

INTERNATIONAL BUSINESS

April 2018



Auren International Business is a quarterly publication, made up of contributions from colleagues all around the world. The newsletter compiles country focus articles, international tax cases as well as technical updates on a variety of topics that impact business.

Experts in Auren have the knowledge and experience to help you on your journey, and this issue should be the starting point for your inquiries.

Features of this edition include:

Real Estate investment in Israel; US tax reform for corporations from México; Income tax reform in Argentina and e-commerce regulations in UAE among other topics.

We hope you find the contents of this newsletter useful and informative. Happy reading!

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Income Tax Reform – Schedular Tax

The proposal of the present one is a particular aspect of the reform introduced in the Income Tax Reform Law N. ° 27.430 published in the Official Newspaper of 29/12/2017, valid since the fiscal year beginning on January 1, 2018, henceforth.

Source rule has been historically used for the determination of taxpayer's taxable rents (Individuals). With this reform, important exceptions to this theory are introduced in the law. Now, capital incomes begin to be taxed levied on people who earned it, mainly financial incomes (that were not taxed before), and rents that complying with the requirements of the source rule (for example, earned interests by bank placements or public securities) were exempt for Individuals.

Main points of this aspect to consider:

1. Net Incomes from Argentine Source, derived from earned interests in financial investments (capital placements):
 - a. Bank deposits, government securities, negotiable obligations, mutual funds, debt securities of financial trusts, bonds and other securities, in AR\$ without adjustment clause: taxed at five percent (5%);
 - b. Bank deposits, government securities, negotiable obligations, mutual fund shares, debt securities of financial trusts, bonds and other securities, in AR\$ with an adjustment clause or in a foreign currency: taxed at fifteen percent (15%).

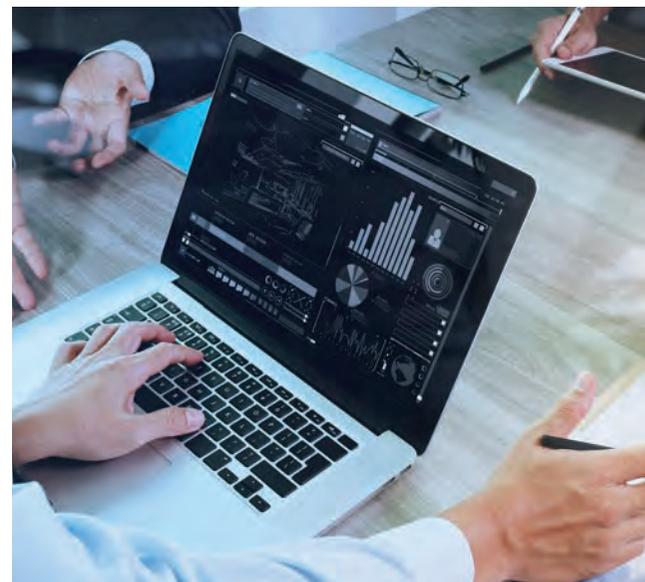
The aforementioned also applies to individuals who:

- a. Qualify as a "beneficiario del exterior" (beneficiary based in a foreign jurisdiction);
 - b. Do not reside in a non-cooperating jurisdiction for the purposes of fiscal transparency or;
 - c. The invested funds do not come from non-cooperating jurisdictions.
2. Net Incomes from individuals, derived from dividends and profits of societies established in the country:

Before the reform, these profits were not computable for tax determination purposes. Now, are taxed with a rate of 7% in the case of profits or dividends that come from exercises started in or after January 1, 2018, and 13% when they come from exercises started in or after January 1, 2020.

Resident taxpayers will have to include those net incomes in his statements, and they will be taxed by a retention by the company who pay them at the time of payment of the dividend or utility, at the same identical rates who were mentioned in the previous paragraph; the non-residents will suffer this retention with the particularity of been a single and definitive payment.

3. Net Incomes from Argentine Source from individuals, derived from results of sales of financial assets (capital profits):



- a. Government securities, negotiable obligations, shares of open mutual funds, debt securities, bonds and other securities, in AR\$ without adjustment clause: taxed at five percent (5%);
 - b. Government securities, negotiable obligations, shares of open mutual funds, debt securities, digital currencies, bonds and other securities, in AR\$ with adjustment clause or in a foreign currency: taxed at fifteen percent (15%);
 - c. Shares, certificates of deposit of shares, certificates of participation of financial trusts and any other rights over trusts and shares of closed mutual funds of specific object, as long as these securities are not listed on stock exchanges or markets authorized by the "Comisión Nacional de Valores" (National Commission of Securities): taxed at fifteen percent (15%).
4. Net incomes from individuals, derived from sales or transfers of rights over real estate properties located in Argentine, taxed at the rate of fifteen percent:

The gross profit will be established by deducting from the sale or transfer price, the cost adjusted by the Internal Wholesale Price Index (IPIM) from the month of the purchase to the month of sale or transfer. In case of been affected to obtain profits, duly deducted depreciations will also be subtracted.

The expenses (commissions, fees, taxes, rates, etc.) directly or indirectly related to these operations can be computed.

This treatment apply for properties or gained rights acquired since January 1, 2018, henceforth; for those acquired previously, the treatment of the operation's taxability is maintained by the Transfer Tax on Properties (1.50 % on the operation´s price).

Is important to stand out that this modification does not affect the treatment of the incomes derived from sales of real estate properties made by individuals or companies from abroad. The first ones (Individuals) will continue to be taxed on the sale of the property at 1.5% of the sale price, and the second (Companies) at 17.50% of the sale price.

5. Finally, we need to point out that individuals will be able to compute for the referred incomes in precedent point 1) and 3) a) and b), a special deduction of AR\$ 66.917,91 per fiscal year, that it cannot give rise to a loss, and it cannot be considered, if there is an unused remnant, in subsequent fiscal years.



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Changes in the Bulgarian Value Added Tax Act effective as of 2018

An adopted amendment in the VAT Act in Bulgaria concerns supplies in stages. If an agreement for delivery in stages specifies so, then each completed stage shall be considered as a separate supply. The amendment applies to the supply services as well as goods.

An additional change is the fact that the deadline for submitting an application for mandatory VAT registration upon reaching BGN 50,000 taxable threshold has been reduced to 7 days. If the threshold is reached for a period of not more than 2 consecutive months, the application shall be submitted within 7 days after the date on which the threshold was reached.

In case a person is obliged to submit an application for mandatory VAT registration but delays to do so within the statutory deadline, that person is liable for the VAT on the taxable supply with which BGN 50,000 was exceeded. Businesses should be aware that VAT is due from the date of exceeding the threshold until the date of the VAT registration or the date on which the grounds for VAT registration have ceased to exist. The reduction to 7 days affects the deadline for applying to mandatory VAT registration of a person that acquires goods from a VAT-registered person upon reorganization, transfer of going concern or capital contribution in-kind.

From 1 January 2018, the submission of a list of assets shall not be required any longer in case when a person would like to refund VAT credit for goods available and/or purchased at the moment of the VAT registration. The VAT refund shall be simply reported in the purchase ledger via the respective invoices.



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Québec Sales Tax Restrictions; a 26 Year Temporary Tax Measure that Comes to an End

When the government of Quebec embraced a modern sales tax system; a value added tax regime in 1992, it soon realised that the measure of allowing organisations to claim recovery of taxes paid on their purchases had a negative impact on the revenue of the province. So in 1995 the government of Quebec introduced the notion of input tax refund (ITR) restrictions for large businesses. Under this temporary tax measure a selected list of supplies would no longer give rise to an ITR. The 1995 budget mentioned that this temporary measure would last a year. Yet, in 1996 it was announced that the temporary measure would stay in place until further notice.

