project (BEPS) identified digital economy taxation as one of the key areas that need to be addressed, way back in 2013. However, it is only now that concrete rules around such taxation are being materialised, implying that digital economy taxation is not simple to address.

BEPS recommendations of adopting a two-pillar solution to address the tax challenges arising under the digital economy taxation shall be useful to address these tax issues. The two pillars of BEPS 2.0 are:

- Pillar One is targeted at large enterprises and proposes a fairer distribution of profits and taxing rights among countries by re-allocating some taxing rights over MNEs from their home countries to the markets where they have business activities and earn profits, regardless of whether the MNE concerned has a physical presence in the market
- Pillar Two proposes Global Anti-Base Erosion (GLoBE) rules to ensure MNEs pay a minimum (15%) level of tax on their global profits, either in the home country or intermediate countries depending upon their structure and the policy adopted by the home country

BEPS has further recommended that countries are free to adopt unilateral measures in the interim relating to digital economy taxation. However, the law as it stands today, states that the treaty provisions shall override the domestic tax law. Thus, such unilateral measures have been limited success so far and are likely to be abolished by countries once the BEPS recommendations are in force.

Businesses operating in the digital space would now need to be mindful of the taxable presence they create in the jurisdictions where they operate and ensure that they comply with each such country, apart from compliance in the home country.

VAT/GST IMPLICATIONS ON DIGITAL SERVICES PERFORMED WITHOUT PERMANENT ESTABLISHMENT IN THE RECEIVING COUNTRY

SYNOPSIS

With the advent of the internet in the 21st century, digital services are witnessing a steep growth. These digital services are provided through the internet and received by the recipient online without having any physical interface with the supplier of such services. The nature of digital services is such that they can be provided online from a remote location outside the geographical location of the country. Since similar digital services provided by local service providers within the country would be subject to VAT/GST in the home country, laws are being introduced to tax such supplies provided by foreign service providers to provide a level playing field. Summarising here the provisions of a few countries with respect to VAT/GST implications on such digital services performed without a Permanent Establishment in the receiving country.

INDIA

The Indian Goods & Services Tax (GST) law refers to digital services as Online Information and Database Access or Retrieval (OIDAR) services. The OIDAR services are defined as "services whose delivery is mediated by information technology over the internet or an electronic network and the nature of which renders their supply essentially automated and involving minimal human intervention and impossible to ensure in the absence of information technology." It is imperative to note that this definition of OIDAR services closely mirrors that for electronically supplied services under the EU VAT legislation.

A foreign business providing OIDAR services to a non-registered recipient in India is required to collect GST on the supply of such services in India and remit it to the Government. For business-to-business (B2B) supplies of such services, GST is payable by the Indian GST-registered recipient under the reverse-charge mechanism. The foreign provider of digital services to the non-registered recipient in India is required to obtain GST registration in India without any turnover threshold or exemptions. A simplified return is required to be submitted by the foreign OIDAR service provider in India.

The Indian GST law contains a special rule for online platforms (referred to in the GST law as "e-commerce operators") facilitating supplies of goods and digital services. E-commerce operators are required to register both for GST and for tax collected at source (TCS), regardless of their turnover. If an e-commerce operator receives payments for sales of goods or services facilitated through its online platform, it must deduct 1% of the net value of taxable supplies before transmitting the funds to the sellers. TCS must be transmitted to the tax administration together with the monthly returns that provide details of sales that were subject to TCS.

JAPAN

In October 2015, Japan extended the scope of its consumption tax to digital services provided by foreign businesses to Japanese consumers. Foreign companies that provide B2B digital services to Japanese businesses are not required to charge consumption tax. However, they must clearly indicate that the service recipient will have to account for the tax under the reverse-charge mechanism.

