

# Examining the tax policies of tomorrow

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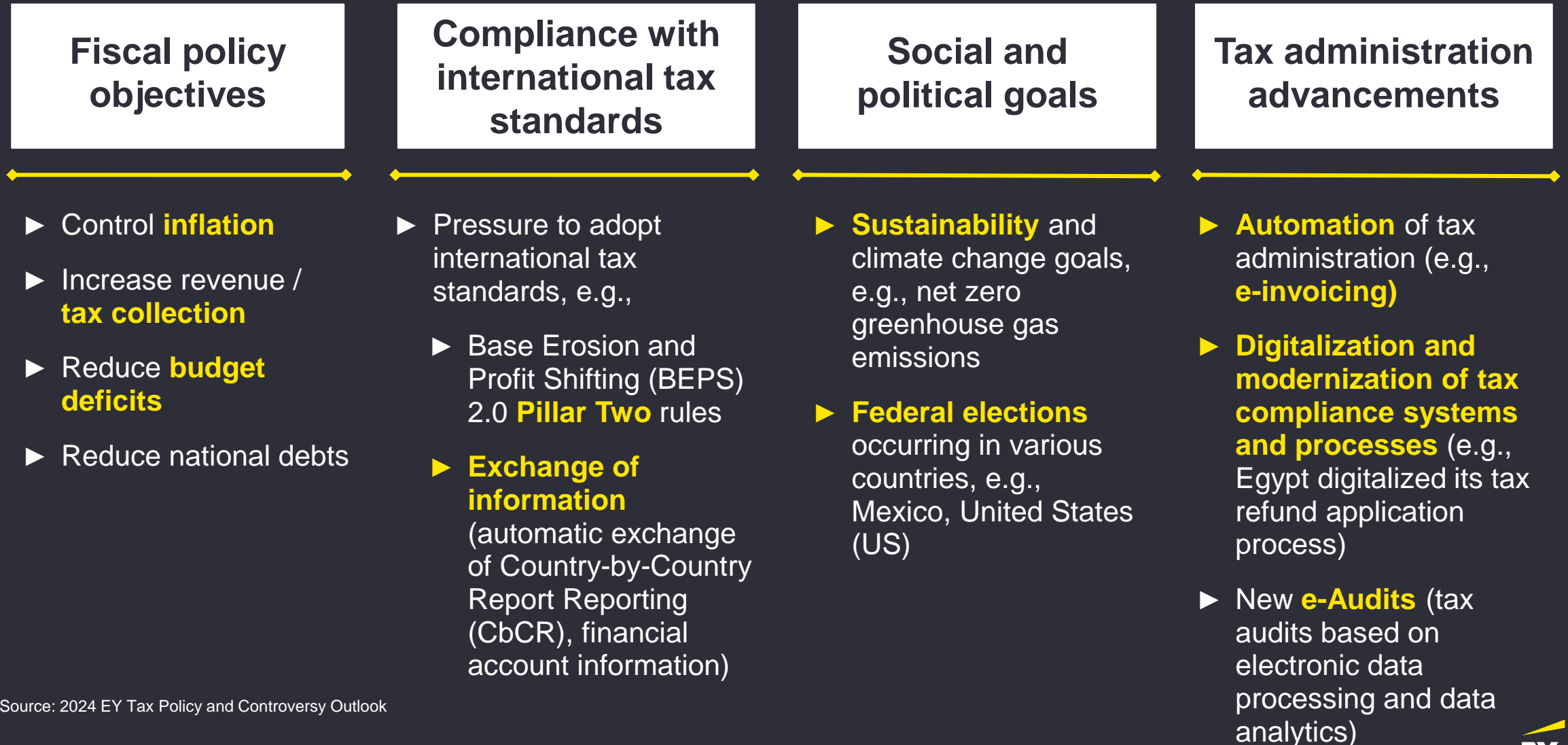
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# Key drivers for the development of tax policies around the globe