As years went by, many argued that this temporary measure would become permanent to the same extent that the income tax was supposed to be a temporary measure when introduced in 1917 to address an exceptional expenditure; the cost of the war effort.

The ITR restrictions even became a blue print for the provinces of British Columbia, Ontario and Prince-Edward Island who copied the tax measure when they switched to the harmonized sales tax.

Yet in March 2012, a harmonization agreement between the governments of Canada and Quebec was concluded. The removal of ITR restrictions was part of this agreement.

QST Bulletin TVQ 206.1-10 Particulars regarding the phasing out of the ITR restrictions applicable to large businesses that is to begin on January 1, 2018

In an Interpretation Bulletin dated October 25, 2017, (TVQ 206.1-10) the Government of Quebec expla-

ins the mechanics of the phasing out of the ITR restrictions for large businesses starting on January 1, 2018.

This QST measure grants an ITR for the specified supplies the rate of:

25% for the period of January 1, 2018 to December 31, 2018

50% for the period of January 1, 2019 to December 31, 2019

75% for the period of January 1, 2020 to December 31, 2020

100% from January 1, 2021 and after,

to large businesses on supplies covered by the ITR restrictions.

Generally speaking those supplies are:

- Kilometer allowances
- Fuel for vehicles of less than 3,000 KG
- Vehicles of less than 3,000 KG
- Meals and entertainment (including meal allowances) covered by section 457.1 of the QSTA
- Telecommunication, except toll free lines and internet access lines
- Energy, except when used in the production of goods for sale

You should note that for meals and entertainment and meal allowances, large businesses have to take into consideration that in general these expenses are also nevertheless subject to the usual 50% limitation.

Conclusion

Contrary to the *Income Tax Act*, the tax measure that deals with ITR restrictions for large businesses is a true temporary tax measure. Also, at the end of the phasing out process in 2021, the Quebec Sales Tax rules will be much more similar the federal value added tax; the goods and services tax.

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Cyprus amends VAT; imposes 19% on sale of building land and leasing

On November 3, 2017, The Cyprus House of Representatives approved a new VAT Law which amended the main VAT Law N.95 (I)/2000. It was published in the Official Gazette of the Republic of Cyprus on 13 November 2017 and came into force as of 2 January 2018.

The new law introduces VAT at the standard rate for the sale of building land and the leasing/rental of business premises as per the conditions included in the law. It also introduces the reverse charge mechanism for VAT-subject supplies of land and property under a loan restructuring/force-sale arrangement, which will mostly impact financial institutions.

Imposition of VAT at the standard rate of 19% on building land

The standard VAT rate of 19% will be imposed in all of the following cases:

- transfer of ownership
- transfer of indivisible land portion
- transfer of ownership via contract or sale agreement or agreement which specifically provides that the ownership will be transferred at a future date or leasing agreement with buyout option

The above shall apply to non-developed building land which is intended for the construction of one or more structures in the course of carrying out a business activity.

The meaning of non-developed building land was clarified as land which is not located in designated livestock

zones or areas which are not intended for development (such as zones/areas under environmental protection, as well as archaeological and agricultural protection).

Additionally, another criterion which needs to be considered is whether the transfer of ownership of land is included in the business activities of the transferor of the land. If not, then the transaction is not subject to VAT of 19%.

Furthermore, it has been clarified that no VAT will be imposed on the disposal of shares or shareholdings in companies, resulting in transfer of ownership of related immovable property.

The aforementioned provisions are effective as from 2 January 2018.

VAT on leasing of immovable property used for business purposes

The leasing of immovable property, except buildings which are used as residential dwellings, to taxable persons for taxable business activities will be subject to VAT.

However, even in the case where the property is a warehouse or office or shop or similar, the lessor should:

- be a taxable person subject to VAT; and
- lease the property for the purposes of generating taxable business activities.

A taxable person subject to VAT is defined as any person who is or should be registered for VAT. In the case



that the lessee is purely a holding company, then there is no obligation for the lessee to register for VAT because it does not conduct any taxable business activities and as such no VAT is imposed on the rental amount.

Also, at the time of concluding a lease agreement between two parties, the lessor is obliged to request and evaluate the proportion of taxable / non-taxable supplies of the lessee and if the percentage of taxable supplies is less than 90%, then, the transaction is exempt and no VAT shall be imposed. This is a one-time obligation of the lessor at the time of concluding the lease agreement; the lessor has no further obligation to re-evaluate the lessee's taxable supplies.

Finally, the lessor has the right - based on the terms and conditions which will be designated by the Commissioner of Taxation in the relevant Notification - to opt for the non - imposition of VAT to the lessee of the immovable property. The option is irrevocable.

The provisions on leasing have immediate effect and will apply to lease agreements which are concluded from 13 November 2017 onwards.

Introduction of Reverse Charge provisions on transfers resulting from loan restructuring or forced transfer of property to lender

Transfers under loan reorganizations or forced transfers are normally made without any consideration by the Bank to the taxpayer. Under the new VAT Law, such transactions create a VAT liability; however, the taxpayer clearly would not be in a position to pay. For this reason, a new article was introduced in the main VAT Law which stipulates that the obligation to

discharge VAT in such situations is transferred from the taxpayer to the recipient (the bank).

The provisions apply to immovable property including land and/or buildings which are transferred along with the land on which they are built, provided that the transaction takes place before the first occupation of the building.

The new reverse charge provisions came into force as of 2 January 2018 and will remain in force for a limited timeframe, currently until 31 December 2019.

As the property development and management industries are significant contributors to the Cyprus economy, the ripple effects of this new amendment to the VAT Law will surely impact many businesses and investments across the island, despite certain aspects of the new VAT Law needing to still be ironed out upon application.

Our VAT advisors can assist you towards undertaking a review so as to assess and evaluate the potential effects of the abovementioned changes to your business and to help you ensure that you maintain compliance with the new legislation.

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“How the Economy Reactivation Law will stimulate companies’ split- off in order to reduce tax payments”

With the approval of the Economy Reactivation Law in December 2017, the rate of the income tax for companies increased from 22% to 25%; excluding micro and small companies which will only have to pay 22%.

The conditions and terms to qualify as a micro or small company are:

Micro company:

1. 1 to 9 workers; and
2. Sales or gross annual revenues equal or less than US \$ 300,000.00 dollars.

Small company

1. 10 to 49 workers
2. Sales or annual gross income between US \$ 300,001.00 and US \$ 1000,000.00 dollars.

The split-off is a corporative procedure in which a company divides or fragments its assets in two or more parts in order to be transferred to another existing or newly created company. (Article 348 Companies Law)

As a consequence, medium or large companies that by economy of scale consolidate several stages of production or marketing processes, could under this mechanism, pay part of their income tax at a reduced rate (from 25% to 22%).

Such mechanism is included in the Economy Reactivation Law and its implementation is clearly stated in the Companies Law; this by any means would involve simulation or prevalence of the "fund" over the form (Article 17 Companies Law) since the operation matches with the economic reality (split). In any case, we should not be surprised if the Regulation to the Economy Reactivation Law - to be issued soon- restricts rights and benefits under the argument of applying it.

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Plans of the “new” German government for the next 4 years

It took quite a long time: the Germans and, as far as concerned, the rest of the world had to wait nearly half a year until a new German government was established. From the Bundestagswahl (election of the parliament) in September 2017 on, it was for quite a long time not absolutely sure, which parties will form the new government and who will be the ministers or secretaries of state. The new old chancellor Angela Merkel was more or less set from the beginning, so no one feels that a new political era in Germany is about to come. And - finally - the government is now formed with the same political parties as it was in the years before: these are the two biggest parties in the German parliament, the Christian Union and the Social Democratic party. Given that, no one must be surprised, that the new German government program for the four years to come is not a total shift.