Foreign businesses that provide B2C digital services are required to register in Japan if their taxable sales exceed the registration threshold of JPY 10mn in the base period, and their taxable sales or salaries are paid to exceed this threshold in the specified period. For sole proprietors, the base period refers to the calendar year 2 years prior to the current one (for example, the base period for 2021 is 2019). For corporations, the base period is the fiscal year 2 years prior to the current one. The specified period refers to the first 6 months of the previous calendar year (for sole proprietors) or the fiscal year (for corporations).

There is a simplified procedure for the registration of foreign businesses providing B2C digital services. However, such businesses are required to appoint a tax representative in Japan if they do not have an office located in Japan. The tax administration maintains a list of all foreign, digital service providers that have registered for consumption tax.

SINGAPORE

With effect from 1 January 2020, foreign businesses may be required to register under the Overseas Vendor Registration (OVR) regime and collect GST on B2C sales of digital services to customers in Singapore. The registration obligation applies to foreign sellers whose annual global turnover and the value of digital services made to non-GST registered customers in Singapore exceeded SGD 1mn and SGD 0.1mn respectively, in a calendar year, or are expected to exceed these amounts in the next 12 months. Upon registration for GST, foreign businesses are required to submit a simplified GST return quarterly stating the value of digital services and the tax charged on these services.

Foreign businesses are not required to charge GST on supplies of digital services made to GST-registered customers that have provided their GST registration numbers.

The GST-registered customers will have to account for tax on these overseas purchases if they fall within the scope of reverse charge.

If digital services are supplied to customers in Singapore via an electronic marketplace, the operator of the electronic marketplace (and not the seller) is required to charge and account for GST. Currently, digital services are subject to the standard rate of 7%, but the Singapore Government has announced that the standard rate will be raised in two stages, to 8% from 1 January 2023 and to 9% from 1 January 2024.

CONCLUSION

Sales of digital products in overseas jurisdictions often trigger tax compliance obligations. A number of countries require foreign businesses not having a permanent establishment in the home country, to charge VAT/GST for digital services provided to local customers. The obligation for sellers to register and account for VAT/GST in a country where they are not located creates numerous challenges (particularly when such a requirement arises in multiple jurisdictions) and is especially burdensome for small and medium-sized enterprises, which have limited human and financial resources to deal with foreign tax compliance obligations.

TRANSFER PRICING AND VIRTUAL PERMANENT ESTABLISHMENT

INTRODUCTION

With their digital strength and presence, Multinational Companies (MNCs) are able to derive significant income and market presence on a global level, without creating a taxable presence in the source country. It has led to the need of redefining the concept of Permanent Establishment (PE).

Currently, PE is mostly referred to as a fixed place of business through which the business of an enterprise is wholly or partly carried on. The digital transformation of the economy is enabling non-resident taxpayers to have substantial profits from transactions with customers located in other jurisdictions without having a physical presence or a dependent agent in such jurisdictions. The contribution made by the users has led to value creation based on the digitalisation of the economy, based on intangible assets and on data collection, processing and use, thus extending the concept of PE to the creation of "Virtual PE (VPE)" or "Digital PE".

This change of traditional companies to a digital and information technology-driven economy has raised substantial tax and transfer pricing (TP) challenges across jurisdictions, which has now become a matter of discussion, globally. The OECD Base Erosion Profit Shifting (BEPS) report on artificial avoidance of PE acknowledges and addresses the issues and challenges of establishing a nexus of digital businesses. Further, considering the increase in focus on the virtual presence the traditional PE rules were not considered sufficient enough, thus leading to the creation of the concept of VPE.

INITIATIVES BY COUNTRIES

The concept of VPE has been a point of discussion across geographies considering the reach of the digital economy. Some countries are front runners and have implemented autonomous measures addressing the concept of Digital PE. Many countries have also enacted legislation for either a Digital Service Tax or a tax on a VPE or a withholding tax on certain digital payments.

VPE is a new concept and has in the recent past gained tremendous significance. The recent pandemic has proved to be a major disruptor impacting the liquidity, supply chain operations, cross border and in-border restrictions on the movement of people. This has led businesses on the thinking table to relook at their current policies to maintain their existence during the challenging environment.