Source: 2024 EY Tax Policy and Controversy Outlook

# Outlook on regional tax policy development trends



## Asia-Pacific

- ▶ Application of **new technologies to strengthen tax administration**, e.g., e-Invoicing in Malaysia, Vietnam and China
- ▶ **Changing tax incentives and adopting non-tax incentives** to remain competitive in response to Pillar 2
- ▶ Continued focus on **tax governance** as a way to risk-rate taxpayers and determine the level of review
- ▶ **Sustainability incentive regimes** E.g., China released a set of guidelines outlining 56 preferential tax policies to support green development



## Europe, Middle East, India and Africa (EMEIA)

- ▶ European Union (EU) Carbon Border Adjustment Mechanism (CBAM) requirements to **report “embedded emissions” in imported goods in every quarter.**
- ▶ **Changing tax incentives and adopting non-tax incentives** remain competitive in response to Pillar 2
- ▶ **Windfall taxes** (mainly energy sectors and certain parts of the financial sector, e.g., Ukraine imposed a 50% windfall tax on the windfall profit of banks in the 2023 tax year retrospectively)



## Americas

- ▶ **Local tax reforms** in countries such as Brazil, US, Chile and Ecuador.
- ▶ Increasing **digitalization of tax administration** including the use of artificial intelligence (AI)
- ▶ More **frequent and intense audits** with a focus on transfer pricing
- ▶ Continued focus on **incentives related to climate change** (e.g., Canada proposed five clean economy investment tax credits)

## Commonalities

- ▶ Adoption and domestic implementation of Pillar 2
- ▶ Introduction of incentives and taxes to bolster the sustainability agenda
- ▶ Increase in tax audits and controversy

# Asia-Pacific: Overview of Pillar Two implementation

## Globally:

**34**

jurisdictions

Have final domestic legislation implementing Pillar Two.

**11**

jurisdictions



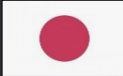







Have draft domestic legislation to implement Pillar Two.

**10**

jurisdictions

Have announced the intention to implement Pillar Two.

Source: EY BEPS 2.0 – Pillar Two Developments Tracker as of 26 April 2024.

Legislation enacted / Expected to implement for 2024	Legislation enacted / Expected to implement for 2025
 South Korea Legislation implemented IIR effective 1 January 2024 and UTPR effective 1 January 2025 (subject to enforcement decree)	 Malaysia Legislation implemented IIR and QDMTT effective 1 January 2025
 Japan Legislation implemented IIR effective 1 April 2024	 Hong Kong SAR Announced implementation for 1 January 2025
 Vietnam Legislation implemented IIR and QDMTT effective 1 January 2024	 Thailand Announced implementation
 Australia Draft legislation published IIR and QDMTT effective 1 January 2024 and UTPR effective 1 January 2025	 Singapore Announced implementation for 1 January 2025
 Indonesia Draft legislation expected in 2024	 New Zealand Legislation implemented IIR and UTPR effective 1 January 2025

Abbreviation:

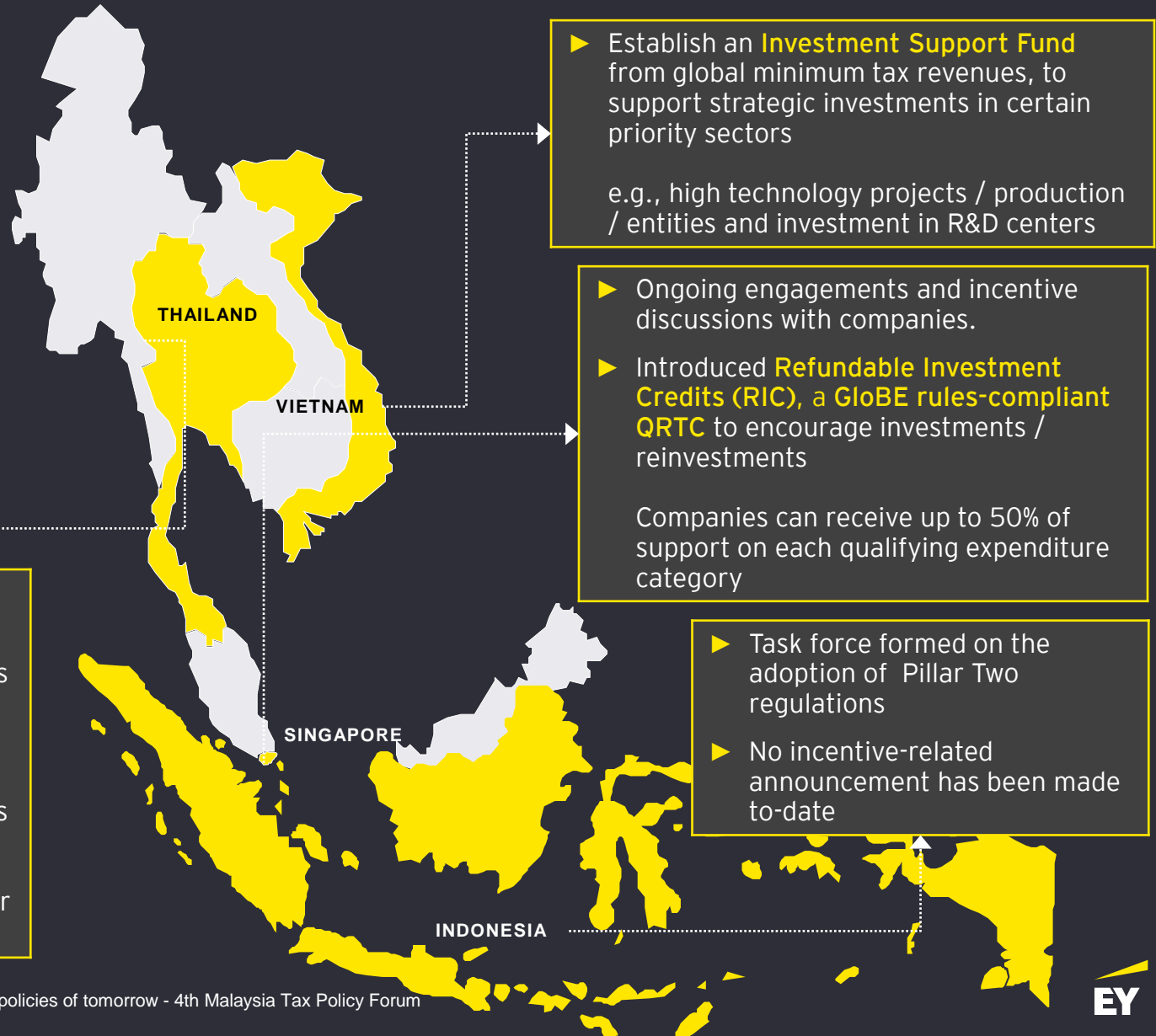
▶ Income Inclusion Rule (IIR); ▶ Under-Taxed Profits Rule (UTPR); ▶ Qualified Domestic Minimum Top-up Tax (QDMTT)

# Key incentive actions undertaken by ASEAN countries in response to Pillar Two

Jurisdictions are **re-thinking tax incentives to remain competitive in a Pillar Two world**, including but not limited to:-