Nevertheless, it is worthwhile to have a look at the program: it gives indications, what will be the focus of German politics and which opinions Germany will put forward within the European Union. And some of these points will or might have an impact on business people and entrepreneurs who already have invested or plan to invest in Germany and Europe.

What will be the key points of Angela Merkel's cabinet?

Taxes:

There are no plans to change Germany's tax regime in general. Income tax, corporate tax and trade tax will remain on the same level. But solidarity charge, which is imposed additionally on most taxes, shall be

reduced with the goal to abolish it completely. But there is no definite date. To reduce tax avoidance, the coalition supports European and international initiatives to prescribe minimum rates for corporate taxes.

Tax fraud, tax avoidance, unfair tax competition and money laundering shall be fought on national and international stages, focusing especially on international dot.com-companies.

Banking:

The coalition agreement promises to loosen strict labour laws for highly paid bankers, an effort to make Germany more attractive for financial firms relocating from London as Britain leaves the EU. It marks a win for banks and could benefit investment banks with plans to move operations to Frankfurt.

Telecommunication

The grand coalition has reiterated its goal of building a 'gigabit society', with nationwide ultra-fast broadband internet in place by 2025. It is estimated that the government needs to provide 10-12 billion euros (\$12-\$15 billion) in subsidies which will be covered from the proceeds of auctions of the spectrum for fifth-generation mobile services. Experts estimate the cost of full, nationwide fibre coverage at up to 80 billion euros. The coalition foresees an open-access regulatory model for glass fibre networks, with a goal of encouraging companies to cooperate in building out digital infrastructure rather than relying on vectoring, a way of upgrading the old copper wire network that reinforces Deutsche Telekom's advantage as the incumbent.

Transportation

The new government aims to reduce pollution from road and rail traffic by supporting a shift to lower or zero emission vehicles and increasing the use of public transportation and car-sharing. Pressure has been growing on Germany to enforce clean air limits introduced throughout the European Union in 2010, but it has so far sought ways to reduce pollution without an outright ban on diesel that would be painful for its carmakers Volkswagen, Daimler and BMW. The government will decide this year on further steps to reduce air pollution from diesel vehicles. Those could include expensive retrofits where “technically and economically justifiable”. There are also plans to ease the tax burden on drivers of electric vehicles, provide at least an additional 100,000 charge points across the country and subsidize car-sharing - but there was no mention of quotas for electric cars. There are plans to provide funding for research into autonomous driving technology and support the establishment of battery cell production in Germany. The coalition aims to electrify 70 percent of Germany's vast rail network by 2025 and double the number of rail passengers by 2030. It rejected a privatization of state-owned rail operator Deutsche Bahn.

Energy

The coalition says the transition to decarbonize, digitize and innovate in power, heat, agriculture and transport must be done in a way that does not endanger business interests. The target of 65 percent of electricity use to be covered by renewables, a near doubling from current levels, remains the central

goal. The target poses fresh technical challenges and soaring costs that could affect grid technology companies like TenneT, Siemens and ABB. There is a commitment to expand network infrastructure, which is behind by years, reform grid fee charges, and involve citizens in new renewable energy projects to create acceptance. The government will promote energy storage and combined heat and power generation from green power, and introduce liquefied natural gas infrastructure (LNG) in Germany, a departure from relying on the Netherlands for the handling of imports. The coalition says it wants to create visibility about how to reduce reliance on fossil fuels to power private cars, public transport and railways. It says all technologies are welcome, including hydrogen derived from renewable sources.

E-Commerce

The coalition has stated its intent to tax U.S. Big Tech more aggressively, singling out Google, Apple, Facebook and Amazon by name. The agreement calls for a common, consolidated EU tax base and minimum rates of taxation to prevent companies from making use of jurisdictions like Ireland or Luxembourg to minimize taxes. Anticipating these changes, Facebook said in December that it would start booking advertising revenues locally. The pact foresees tough action to make operators of online marketplaces liable if third-party traders evade turnover tax.

Real Estate

Help-to-buy schemes will be introduced, rent increases after modernizations will be more limited, rent

caps will be made more transparent and the federal government will sell more of its own land to municipalities to increase supply. The moves to make housing more affordable are seen as more modest than expected and may be positive for residential property-focused companies.

In these days, political analysts already discuss if the new “grand coalition” of Christian Union and the Social Democrats is able to survive for four years, until the next scheduled parliament election. The reason is that both parties see themselves in the situation to deliver success for their own voting public. But since WW II, German politics was very steady and reliable, because the most important German parties share a common understanding of basic principles. So, even if the collation might break, the above mentioned objectives are likely to remain.



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The implementation challenges of the new european data privacy regime

What is the purpose of the GDPR and are all companies obliged to comply with it? What happens to the national legislation of the EU countries?

The aim of the GDPR is a harmonized data privacy EU legislation to decrease data breaches by organizations, achieve greater transparency and empower individuals with new vehicles of redress if privacy rights are infringed, nevertheless, it is no lethal weapon. 99% of the companies globally, not only in Europe, must comply with the GDPR from 25 May 2018, as it is a directly applicable legislation with a wide territorial effect. The GDPR applies to European registered companies with a central administration in the EU, as well as to companies, which are registered overseas e.g. in the US. It cannot be disregarded that EU member state data protection authorities will be in charge with enforcement and they will still have a broad competence on a national level to apply additional strict requirements.

Transition to the GDPR era seems to be challenging. What is the final deadline for the compliance, can it be done step-by-step or by one jump? What is the maximum fine the data protection authorities can impose?

The GDPR enters into force on 25 May 2018, meaning companies who have not started the GDPR implementation process yet, still have some time. However, the sanctions for non-compliance after May can be extremely high in the event of a serious data breach (up to € 20,000,000.- or 4% of the global turnover), besides the serious damaging effect to the brand name of a fine. It must be stressed, the GDPR is not the kind

of legislation which can be easily implemented with a one jump change, and there is no guarantee large organizations can meet this deadline due to the sheer volume of data mixed with challenges posed by mobile devices, cloud based systems and foreign mother company with numerous subsidiaries.

What are the steps to be taken for the GDPR implementation to achieve the most effective GDPR compliant solution?

First of all, in order to being able to protect an individual's personal information, companies and company groups must be able to identify what kind of data, where and how long personal data is kept and is processed, what kind of procedures are used to ensure individual's rights globally in the whole system. The GDPR will require a system in place which allows locating all personal data intra organization, which enables deletion securely and immediately from everywhere. The second step, after the data mapping and a comprehensive audit is done is to update and implement GDPR compliant global and local privacy notices, policies, meanwhile implementing a GDPR compliant IT system. This should be followed by appointing a data protection officer (DPO), training stuff, selecting processors and additional pillars depending on the type of identified issues during the audit.

What is new in the GDPR, what is expected from the new provisions?