Virtual working has mandated an analysis of VPE risk and profit attribution thereon considering the restricted people movement due to the shutdown of country borders. The concept of remote working led the businesses to think from a TP perspective to evaluate the significant people functions and understand their impact on the Development, Enhancement, Maintenance, Protection and Exploitation (DEMPE) functions/responsibilities. This has also proved to be a major step in assisting the businesses to determine which entity would be entitled to the profit derived from intangible ownership (Action Plans 8 to 10 on Aligning TP Outcome with Value Creation and Action Plan 13 on TP Documentation).

This has been the focus point of every TP analysis, even in the past. However, basis the uniqueness of a VPE and the increase in identification of the same, TP analysis and appropriate documentation have become of utmost importance.

BEPS ACTION PLANS AND VPE

There are various OECD BEPS Action Plans/initiatives, having an impact on the Tax/TP analysis of VPEs, some of which are discussed:

- BEPS Action Plan 7 focuses on updating the definition of PEs in Article 5 of the OECD. BEPS Action Plan 7 aims to prevent the artificial avoidance of PEs, thus making local sales taxable. The integration of BEPS Action Plans with domestic laws and bi-lateral treaties by way of Multi-Lateral Instruments (MLI) has led to the creation of more PEs in the form of VPEs.
- The determination of profits to be attributed to PEs has been one of the key points being litigated by TP Revenue Authorities. VPEs not being very different from traditional PEs (rather being much more complex), it would be imperative to ensure that the arm's length principle be adequately followed while attributing profits. This would support during the litigation around VPEs, which is highly likely.
- Considering the criticality and complexity of VPEs, it is of utmost importance to prepare a robust TP analysis considering OECD recommendations. TP analysis should be in line with value creation, thus requiring the attribution of value for tax purposes to be consistent with economic activity generating that value. Similarly, economic ownership of intangibles will also play a crucial role in case of the digital economy.
- Special emphasis and significance is placed on the significant people functions and risk control functions as per BEPS Action Plans 8 – 10. The location of users has been the prime focus point, as opposed to the location of an enterprise´s FAR. This step seems to align the TP outcomes with value creation and thus, with the evolution of VPE, TP issues relating to HTVI (hard-to-value intangibles) and contractual arrangements for reallocating risks will continue to gain impetus.

- VPEs will also be required to ensure that the information being detailed in the three-tier documentation as per BEPS Action Plan 13 is consistent / aligned with the policies and the entire value chain. There is a need for MNCs to maintain coherent documentation.

ATTRIBUTION OF PROFITS TO A VPE

The Authorised OECD Approach emphasises attribution of profits to PEs to be based on FAR analysis. The approach refers to dealings being priced on an arm's length basis considering the PE and the rest of the enterprise to be independent. The said approach would be expected to be followed in case of a VPE as well.

Considering the complexities of a VPE, allocation of profits to a jurisdiction where no actual functions are performed, no actual risks are assumed, and no actual assets are owned could be a very challenging process. At the same time, complying with the value creation principle from the OECD Guidance on the Attribution of Profits to a Permanent Establishment under BEPS Action 7[1] is also complex. It would be difficult to make generalised assumptions/conclusions on the key value drivers that would be standard across all digital businesses or VPEs, leading to subjectivity.

However, every VPE may not automatically lead to the attribution of incremental profits. The incremental profits would be attributed to the VPE in the event the VPE of the foreign principal, in substance carries out significant people's function.

CONCLUSION

There has been a huge surge in VPEs considering the ever-changing digital economy and MNCs moving to a more virtual manner of conducting business. Tax treaties have been recommended to be changed based on the changes proposed by the OECD in relation to the digitalisation of economies. These changes are required and MLI has been instrumental in implementing these changes, to prevent the artificial avoidance of PE creation as per BEPS Action Plan 7. VPEs would now be created under the post-BEPS and post-MLI scenario in the Host Country as compared to earlier years. Thus, once a VPE has been established it would be important to move on to the next logical step of attribution of taxable profits to the VPEs, based on the arm's length principle.