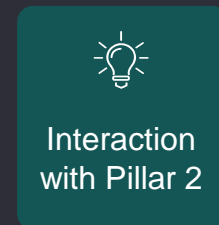
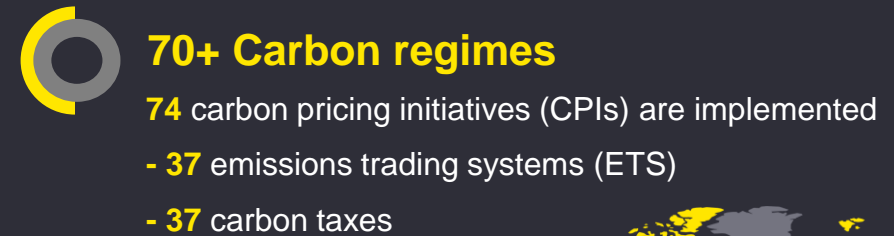
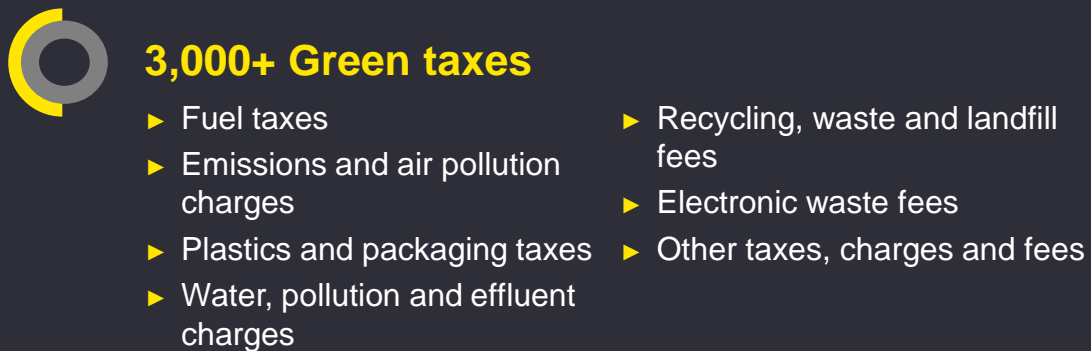
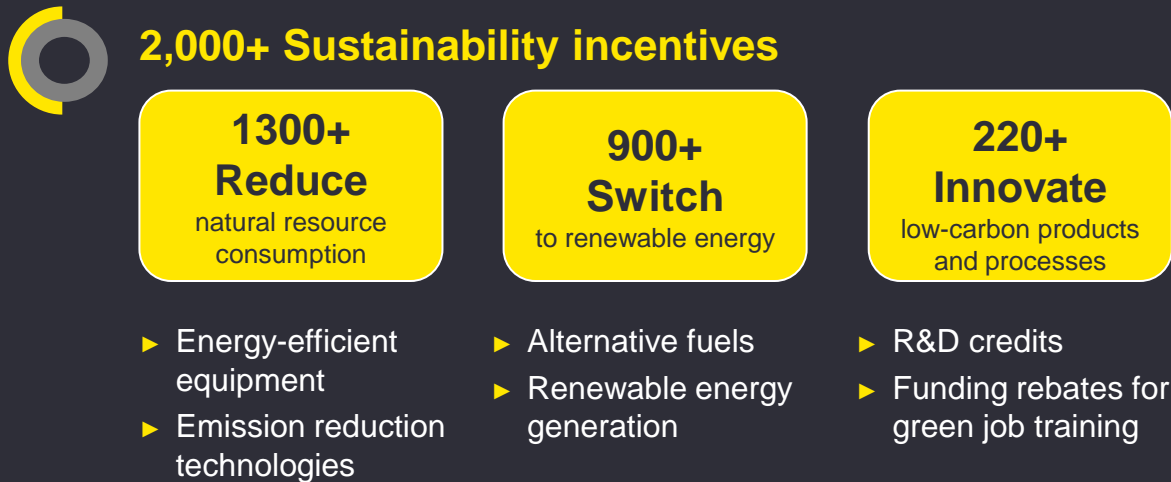
- ▶ Potential to introduce **Qualified Refundable Tax Credits (“QRTC”)** or convert existing incentives in QRTC
- ▶ Potential **non-tax incentives**, including cash grants, favorable loans and subsidized capital
- ▶ Potential improvements in **infrastructure and the talent base**

- ▶ Set up taskforce and engaged in discussions with existing investors
- ▶ Announced plans to allocate 50% to 70% of top-up taxes to the **Competitiveness Enhancement Fund** (matching fund for target industries), and to consider providing **cash grants** to qualifying investors.
- ▶ Existing Board of Investment (BOI) promoted companies and new BOI applicants have the option to enjoy a **50% reduction on the normal corporate income tax rate**, which effectively results in a reduced tax rate to 10% for a maximum period of 10 years.