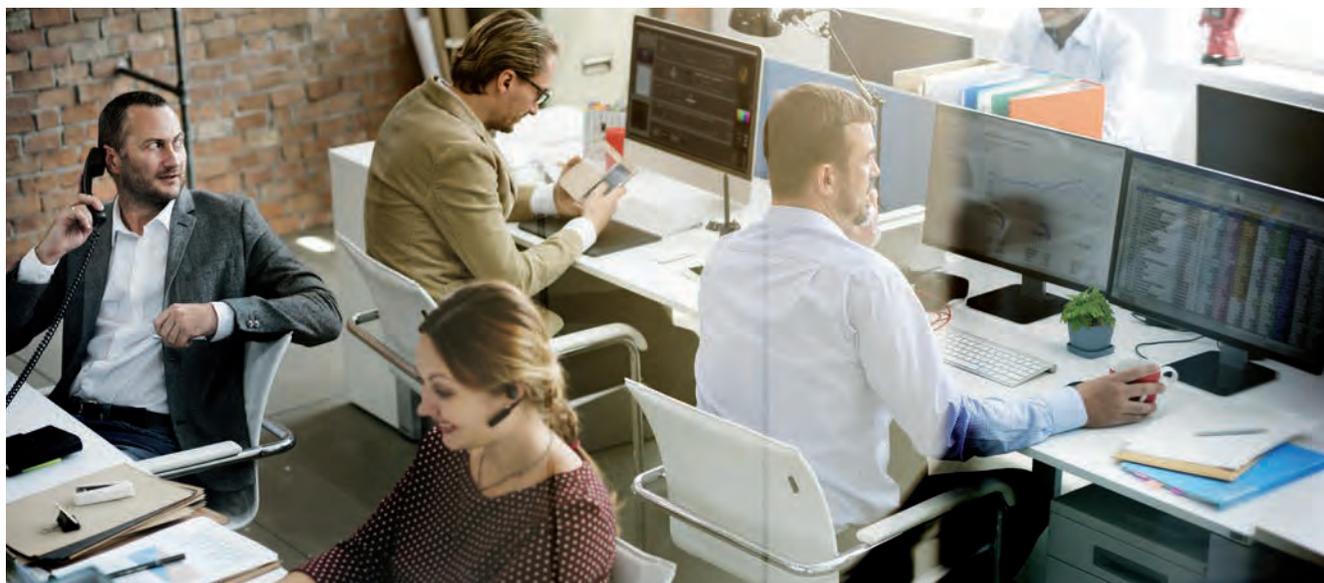
In under six months, Europe's old data protection regime will undergo a significant transformation since the 90's as it will replace the 1995 data protection di-



rective. It will change how businesses and public sector organisations can handle the information of customers, employees. The good news is that organisations already complying with existing data protection laws, the GDPR means an evolution and not a revolution. The GDPR renews already existing rights and enhances them up with more content e.g. right to be forgotten, right to access, but there are also new rights e.g. the right to data portability or right to complain to the data protection officer (DPO), right to object to automated decision making. The real problem occurs when organisations do not comply with the current privacy provisions as then GDPR implementation is a complex project, especially for company groups. The novelty is that there are new rights for persons to access and delete information companies hold about them, obligations for better data management, stricter security requirements and new regime of fines.

What are your recommendations for business leaders as homework?

As we have no crystal ball, we recommend for organizations and business leaders to start evaluating the GDPR situation and the data processing procedures in place of the whole company group and follow a step-by-step process. Assessment procedure started at the top of the organisation shall be paired simultaneously with the local, Hungarian level without delay as there may be considerable amount of work ahead. The work will involve the creation of alignment between IT governance, EU wide data protection legislation, local regulatory and customer demands.



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Investment in Real Estate, Israel as a choice investment destination

Israel has become a sought-after investment target for numerous investors as a result of its economic strength, wide-ranging tax benefits and banking industry concentration.

Since 2008, housing prices in Israel have risen by 122 percent, the highest rate among all OECD countries. In Sweden, with the second highest increase after Israel, apartment prices rose by "only" 70 percent.

The 2008 global financial crisis was fundamentally a real estate crisis, which led to a decline in housing prices in most of the developed countries, including the United States, Britain, Japan and most of the Eurozone countries. Ireland and Spain, which had been experiencing significant growth until 2008, were particularly hard hit. In contrast to Europe, the Israeli housing sector continued to flourish after 2008. Between 2008 and 2011, housing prices in Eurozone countries fell by an average of 2 percent, while housing prices in Israel rose by 60 percent during that same period.

With the subsequent recovery in the global economy, housing prices in Europe and the United States gradually rose again. Some countries even offset the declines they had suffered, and Israel continued to experience increases in housing prices. Similar patterns are found in the Bank for International Settlements (BIS) database, covering a wider group of countries than the OECD. Among these countries, Israel's housing price increases were exceeded only by those of Hong Kong.

For an investor, the underlying conditions leading to the growing strength of Israel's housing sector are

highly encouraging. Israel has a strong economy, a high standard of living and a very high GNP per capita. Demand for apartments has risen due to population growth and supply is insufficient to keep pace with demand. This gap is expected to continue for the next ten years.

Financing Transactions in Israel

In Israel, the control of financing for transactions is largely in the hands of the banks. With no real competition in the banking sector, the banks impose high costs for project financing.

Two central commercial banks in Israel together control over 60 percent of the local market. Such concentration in the banking sector results in high financing

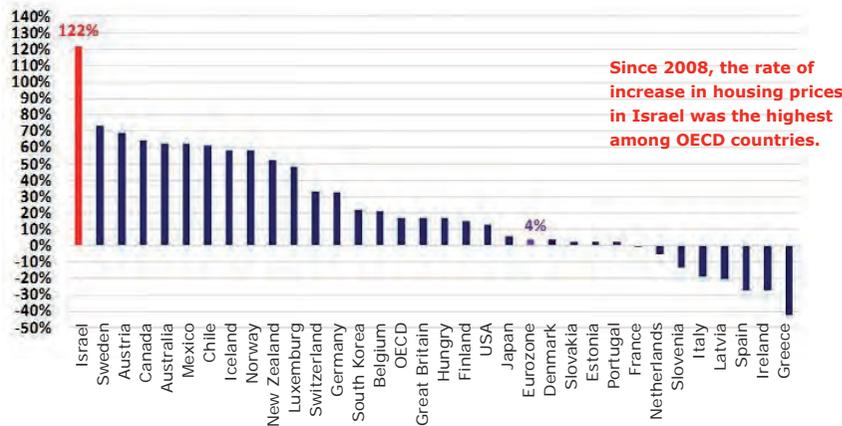
costs for entrepreneurs. Consequently, outside investors can find excellent investment opportunities. Over the past year, many investors have been financing real estate development transactions and enjoying an annual yield of nine percent or more.

Even Israeli tax laws encourage private investors. The State of Israel has granted tax exemptions to thousands of apartment building projects in order to stimulate construction, renew old neighborhoods and old buildings, and reduce the gap between demand and supply.

Investors financing the projects also enjoy huge benefits. According to tax regulations the tax to be paid on these real estate investments in Israel will be only 15 percent of the interest received by the investor.

HOUSING PRICES: ISRAEL COMPARED TO SELECTED OECD COUNTRIES

Average national prices, cumulative rate changes: *Q2/2017 compared to Q4/2007
Nominal data in local currency terms, seasonally adjusted



Since 2008, the rate of increase in housing prices in Israel was the highest among OECD countries.



Legend: Countries from left to right:

Israel, Sweden, Austria, Canada, Australia, Mexico, Chile, Iceland, Norway, New Zealand, Luxembourg, Switzerland, Germany, South Korea, Belgium, OECD average, Britain, Hungary, Finland, USA, Japan, Eurozone, Denmark, Slovakia, Estonia, Portugal, France, Holland, Slovenia, Italy, Latvia, Spain, Ireland, Greece

Of overriding importance for investors is that Israel is a stable and secure country. Its legal and judicial systems are very strong, offering security and protection to investors. In less-developed countries, such as South Africa and others, investors can lose all their money and not receive protection from the government or the courts. In contrast, in Israel, one of the world's highly developed countries, its legal system and courts ensure a secure and stable environment for those investing in the country.

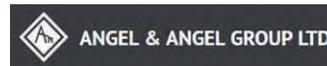
Investment in Israel: Not Just for the Rich

Over the past few years, a new investment structure has developed in Israel, whereby a real estate project may be financed by a large number of investors, with each investor investing relatively small sums. As a result, small investors can enjoy options that until now were only available to those with greater capital, who were able to benefit from a larger dispersion of their investments.