Attribution of profits could be based on the authorised OECD approach. However, with regard to attributing profits to the significant digital/economic presence, employing the concept of economically significant activities through a digital interface (ensuring arm's length remuneration) is complex. The value and profits generated by a VPE would be significantly impacted by the roles and significance of users. Attribution of value to users and data has been a subject matter of contention, which remains ambiguous, raising many practical and theoretical challenges. More clarity in this respect would ensure a more robust tax and TP compliance/analysis in case of VPEs.

The mere existence of a VPE would not lead to a material increase in tax exposure (although additional compliance costs and administrative burden may trigger), especially where the local place of business receives arm's length remuneration. Considering the uncertainty around an analysis of VPEs, there is a high probability of VPEs being under the scanner of Revenue Authorities across the world. Considering this and with the dynamic digital environment, it would be imperative for MNCs to review their existing structures or planned arrangements from a TP standpoint and maintain cohesive and comprehensive documentation.

[1] OECD, Additional Guidance on the Attribution of Profits to a Permanent Establishment under BEPS Action 7, 2018.

THE WORLD TAX FILE: FOCUSSING ON: CANADA

SYNOPSIS

Canada is a highly developed mixed-market economy. It is the 8th-largest country by nominal GDP and 15th largest by purchasing power parity in the world. Canada's economy is dominated by the service industry which employs about three-quarters of Canadians. Canada is the most favoured jurisdiction for talented professionals wishing to migrate beyond their home base.

This article highlights the tax and regulatory environment prevailing in Canada.

CHOICE OF LEGAL ENTITY

For foreign businesses wanting to establish a presence in Canada, the preferred forms of business for foreign investors are:

- **Limited Liability Company (LLC)**

LLC is the most favoured type of company for foreign investors. Limited liability companies as the name suggests are considered a separate legal entity from their shareholders. They can be formed as private or public. In case of an LLC being a private company, at least one director must be appointed and for a public company, the appointment of at least three directors is required. An LLC can be formed by a single shareholder.

- **Partnerships**

Partnerships in Canada may be formed based on the partnership laws of the province in which it is located.

Canada's common law provinces allow for the formation of general and limited partnerships, while the province of Québec also recognises undeclared partnerships.

For tax purposes, a partnership is not considered a separate entity, and all profits are taxed in the hands of the partners.

- **Branch Operation**

Foreign companies are allowed to conduct business in Canada through a branch operation. Branches of foreign companies in Canada are not treated as a separate legal entity and their full liabilities are passed to their parent company. Branches established in certain provinces may be eligible for certain tax benefits.

TAX AND REGULATORY FRAMEWORK

I. Income Taxes

- **Tax structure**

The basic federal tax rate is 38% of taxable income, 28% after federal tax abatement.

After the general tax reduction, the net tax rate is 15%.

For Canadian-controlled private corporations claiming the small business deduction, the net tax rate is 9%.

The Income Tax Act imposes a 25% branch tax on the after-tax Canadian profits of a foreign corporation that are not reinvested in Canada.

- **Withholding Taxes**

In general, no withholding tax applies to payments made to resident corporations.

A flat 25% withholding tax applies on the gross amount of Canadian-source dividends, interest royalties and rental income paid or credited to a non-resident. An exception applies if such income is a business income of a permanent establishment in Canada; in that case, the income is taxed as business income.

The respective tax treaties may provide an exemption or reduction in the above rates.

- **Group Treatment**

Canadian tax law does not allow for group tax consolidation of Canadian entities of a common group.

II. Indirect taxes

- **Goods & Services Tax**

The Goods and Services Tax in Canada is leviable on the supply of products and services made in Canada at 5%, except for goods and services that are zero-rated.