# Outlook on green tax policy development trends

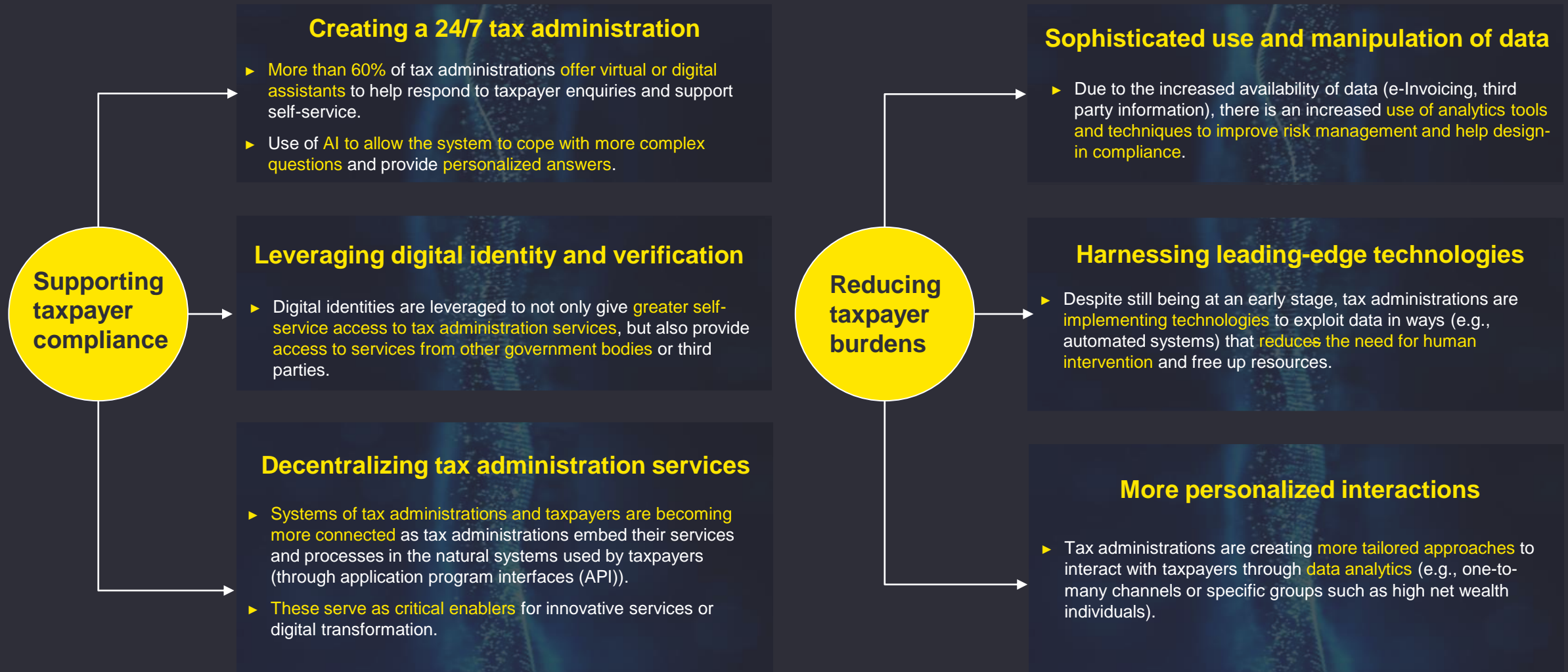
**Snapshot** of green taxes, sustainability incentives and carbon regimes present in 68 jurisdictions, representing over 90% of global GDP:-



- ▶ The effectiveness of tax incentives diminishes due to Pillar 2
- ▶ Governments may instead emphasize **new or increased use of targeted taxes to meet sustainability goals**
- ▶ New climate-focused taxes could continue to emerge