For example, if a new real estate project needs an investment of two million euros, the new structure allows a group of 20 investors, each investing €100,000, to invest in it. This structure is facilitated by a trustee who centralizes all transfers, investments and accounting. Upon the project's completion and after sale of the housing units, the trustee divides the returns on the investment and the interest proportionately to each investor.



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Registration for VAT purposes in Italy of non-established taxable persons

Non-established taxable persons (e.g. individuals, limited liability companies, partnerships) who carry out business in Italy without having a permanent establishment in Italy, have to register for VAT in certain cases, e.g.:

- **Supplying and delivering goods from another Member State to non-VAT registered customers in Italy.** Common examples are mail order and internet sales of tangible goods, this is known as distance selling (*Ital: vendite a distanza*). The supplier is established in the EU and is responsible for delivery directly to the non-VAT registered customer in Italy. The non-established taxable person has to register for Italian VAT if the value of the distance sales exceeds the threshold of **35.000 Euro during the calendar year**. It is important to verify the threshold and to consider that for the registration for VAT purposes of a non-established taxable person from another Member State it takes 1-2 months after having sent the documents to the Italian Tax Authority.
- **Supplying and delivering goods within Italy to non-VAT registered customers.** If a non-established taxable business sells tangible goods within Italy (e.g. it buys goods from a supplier in Venice and sells the goods to a customer in Rome) to non VAT-registered customers or non-established customers, the seller has to register for VAT purposes in Italy. If in this case the customer is an established taxable person (e.g. Italian company), a particular reverse charge rule (Art. 17, par. 2, Italian Law DPR 633/72) is applicable and the non-established taxable person has to issue an invoice without Italian VAT.

- **Performance of certain services to non-VAT registered customers in Italy:** In case of supply of services connected with immovable property performed by a non-established taxable person to non-VAT registered customers, the non-established person has to register for VAT in Italy.
- **Construction work:** If the subcontractor and the main contractor are non-established taxable persons, the main contractor has to register for VAT in Italy (general rule).
- **Intra-community acquisitions in Italy** or Intra-community supply or exportation of goods from Italy carried out by a non-established taxable person.

Notwithstanding the above, there remain other instances where a non-Italy business might find itself liable to register for VAT purposes in Italy.

It is recommended to verify case-by-case whether a VAT registration in Italy is necessary.

In order to register for VAT purposes in Italy the following procedures are applicable:

- **Non-established taxable persons from other Member States:** they can “directly” register for VAT (*Ital.: identificazione diretta*) or appoint a tax representative (*Ital.: rappresentante fiscale*). In the first case, the non-established taxable person must keep VAT records and is liable for any VAT debts incurred by the business. In the second case, the tax representative is jointly and severally liable for any VAT debts incurred by the busi-



ness and he must keep VAT records and accounts for Italian VAT on behalf of the non-established taxable person he represents.

- **Non-established taxable persons from outside the European Union:** They have to appoint a tax representative in Italy.

Late registration – High penalties foreseen by Italian law

In case of late VAT registration, the Italian VAT due from the time that the non-established taxable person should have registered for VAT has to be paid to the Italian tax authorities.

Additionally, in case of late VAT registration, the **administrative penalty is equal to 90%-180% of the VAT** and **further administrative penalties (30% of the VAT)** and **interests on late payments** are due. The Italian tax law contains some possibilities for reduction of the penalties, but compared to other Member States the penalties in Italy are very high. In particular situations of late registration, criminal law rules are applicable.



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Outline of the revision of the transfer pricing documentation under BEPS project

All Japanese corporations and foreign corporations with permanent establishment (PE) that is a Constituent Entity of a multinational enterprise (MNE) group with a total of consolidated revenue of 100 billion yen or more in the preceding fiscal year must submit a Notification of Ultimate Parent Entity, a Country by Country Report, and a Master file to the national tax authorities through the online national tax return filing and tax payment system (e-Tax).

In addition Local File needs to be prepared by corporations engaged in controlled transactions with foreign related party and having below listed transactions:

- a. Controlled transactions of the previous business year is 5 billion yen or more or
- b. Transactions of intangibles for the previous year is 300 million yen or more

A. Notification for Ultimate Parent Equity:

Information on Ultimate Parent Entity

B. Country by Country Report:

Information on country by country operations

Dead line is one year of the day following the one when the fiscal year covered by the Report ends

C. Master File:

Information on the entire business operations of the Group

Dead line is one year of the day following the one when the fiscal year covered by the Report ends

D. Local File:

Documents considered as necessary to calculate arm's length prices

Effective date: April 1, 2016 for above A),B) and C). and April 1, 2017 for above D).

So for those corporations whose fiscal year end December 31 first submission of:

A) shall be by December 31, 2017 and

B) and C) shall be by December 31, 2018 for 2017 year.

First D) needs to be prepared by filing due date of income tax return for 2018 fiscal year. It needs to be submitted at tax audit when requested.



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Yacht registration in Malta

The Yachting Industry in Malta has two key facets, namely pleasure yachts and commercial yachts, the latter used as part of a business activity and to which the fiscal advantages outlined above for Malta shipping organizations also apply.

Any yacht to be registered under the Malta flag, being pleasure yachts or commercial yachts, shall primarily be registered provisionally for six months, for which only a few documents are required to be filed with the Maltese Maritime Authority. Thereafter the operational certificate is issued upon fulfilment of all requirements.

A yacht can be registered as commercial under the Malta flag provided that it is owned by persons qualified to own a Maltese yacht. Such persons include Maltese or European Union citizens, as well as bodies corporate established in Malta. Nonetheless, Maltese law provides for other possibilities, namely to register the yacht in the name of an international owner and such owner would appoint a resident agent in Malta.

Alternatively, a shipping organisation can be set up, that is, a Maltese company set up for the purpose of owning the yacht and hence be the registered owner of the vessel. If the latter is opted for, it is to be noted that a shipping organisation benefits from various fiscal advantages, such as profits being taxed at a net effective tax rate of 5%, no VAT is charged on chartering contracts, VAT paid on purchases by the Maltese company can be reclaimed.

In the case of pleasure yachts, in addition to the brisk registration process, Malta offers a favourable regime

for VAT minimisation, potentially getting down to an effective rate of 5.4%, through a leasing setup.

Beyond the advantages that the registration process and the VAT yacht leasing presents, Malta offers yacht marinas that may be found all over the Maltese islands. These include facilities for super yachts. Most marinas cater for requirements of yachtsmen, including fuel bunkering, technical services for repairs and services, luxury on-site facilities and immediate access to other off-site facilities.

VAT payable on Yacht registration

Completing the advantages presented in the registration process and in the VAT yacht leasing scheme, the yacht owners are also presented with the opportunity to choose from a choice of two different options on how to be charged and consequently pay VAT upon importation of the yacht.

Importation of a yacht is considered to be a vatable event, therefore VAT will have to be charged on the yacht's value. Owners can choose from the following options:

- First option is to avail from the VAT deferment scheme. The Vat deferment option grants a delay on the VAT payment period, which instead of paying the full 18% VAT upon importation, the owner will be requested to pay 20% of the 18% VAT in the form of Bank Guarantee, which consequently will be released within 4 to 5 months from commencement date of the commercial activities. Then VAT will be paid throughout the leasing period.