- **Provincial Sales Tax**

Various provinces impose provincial sales taxes on the sale and lease price of tangible

personal assets (movable assets) and some services. Alberta and the three territories

do not impose a provincial sales tax. In general, provincial sales taxes are not VAT systems.

Instead, businesses pay the tax on business inputs and are unable to recover the tax.

General rates of provincial sales taxes are as follows:

- Alberta has no provincial sales tax
- British Columbia levies a retail sales tax of 7%
- Manitoba levies a retail sales tax of 7%
- New Brunswick participates in the federal harmonised sales tax (HST). The provincial component of the harmonised rate is 10%.
- Newfoundland participates in the federal HST. The provincial
- component of the harmonised rate is 10%
- The Northwest Territories has no provincial sales tax
- Nova Scotia participates in the federal HST. The provincial component of the harmonised rate is 10%
- Ontario participates in the federal HST. The provincial component of the harmonised rate is 8%
- Prince Edward Island participates in the federal HST. The provincial component of the harmonised rate is 10%
- Quebec levies a form of value-added tax that is similar to (but not identical to) the federal GST. The rate is 9.975%
- Saskatchewan levies a retail sales tax of 6%
- Yukon Territory has no provincial sales tax

- **Digital Services Tax**

Budget 2021 proposed to implement a Digital Services Tax (DST). The proposed tax would ensure that "revenue earned by large businesses – foreign or domestic – from engagement with online users in Canada, including through the collection, processing and monetising of data and content contributions from those users, is subject to Canadian tax". The rate would be 3% on digital services that "rely on data and content contributions from Canadian users". Although it was initially set to apply as of 1 January 2022, the Canadian Government has pushed the DST implementation to 1 January 2024 and will only do so if the treaty implementing the new tax framework under the OECD agreement has not come into force.

III. Transfer Pricing (TP)

- Canadian transfer pricing documentation is prepared in reference to the transfer pricing documentation requirements stipulated under subsection 247(4) of the Income tax act, thus taxpayers are not required to assemble an OECD Master File or a Local File for Canadian transfer pricing compliance purposes.
- With regards to cross-border transactions, the Canadian Revenue Agency accepts the transfer pricing methods described in the OECD Guidelines, namely the comparable uncontrolled price, resale price, cost plus, transactional net margin and profit split methods. Other methods can also be used if appropriate.
- Annual CbC reporting is required for MNEs with total annual consolidated group revenue of EUR 750mn or more.
- The Canada Revenue Agency (CRA) has initiated an advance pricing agreement service to assist multinational groups and tax treaty partners in connection with transfer pricing matters. The purpose of an advance pricing agreement is to establish an acceptable TP methodology rather than to set a specific price for any specific good.

IV. Taxes on exit and ease of exiting

In case of shares of a company sold by an Individual, the proceeds in excess of the adjusted cost base and expenses incurred on the sale of shares resulting in a capital gain out of which only 50% is taxable.

However, if the shares are sold by a holding company, the capital gains exemption mentioned above will not be available.