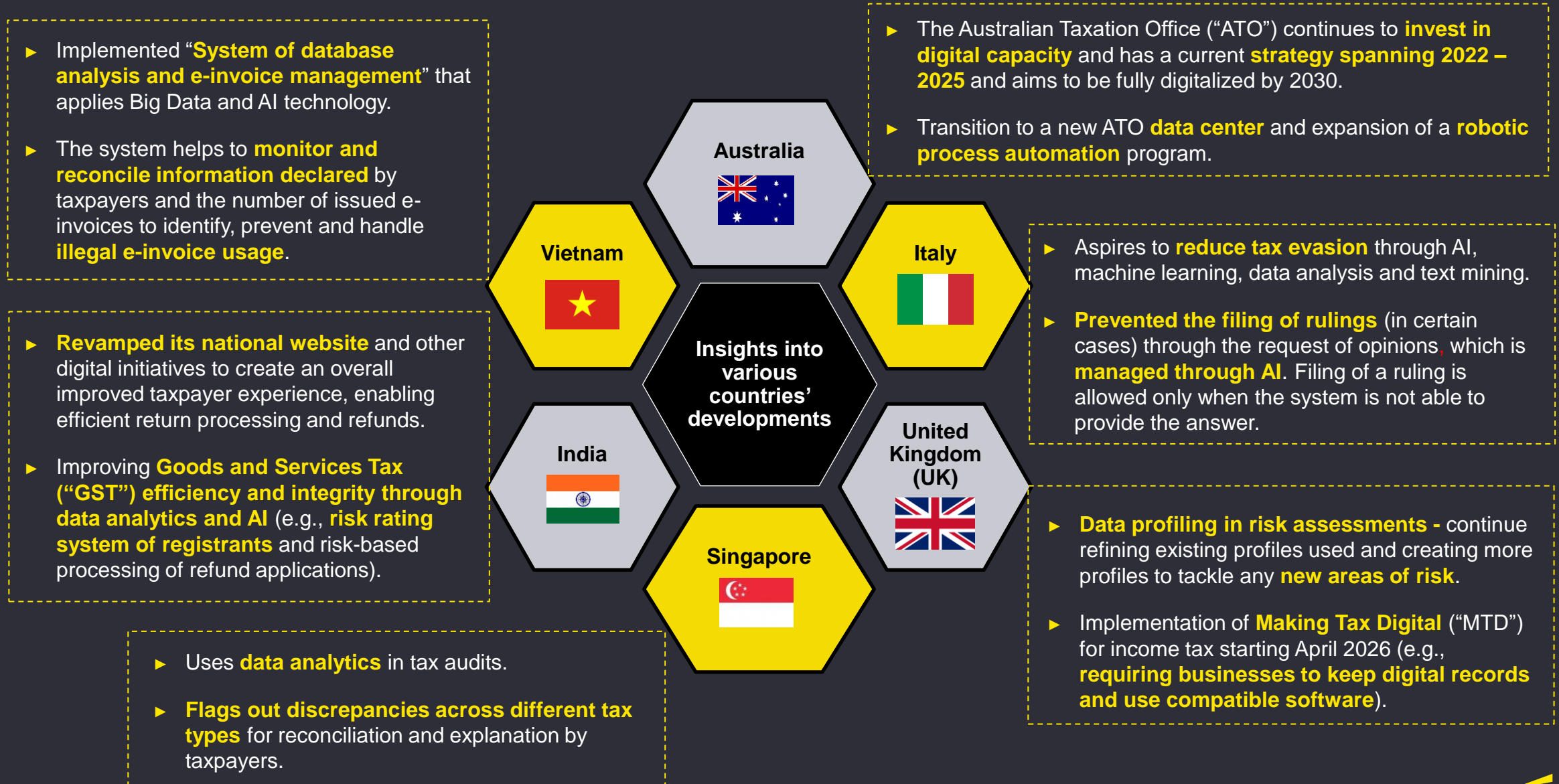
# The digitalization and advancement of tax administrations

The digital transformation of tax administrations is driven by two broad themes:





# Global digital transformation trends of tax administrations



# 2027 Projection of digital tax administration footprints

## Current state

- ▶ **45 countries** have some form of existing digital reporting mandates.
- ▶ Once adopted, countries continue to regularly **evolve and enhance their capabilities and requirements**.
- ▶ **e-Invoicing and SAF-T** (“Standard Audit File - Tax Financial”) are the prevalent **types of submissions**, however other types of digital reporting requirements are also gaining popularity.

★ Indicates country with digital changes



\* Based on EY’s research and analysis , this map shows the prediction of digital activities around the world by 2027.

## 2027 projection

In the next five years:

- ▶ **70+ countries** are expected to have digital reporting mandates.
- ▶ **29 new countries** will introduce such digital reporting mandates.
- ▶ **20 countries** are expected add **new analytics capabilities**.



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