- Second option is to pay the full 18% on importation and then claim such payment in the first VAT return which will be received in 5 months from later of:
 1. the date of submission of the VAT Return and
 2. the date of the deadline of submission of the VAT Return

(For example the first VAT Return is for the period March to May 2012, the yacht purchased in March (paid 18% VAT) and the VAT Return submitted on 30 June (deadline 15 July) – refund will be received on 15 December)

Yacht leasing in Malta

On the 24th November 2005, the Maltese VAT Department published its guidelines on the VAT treatment of yacht leasing. These regulations have established that when a Maltese company buys a pleasure yacht and lease-purchases it to third parties, then VAT is due on the lease at the normal rates of VAT in Malta, i.e. 18%, since this is a supply of a service deemed to

be supplied in Malta. But VAT is payable only on that portion of the lease during which the yacht is in EU waters. However, since it is very difficult to establish this with precision, the Department has issued its own “presumed” length of stay during which the yacht is presumed to have been in EU waters and thus the Department will charge VAT according to this table as follows:

Type of yacht	% of lease subject to VAT	Effective rate of VAT
Sailing boats or motor boats over 24 metres in length	30%	5.4% (30% of consideration x 18%)
Sailing boats between 20.01 to 24 metres in length	40%	7.2% (40% of consideration x 18%)
Motor boats between 16.01 to 24 metres in length	40%	7.2% (40% of consideration x 18%)
Sailing boats between 10.01 to 20 metres in length	50%	9% (50% of consideration x 18%)
Motor boats between 12.01 to 16 metres in length	50%	9% (50% of consideration x 18%)
Sailing boats up to 10 metres in length	60%	10.8% (60% of consideration x 18%)
Motor boats between 7.51 to 12 metres in length (if registered in the commercial register)	60%	10.8% (60% of consideration x 18%)
Motor boats up to 7.5 metres in length (if registered in the commercial register)	90%	16.2% (90% of consideration x 18%)
Craft permitted to sail in protected waters only	100%	18% (100% of consideration x 18%)



VAT planning for EU Yachts

As regards the sailing of yachts in EU waters, Malta offers an advantageous VAT leasing set-up with the possibility of mitigation on the VAT payable on yachts sailed in EU waters to 5.4% as opposed to the 18% rate of VAT applicable in Malta generally.

EU VAT, which applies throughout all the member states of the EU, is a form of consumption tax system. In accordance with such rules, VAT must be paid on yachts sailed in EU waters. The moment of payment of yacht VAT depends mostly on the ownership of the yacht.

A yacht owned by an EU individual or body corporate, will be able to sail freely in EU waters once yacht VAT is paid in one of the EU countries on the particular yacht .

On the other hand, a temporary relief is available for the sailing of yachts in EU waters principally in those cases where the yacht is owned and used by non-EU persons. Should the non-EU person wish to sail the yacht indefinitely in EU waters, yacht VAT must be paid for the purposes of importing the yacht in the EU.

As already mentioned, Malta provides for a system which facilitates the payment of yacht VAT with the possibility of reducing the yacht VAT payable to an effective rate of 5.4%, through the setting up of a Maltese company which firstly must acquire and register the yacht, proceed with its lease to a third party and finally ensue with the sale of the yacht. The rate of VAT payable is dependent on the length and propulsion of the yacht.

Such treatment allows yacht owners to sail freely within the EU waters while at the same time benefit from

savings on yacht VAT payable on the value of their yacht.

This publication has been prepared only as a guide. No responsibility can be accepted by us for loss occasioned to any person acting or refraining from acting as a result of any material in this publication.

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US 2018 tax reform for corporations

After an exiting -for a few- and shameful –for many others- legislative process, last December 22th president Donald Trump signed into Law the highly expected US tax reform that includes the more in-depth changes and overhaul of the Tax Code in more than 30 years.

From the original Blueprint, to the final version that, finally, has been enacted, many changes were made after economic impact was assessed. On this document, we are pointing out those changes that affect only Corporations.

First, we need to remember that the tax reform is temporary because it passed through the “Reconciliation Process”, so, it expires after 2025.

With this in mind, now we move on reviewing the main changes:

- Effective tax rate will be 21% instead of 35%. This new rate applies for tax years beginning in 2018. This change may prompt a fast reaction on many other corporate tax rates.
- Deduction of the net interest expenses will be limited up to 30% of the “adjusted taxable income” an item that its described as very similar to the financial EBITDA
- 100% Expensing will apply only over specific tangible property (intangibles are almost completely excluded). This bonus is available for property put in service after September 27th, 2017 and before January 1st, 2023. Rate will go down in further years as follows:

YEAR	RATE
2023	80%
2024	60%
2025	40%
2026	20%

- For years beginning after December 31th, 2017 Net Operating Losses applicable to offset taxable income will be limited to 80% of such taxable income. Two years option for “carrybacks” are repealed (losses arising after 2017 tax year)
- Regarding a shift to a Territorial Tax System, domestic corporations are entitled to claim a 100% deduction from some dividends received from foreign corporations when the local US entity owns 10% of stocks or 10% of the “value” of such foreign corporation.
- The Transition Tax that rules mandatory inclusion of accumulated foreign income affecting big Multinationals will be 15.5% for earnings held in cash and 8% in other forms. The payment will be through a 8 years period as follows:

YEAR	RATE
First 5 years	8%
Year 6th	15%
Year 7th	20%
Year 8th	25%



- As an outcome from **BEPS**, surges up a Base Erosion and Anti abuse Tax (BEAT) equal to the excess of a modified taxable income. Corporations subject to BEAT are those with at least average gross receipt of 500 million for the three years period with the preceding tax year. This tax aims to fight some payments to foreign related parties (payments related with the cost of sales of products and services seems to be out of the scope).
- Denial of deduction of some hybrid payments according with a new regulation about hybrid transaction or hybrid entities. This is a very important tax reform because it may affect not only transaction but entities as well. Payments to related parties, transparent entities and income subject to effective tax rate 25% below of country 's generally statutory tax rate may be affected.
- AMT (Alternative Minimum Tax) has been repealed
- Repeal of deductions:
 1. 50% for meals provided at an employer facility from 2018 to 2025
 2. Qualified transportation fringe benefits
 3. 50% for entertainment, amusement or recreation activities or facilities

International and Local impact must be analyzed very carefully according with specific regulation available for each topic.



There are many other changes in the Tax Bill that may affect doing business in the USA, so we invite you to review them with a tax advisor.

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National soya stands out worldwide

Paraguay stands out as the fifth largest producer of soybeans worldwide, according to the United States Department of Agriculture (USDA), since 2015, occupies this position in the ranking of the largest exporters of soy in the world

Paraguay ranks third in Latin America in soybean productivity levels, after Brazil and Argentina. It currently has an average of 3,000 Kg / Ha, a performance similar to that of Argentina and Brazil, and very close to that of the United States.

The main producing area, is the Eastern region, concentrates the largest production of soy in two departments, Alto Paraná and Itapúa, both producing 70% of the country's total, is boosted in its economy by the strong and dynamic sector of soybeans , which represents almost 35% of national agricultural production and around 40% of total agricultural exports.

NATIONAL PRODUCTION

Soy, of which Paraguay is one of the world's largest exporters, is helping this South American country to approach industrialization. The country is located in an ideal position as a producer of soy, to feed and generate renewable energy for the world, fulfilling a key social role and transcendent for all humanity.

Sojapar seeks to reinvent national soy production through the development of new varieties.

The Sojapar varieties, the product of a public-private partnership between the Institute of Agricultural Biotechnology (Inbio) and the Paraguayan Institute



of Agricultural Technology (IPTA), aim to achieve a 10% share of the certified seed market in the coming years.

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Portuguese new rules regarding the transportation of used food oil (UFO)

As of January 1, 2018, the Residue Tracking Guides become compulsory electronic (e-GAR), and must be issued through SILIAMB - The Portuguese Environment Agency platform. This amendment follows on from the publication of the No. 145/2017 Ordinance, of April 26, which defines the rules applicable to road, rail, inland waterway, and sea and air transportation of waste in national territory and creates the electronic guides for monitoring waste (e-GAR), to be issued in the Integrated System of Electronic Waste Registries (SIRER). If your company /organization is a producer of Used Food Oils, you should be aware of following recent changes:

1. Certified Food Oils Used - The obligation to display the certificate regarding Used Oils is eliminated. Existing certificates must be kept during their validity period in order to be presented to the supervisory authorities, if requested.
2. Electronic Residue Monitoring Guides (e-GAR) - Whenever a collection of Used Oils is carried out, a Residue Monitoring Guide must be issued. From 1 January onwards they must be electronic and issued by the producer of the residue.