V. Tax Compliance

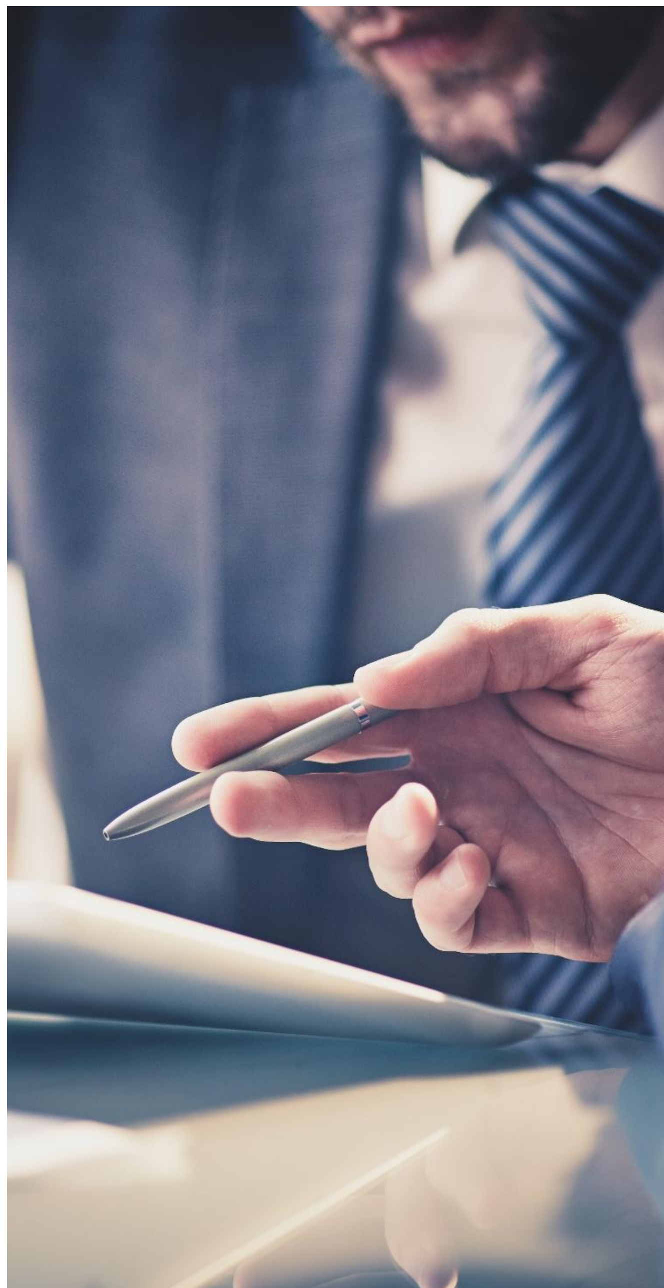
- **Corporate Tax Returns**: Corporate Tax returns in Canada are filed annually. Corporate tax returns must be filed before the end of 6 months following the close of the previous tax year. In general, if the tax year ends on the last day of a month, the return is due by the last day of the 6th month after the end of the tax year.

- **GST/HST Returns**: Every registered person is required to file returns on a monthly, quarterly, or annual basis depending on their annual sales made in Canada. However, under the simplified regime, GST/HST and QST returns are filed quarterly.
- **Transfer Pricing Disclosure Form – Form T106**: A corporate entity (if applicable), must file form T106 within 6 months from the end of the year.
- **CbC Report**: CbCR filing (if applicable), should be filed within 12 months of the group's financial year-end.

CANADA - AN ATTRACTIVE JURISDICTION FOR DOING BUSINESS

- Canada's Federal and Provincial Governments have together created a highly favourable atmosphere, one in which international businesses can flourish.
- Canada gives investors preferential market access through 14 trade agreements to 49 countries with nearly 1.5bn consumers and a combined GDP of USD 60tn.
- Canada has the most educated workforce in the world with nearly 62% of Canadians aged 25-64 having graduated from tertiary education institutions.
- Canada is first among the G7 countries in terms of political stability.
- Due to the United States-Mexico-Canada Agreement businesses have access to the US and Latin America. This agreement manifested the world's largest free trade area. Because of this agreement, businesses enjoy huge advantages including managing and hiring employees from the US and Latin America

With a strong economy, talented workforce, competitive salaries, and attractive investment opportunities, Canada remains a viable choice for investors to register their businesses here.



TAX NEWS FROM AROUND THE GLOBE

GERMANY

On 2 December 2022, the German Bundestag, one of the two chambers of the German Parliament, approved a revised version of the Annual Tax Act 2022.

There has been a substantial modification in the proposal to eliminate the non-resident taxation of royalty income and capital gains relating to rights solely because these rights are registered in a public German book or register.

https://www.bdo.de/en-gb/insights/updates/tax-legal/annual-tax-act-2022#:~:text=The%20tax%20rate%20is%2033,the%20years%202018%20to%202021

INTERNATIONAL

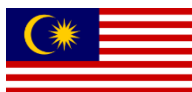
The EU member states reached an agreement on 12 December 2022 to implement the minimum tax for multinational groups under the OECD's Pillar Two model rules. A press release announcing the agreement states that ambassadors of the member states decided to advise the Council of the EU to adopt the Pillar Two directive originally released on 22 December 2021 and subsequently revised. The Polish Government initially refused to sign onto the agreement but changed its position during the meeting of the Council on 15 December, thus paving the way for the formal adoption of the minimum tax directive to move forward and the Council did formally adopt the directive by written procedure.

https://www.bdo.global/en-gb/microsites/tax-newsletters/global-tax-alerts/european-union-member-states-reach-agreement-on-minimum-taxation-under-pillar-two-poland-drops-re

JAPAN

A mandatory tax credit system called the "Tax-Qualified Invoicing System (JCT invoicing system)" will be implemented in Japan on 1 October 2023 under the Japanese Consumption Tax (JCT). JCT is similar to a European-style VAT and Japan's invoicing system is designed to ensure proper taxation under the multiple tax rate system introduced in the country in 2019. Taxpayers under the new invoicing system will be required to register and maintain approved invoices issued by registered suppliers to be eligible to claim an input JCT credit.

JAPAN - Update on new JCT invoicing system and commencement of registration procedure – BDO



MALAYSIA

With effect from 1 April 2023, Malaysia to charge sales tax on the import of low-priced items.

The legislation related to Sales Tax on Low-Value Goods (LVG) have come into force on 1 January 2023. While the effective date for charging and levying Sales Tax on LVG will be from 1 April 2023.

LVG is applicable on all items imported into Malaysia via land, sea or air that have a sales value of RM 500 or less. 10% sales tax is applied to LVG. For merchants that sold more than RM 500,000 worth of LVG imported into Malaysia over the course of a year, registration is required.

https://mysst.customs.gov.my/assets/document/News/Announcement%20LVG%201_2023%2020230106.pdf

NETHERLANDS

The Dutch Government published its Budget 2023 proposals, major changes proposed include the following:

- To reduce the lower income bracket from EUR 395,000 to EUR 200,000 and increase the lower bracket tax rate from 15% to 19% as from 1 January 2023.
- Conditional withholding tax to apply on dividend payments made by Dutch resident entities to entities resident in low-tax jurisdictions.
- To limit the 30% facility that compensates expatriates for the additional costs incurred when they come to work in the Netherlands to a maximum of EUR 216,000

BDO Global Tax Alert | NETHERLANDS - Highlights of main tax proposals in budget 2023 - BDO

SPAIN

The 'use and enjoyment rule' that applied to some services provided to clients based outside of the European Union (EU) will no longer be in effect as of 1 January 2023, according to an amendment to the Spanish value-added tax (VAT) law. The majority of services provided by Spanish companies to clients outside the EU will no longer be subject to Spanish VAT as a result of the new provision.

The use and enjoyment regulation will only be applied to the following starting on 1 January 2023- B2B insurance and financial services

- B2C or business-to-business (B2B) hiring of transportation equipment
- Business-to-consumer professional services
- B2B insurance and financial services

Chargeability

As the new legal provision took effect on 1 January 2023, it will apply to services provided after that date. When the period to which such statements of account or payments are associated expires on a date before 2023, the former provision will be applied in the case of a continuous supply of services.

Even if services are invoiced in 2023, they will still be covered by the prior clause if they were rendered before that date.

https://taxation-customs.ec.europa.eu/system/files/2018-02/moss_2018_es_en.pdf

UNITED STATES OF AMERICA

The Inflation Reduction Act (IRA) enacted on 16 August 2022, created a new corporate alternative minimum tax (AMT) for taxable years beginning after 31 December 2022. On 27 December 2022, the Treasury Department and the Internal Revenue Service issued interim guidance in the form of Notice 2023-7, addressing how the new corporate AMT applies to partnership interests, consolidated return groups and other significant events that affect corporations, including merger and acquisition activities and excepted cancellation of debt income.