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Serbia narrows down list of services subject to withholding tax

Significant changes affecting a wide range of companies in Serbia have been introduced via amendments to the provision related to application of withholding tax. Article 40, paragraph 1, item 5 of the Law on Corporate Profit Tax regulates the taxation of services provided by foreign entities by subjecting them to withholding tax. It will apply as of April 1st, 2018.

The long-awaited definition of services that are subject to withholding tax has finally been put in place. This has been an area of great uncertainty among companies who were often unsure about whether or not to pay withholding tax for services received from abroad.

The new Article 40, paragraph 1, item 5 of the Law defines that subject of taxation with withholding tax is the income of foreign legal entities received from domestic (Serbian) legal entities for:

- Market research services;
- Accounting and auditing services;
- Other services in the field of legal and business consulting, regardless of the place where the services are provided or used, or where they will be provided or used.

It was proposed that the Minister of Finance defines in even greater detail the types of services in order to eliminate any doubt as to the application of the regulations.

As a result of the amendment, starting from 1 April 2018, domestic legal entities will not have to calcu-

late and pay withholding tax for services such as, for example, advertising services on Facebook, Google AdWords, goods transportation services through the territory of Serbia, etc. There will be no further requirement of obtaining a tax residence certificate for the purpose of applying bilateral tax treaties on the avoidance of double taxation. The obligation remains solely in respect to tax-subject services: market research, accounting and auditing services and other services in the field of legal and business consulting.

This change applies to all payments made by domestic legal entities to foreign legal entities starting from 1 April, 2018, regardless of whether the service for which the fee is paid was supplied before or after that date. With this in mind, companies should not rush to pay for already performed services, if and when possible, but to consider postponing the payments for after 1 April 2018 if the nature of the supply is exempt from withholding tax under the new rule.



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Singapore Budget 2018 Executive Summary

The much-anticipated change did not happen, at least not immediately. I am referring to the Government's decision to delay the increase in the goods and services tax (GST) rate by 2% to sometime between 2021 and 2025. More than a pleasant surprise, there are several things that we can infer from this and my perspectives are as follows.

Firstly, the Government is not in a hurry to raise revenue to meet the expected increase in expenditure. This is even though recurring expenditure on key necessities such as healthcare and education are expected to keep rising. There were no other measures announced that will significantly increase Government revenue to meet the increasing expenditure. As such, this could be seen as a welcome sign of the Government's confidence in the economic growth of Singapore since a buoyant economy should contribute more revenue to the Government's coffers.

Secondly, by giving a five-year range within which the expected GST rate increase will take place, the Government has signalled that it wants to take a calibrated approach towards the GST increase. The Finance Minister mentioned that the Government will consider the economic situation, the growth in Government expenditures and the buoyancy of the existing taxes when determining the exact timing of the rate increase. It appears that the Government only wants to increase the rate when it is absolutely necessary.

The third perspective is that, by opting for broad-based measures such as the Productivity and Innovation Credit (PIC) scheme to be replaced by targeted measures, the Government has the flexibility to extend aid

selectively as not all sectors enjoy the same level of growth in a buoyant economy due to sector-specific cyclical weaknesses. This in turn should also reduce the pressure to raise the GST rate in the short term.

Finally, businesses and consumers are being given advance notice of the increase so that they have ample time to plan. A GST increase normally necessitates businesses putting in place systems and controls to accurately account for GST during the transition period. Businesses can take advantage of the advance notice to prepare for the increase. From a consumer perspective, a definite timeline will be more helpful in planning the timing of the purchase of big ticket items. But from a psychological perspective, the advance notice should prevent a shock reaction when the rate hike is eventually announced.

There are no major business-friendly tax changes in this year's Budget. However, the Budget contains measures to support businesses in their efforts to innovate, develop deep capabilities and invest in technology.

In the 2016 Budget, the PIC scheme was allowed to lapse, and many businesses were concerned with the increase in the cost of technology adoption in the post- PIC period. For small businesses, investing in technology is a substantial investment compared to their level of revenue. To address this, the Government is continuing the move towards more targeted measures rather than broad-based measures. For example, in last year's Budget, the small and medium-sized enterprises (SMEs) Go Digital Programme was introduced to help SMEs obtain targeted funding and



technical assistance in deploying digital solutions in their businesses. This year, the Productivity Solutions Grant will provide funding support for businesses to adopt technologies and productivity solutions that are relevant for their sectors.

Companies that are still adapting to the challenges of the new economic landscape can take heart in the following measures introduced this year:

- The Corporate Income Tax (CIT) rebate cap will be raised from \$10,000 to \$15,000 for the year of assessment (YA) 2018 and the rebate rate will be increased from 20% to 40%. The CIT rebate will also be extended for another year to YA 2019 at a reduced rate of 20% of tax payable, capped at \$10,000.
- The Wage Credit Scheme (WCS) will be extended by three more years. The Government will co-fund 20% of wage increases given in 2018 to Singaporean employees earning a gross monthly wage of \$4,000 and below. Employers will continue to receive co-funding at 15% and 10% of qualifying wage increases given to their Singaporean employees in 2019 and 2020 respectively.

While the enhancement to the CIT rebate is welcomed, it will only benefit companies that have taxable income. While companies that are still incurring losses will not benefit from the CIT rebate, the extension of the WCS can help to alleviate cost pressures to a certain extent.

In this year's Budget, there is also a subtle shift towards a tax system where all profitable businesses

pay some taxes. This is evidenced by the restructuring of the start-up tax exemption (SUTE) scheme that will be effective from YA 2020. The Minister indicated that schemes such as the SUTE reduce costs for start-ups but do not directly

help them develop capabilities. As such, this change signals the continued move towards providing targeted support that helps businesses build capabilities to grow amidst economic challenges rather than shielding them from market forces. It is also a call to all businesses to do their part, however small, in Singapore's development.

The move towards creating an equitable tax system is also seen in the introduction of GST on imported services from 1 January 2020 through a reverse charge mechanism. This is not a surprise move as the Minister had already hinted at this in last year's Budget. While a reverse charge mechanism could be an efficient method for imposing GST on services imported by businesses, it will not work well for digitised consumer goods such as downloadable apps, books, music, movies, etc. As such, for business-to-consumer (B2C) imported services, under certain conditions, overseas vendors and electronic marketplace operators will be required to register for GST. The introduction of GST on imported services should help to create a level playing field for local businesses that are GST-registered. The Minister has also hinted at probable changes that may be made to the GST treatment of physical goods purchased from overseas suppliers and imported into Singapore by consumers that are currently exempted from GST if certain conditions are met. As expected, the Minister had pro-

ceeded with the carbon tax announced in last year's Budget. The carbon tax will be introduced from 2019 with the first payment in 2020 based on emissions in 2019. The general concern was

how the carbon tax will impact household consumers. The Minister has assured that the estimated impact of the carbon tax on households will be small, averaging about 1% of total electricity and gas expenses. This impact will be softened through additional U-Save subsidies for the years 2019 to 2021 to eligible Housing & Development Board (HDB) households. The carbon tax will help the Government provide the necessary funding support to companies to invest in energy efficiency and reduce emissions. Thus, the Government has taken a decisive step to do its part in the fight against climate change.