IRS, Treasury Release Corporate AMT Interim Guidance | BDO

UNITED ARAB EMIRATES

The UAE Ministry of Finance has announced that Corporate Tax (CT) will be introduced in the UAE in 2023. CT Federal Decree-Law published on 9 December 2022 confirmed that CT will be effective for all financial years commencing on or after 1 June 2023. The rate of CT for businesses established in the mainland will be 0% for taxable profits up to AED 375,000 and 9% for taxable profits above AED 375,000. In due course, there may also be an additional rate for certain large multinational entities.

There will be exemptions from CT for certain types of entities, including some Free Zone businesses.

https://www.bdo.ae/en-gb/services/tax/corporate-tax-in-the-uae#:~:text=The%20rate%20of%20CT%20for,taxable%20profits%20above%20AED%20375%2C000.

COMPLIANCE CALENDAR

February 2023

SUN	MON	TUE	WED	THU	FRI	SAT
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28				

March 2023

SUN	MON	TUE	WED	THU	FRI	SAT
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

April 2023

SUN	MON	TUE	WED	THU	FRI	SAT
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30						

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BDO is a leading professional services organisation with presence in more than 160 countries, and over 111,300 people working out of more than 1,800 offices. We deliver assurance, tax, advisory, and consulting services to clients throughout the country and around the globe.

- We offer practical, actionable advice grounded in local expertise and backed by global experience
- We commit to providing our clients an exceptional experience and delivery through services that are customised for every client
- We support our clients at every step of the journey as they expand within their markets and globally

Leading consolidation in the mid tier

Over 1800 offices in more than 160 countries

Over 111,300 highly skilled partners and staff worldwide

BDO posted global revenues of $12.8 billion in 2022

TO BE THE LEADER FOR EXCEPTIONAL CLIENT SERVICE

anticipating ***client needs*** *and being forthright in our views to ensure the best outcome for them*

ANTICIPATING CLIENT NEEDS

being clear, open & swift in our ***communication***

CLEAR COMMUNICATION

agreeing to and meeting our ***commitments****: we deliver what we promise, everyday, for every client*

MEETING OUR COMMITMENTS

providing the right environment for our ***people*** *and the right people for our clients*

ENCOURAGING OUR PEOPLE

creating ***value*** *through giving clients up to date ideas and valuable insight and advice that they can trust*

DELIVERING VALUE

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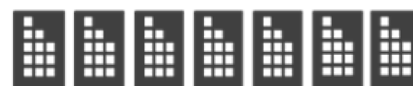
BDO in India offers Strategic, Operational, Accounting and Tax & Regulatory advisory & assistance for both domestic and international organisations. We work cohesively, partnering with our clients to render continued expertise driven advisory. With a deep cultural understanding of business geography, our functional heads offer knowledge and expertise in establishing, structuring and operating business in India.

270+ PARTNERS DIRECTORS

4,600+ STAFF

11 KEY CITIES



OUR SERVICES

ASSURANCE

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- Financial Statement Audit and Attestation Services

BUSINESS SERVICES & OUTSOURCING

- Global Outsourcing
- Finance and Accounting Outsourcing
- Human Resource Outsourcing
- Payroll Management and Compliance Services
- Secretarial Services and Compliance Management
- Shared Services Centre

TAX

- Corporate Tax Services
- Financial Services Tax
- Global Employer Services
- International Tax Services
- Private Client Services
- Tax Outsourcing
- Transfer Pricing
- Customs & International Trade
- Goods & Services Tax (GST)
- Indirect Tax Assessment & Litigation Assistance
- Tax Technology

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- Corporate Finance and Investment Banking
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- M&A Tax and Regulatory
- Strategy & Commercial Due Diligence
- Valuations

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