The Minister said in his Budget Speech that Singapore is "now in a much stronger position than we have been in the past". He also said that Budget 2018 is about laying the foundation for Singapore's development in the next 10 years. In this regard, barring exceptional circumstances, we can expect future Budgets to build upon the roadmap set out in Budget 2018.

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International tax planning through entities holding foreign securities holdings (entidades de tenencia de valores extranjeros) (ETVEs)

It is clear we are living in a fully globalised society, which is why our tax systems adapt to the times, with international taxation and tax planning on a global level being increasingly important.

Entities Holding Foreign Securities (*Entidades de Tenencia de Valores Extranjeros*) (ETVEs) (also known as “Spanish Holdings”) are entities the purpose of which is the management and administration of shares in the equity of non-resident entities, benefiting from a special tax regime.

For this reason, these entities are a good international tax planning mechanism, as their main goal is to complete the mechanism for avoiding the international double taxation contained in Spanish tax legislation and thus facilitate investments from foreign sources channelled through a holding company established in Spain without having to pay tax on revenue deriving from such investments.

SCOPE OF APPLICATION AND FORMAL REQUISITES:

The system for ETVEs is currently regulated by the Corporation Tax Act 27/2014, of 27 November, and its development regulation, Royal Decree 634/2015, of 10 July, specifying the requisites to be met by these entities in order to benefit from the special tax regime which, in short, are as follows:

1. Legal form: These entities may take on various legal forms, but most commonly choose the commercial form of a limited liability company (*sociedad de responsabilidad limitada*) (S.L.).

For their incorporation, an initial share capital contribution of €3,000 suffices, and titles representing the equity of entities non-resident in Spanish territory may also be contributed to such share capital.

2. Corporate purpose: The corporate purposes should consist of the management and administration of the equity of entities non-resident in Spanish territory, through the corresponding organisation of material and human resources.

3. Economic substance (organisation of material and human resources): The most disputed requisite is the fact that these entities can not be mere special purpose vehicles, but must have their own organisation of material and human resources for performing the activity of the management and administration of the shares.

This requisite may be evidenced, for example, by the following facts: the presence of a General Manager resident in Spain; the holding of the board of directors’ meetings in Spanish territory; the existence of provision of service agreements between the ETVE and the investee companies; keeping the accounts in Spain; the existence of a bank account in Spain, *inter alia*.

TAX REGIME FOR THE REVENUE RECEIVED BY THE ETVE:

Any dividends received by the ETVE coming from its shares in non-resident entities in Spain, as well as any income deriving from the transfer of such titles, will be tax-free in Spain, pursuant to article 21 of the



Corporation Tax Act, providing the requisites set forth in such precept are met.

Specifically:

(i) The stake in the entity paying out the dividend, or transferred, must be at least 5% directly or indirectly of its equity, or be worth more than 20 million euros;

(ii) The profit distributed or shared must come from business activities; and

(iii) The investee company must have been subject to a foreign tax of an identical or similar nature to al Corporation Tax during the financial year in which the profit distributed or shared was obtained. This requisite is deemed to have been met when the investee company is resident in a country with which Spain has signed an agreement to avoid international double taxation and which contains a clause regarding the exchange of information.

TAX REGIME FOR THE REVENUE RECEIVED BY THE MEMBERS OF THE ETVE:

The special regime for ETVEs has the great advantage of an exemption from Non-Residents' Income Tax (*Impuesto de la Renta sobre los no Residentes*) (IRNR), in the case of the distribution of profits or earnings through divestment, obtained by the foreign members. Thus, specifically, any revenue obtained by the members of the ETVE, coming either from the distribution of profits or the transfer of shares, are subject to the following special taxation:

(i) If these are distributed charged to income exempt from Corporation Tax and and the member obtaining them is an individual or legal entity non-resident in Spanish territory, it will not pay tax on such revenue in Spain, as it is considered not to have been obtained in Spanish territory.

(ii) If they are distributed charged to non-exempt income, they will be taxed under Income Tax or Corporation Tax (depending on whether the member is an individual or legal entity) or under IRNR, depending on the tax residence of the member, notwithstanding the fact, in this second case, that the rates may be reduced, or even cancelled, through application of the bilateral agreements for the avoidance of double taxation and European Directives (Directive 2011/96/ EU Parent Companies - Subsidiaries).

Consequently, there is no doubt that the special tax regime of ETVEs is an interesting instrument for international tax planning in the internalisation process of Spanish and foreign companies wishing to located the strategic and operational management of their businesses in Spain, in order to make use of the tax breaks such system offers.

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E-commerce in United Arab Emirates

Now days, the information technology has affected the structure of businesses. Technology has given new focus and identity for all aspects of organizational structure and functions including policy formulation, decision-making, administrations, production, sales, marketing, communications and human resources. The invention of faster internet connectivity and powerful online tools has resulted in a new commerce arena i.e., E-commerce, which offered many advantages to companies and customers. The electronic commerce also known as "E-commerce" is the process by which businesses and consumers buy and sell goods and services through an electronic medium. E-commerce emerged in the early 1990s, and its use has increased at a rapid rate. Today, the majority of companies have an online presence. Everything from food and clothes to entertainment and furniture can be purchased online. There are several types of E-commerce which are business to consumer (B2C), business to business (B2B), Consumer to business (C2B) and consumer to consumer (C2C).

The United Arab Emirates ("UAE") is a resource-rich nation consists of ultramodern cities, with incredibly high rates of Internet penetration, a tech-savvy population, and a solid infrastructure for business, is an ideal location for the start-up or expansion of an E-commerce business.

The UAE has recently geared up to adhere to the dot-com era of shopping from home and taking advantage of the growing number of educated and highly tech-savvy young adults. The growth and development of technology and online systems has led companies to deliver goods and services online, which allows cus-

tomers to shop with a few clicks on their electronic devices especially smartphones. According to a 2016 MasterCard press release, in connection with a cross-country study about the consumers attitude to digital technology, the mobile phones are the preferred payment device for 59% of consumers in UAE. The high rates of mobile penetration and high internet connectivity in UAE makes consumers to purchase online and avoiding the effort of going to malls and retail stores.

Now there are many advantages to starting an E-commerce business in UAE while the market is still growing and strengthening. As per the World Bank's latest "Ease of Doing Business" report, the UAE scored 21st in the world. The cost of registering a firm in the UAE is also about half of the average cost to register a firm in the Middle East which enables the entrepreneurs to create an online market in the UAE easily.

It was found that banks, investment firms and financial institutions are actively using E-commerce systems and applications, to provide their services more conveniently to their consumers. Government actions such as the establishment of Dubai Internet City initiates widespread use of e-commerce and urges businesses to reap its benefits and prosper the overall economy. The total value of e-commerce in the UAE stood at \$2.5 billion in 2014 and is expected to reach \$10 billion in 2018 according to data published by Forbes. A separate study by Network International found that 34% of UAE residents make online purchases between one and five times a week. The product categories that produce the most revenue in online sales in the region are consumer electronics, computers, and jewellery including watches. Online shop-

ping for clothing also has begun to gain in popularity. The most important factors for online shoppers in the U.A.E. were price, customer service, and ease of use.

It is noteworthy that the growth in E-commerce is not solely driven by the private sector. An important factor in building trust in online commerce over the last few years has come from E- government initiatives. Across the region, the Government integrated all traditional offline services such as visa services, traffic services, and utilities services onto online platforms integrated with online payments to provide citizens and residents faster and more effective public services.

The value of E-commerce is expected to accelerate steadily and become the U.A.E.'s fastest-growing sales channel because of the country's increased connectivity, rapid proliferation of connected devices and services, and U.A.E. Government initiatives encouraging a digital lifestyle. Mobile commerce has a high potential in UAE as smartphone and tablet penetration is high, and mobile is often the most common mode of connection to the internet in the region.

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