Inside Indirect Tax

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About this Newsletter

Welcome to *Inside Indirect Tax*—a publication from the KPMG U.S. Indirect Tax practice focusing on global indirect tax changes and trends from a U.S. perspective. *Inside Indirect Tax* is produced monthly as developments occur. We look forward to hearing your feedback to help us provide you with the most relevant information to your business.

Table of Contents

Global Rate Changes

- **Azerbaijan:**[i] On August 9, 2023, the Azerbaijani Cabinet of Ministers approved a temporary import VAT exemption for specified machinery, technological equipment, devices, and raw materials, from January 1, 2023, through January 1, 2033.
- **China:**[ii] China recently announced the extension of the VAT-exemption applicable to trade in bonded goods in the commodities futures market, until December 2027.
- **China:**[iii] On August 23, 2023, China introduced a temporary VAT exemption on the transfer of Chinese depositary receipts (CDRs). A 1 percent stamp tax will apply to such transfers on the Shanghai or Shenzhen stock exchanges. This regime is effective from September 21, 2023, through December 31, 2025.
- **Cyprus:**[iv] Effective July 21, 2023, Cyprus applies a zero percent VAT rate to braille typewriters, including special electronic typewriters and new type embossing typewriters, designed for people with disabilities, as well as wheelchairs and other similar devices intended exclusively for personal use. Cyprus further implemented a 3 percent VAT rate for accessible publications and audiobooks for individuals with disabilities, special lifting devices, wheelchairs, medical devices, street cleaning and waste services, wastewater disposal, and admission to cultural events, theaters, and concerts.
- **Finland:**[V] Finland recently proposed to bring goods currently subject to the 10 percent VAT rate, except newspapers and magazines, into the purview of the 14 percent rate from 2025. Finland further proposed to introduce a 14 percent VAT rate for incontinence and sanitary pads and children's diapers.
- **Ireland:**[Vi] Effective September 1, 2023, the Irish VAT rate for certain goods and services in the tourism and hospitality sector will increase from 9 percent to 13.5 percent. This change affects food and beverage sales, admissions to attractions, hotel accommodations,

and hairdressing services. The temporary 9 percent VAT rate was introduced in November 2020 due to the COVID-19 pandemic and has been extended multiple times. Sales of certain printed matter and the provision of sporting facilities for profit, as well as goods and services subject to other VAT rates, remain unaffected. To read a report prepared by the KPMG International member firm in Ireland, please click here.

- **Mauritius:**[vii] On July 20, 2023, Mauritius enacted its 2023-24 budget; it includes several VAT rate changes. Effective March 30, 2023, contractors engaged in the construction of social housing units under a Social Housing project implemented by New Social Living Development Ltd. are exempt from VAT, customs duty, and excise duty, including on the procurement of goods (excluding vehicles), works, consultancy services, and other related services. Effective June 5, 2023, the following goods are subject to a zero VAT rate: (1) musical instruments; (2) glass-ceramic blocks for dental use and medical-grade silicone; and (3) essential daily items, including noodles, toothpaste, toothbrushes, baby wipes, baby diapers, baby powder, baby cream, breast pumps, infant feeding bottles, exercise books, pencils, crayons, erasers, walking sticks, and incontinence mattress pads. Moreover, instruments and appliances used in medical, surgical, dental, or veterinary sciences are subject to a zero VAT rate and not exempt from VAT. Finally, effective July 20, 2023, the VAT exemption for the construction of buildings for tertiary education has been extended to include buildings for primary and secondary education. To read KPMG's previous discussion of the tax measures in the 2023-24 budget, please click here.
- **Moldova:**[viii] Effective January 1, 2024, Moldova will introduce an 8 percent reduced VAT rate to hotel and restaurant services. Moldova will further apply the 20 percent standard VAT rate to passenger cars from January 1, 2026.
- **Moldova:**[ix] On August 17, 2023, the Moldovan parliament approved a proposal to exempt from VAT acquisitions related to the implementation of solid waste management projects, and to exempt from customs and excise duties goods, those works, services, training, and operating costs procured for carrying out such projects.
- **Romania:**[x] Romania recently published Government Decision No. 653/2023, clarifying that non-alcoholic beverages classified under combined nomenclature (CN) headings 22021000 and 220299, which are subject to the standard 19 percent VAT effective 2023, are subject to the reduced 9 percent VAT rate when included in accommodation packages (e.g., with breakfast, meals or at "all-inclusive" resorts). However, the standard rate remains applicable when such beverages are part of restaurant or catering services. In addition, the Government Decision clarifies the documentation required for taxpayers to apply the zero percent VAT to certain deliveries to public hospitals and hospitals owned and operated by NGOs, as well as on prosthetics and orthopedic products, which was introduced effective June 11, 2023.

Back to top
Back to top

Digitalized Economy Indirect Tax Updates

Canada: Proposal to Introduce Digital Services Tax With 2022 Retroactive Effect

On August 4, 2023, the Department of Finance of Canada launched a consultation on new draft legislation on outstanding 2023 federal budget measures, technical amendments, and revised draft legislation for certain previously announced measures. The draft includes a 3 percent digital services tax (DST), effective the later of the calendar year 2024 or the calendar year that includes the day the DST Act comes into force. The DST would apply retroactively to in-scope revenues earned since January 1, 2022, with the first payment due no earlier than June 30, 2025.

In-scope revenues would include Canadian-source digital services revenue from online marketplace services, online targeted advertising services, social media services, and the sale or licensing of user data. The DST would apply to businesses meeting both a global revenue threshold of EUR 750 million or more and a Canadian digital services revenue threshold of more than CAD 20 million in a particular calendar year.

The DST would apply to in-scope revenue associated with users in Canada, based on revenue-sourcing principles that vary depending on the nature of the revenue. For online marketplace services, revenue would be sourced using one of three methods based on transaction details and user locations. Online advertising services revenue would be sourced using one of two methods, depending on the ability to trace the revenue to specific users. Social media services revenue would be sourced using a formulaic approach based on the percentage of platform users in Canada. Finally, receipts from the sale or licensing of user data would be sourced based on one of two methods, depending on whether it can be traced to a single user or multiple users in Canada.

Determining whether a user is located in Canada or outside Canada will be determined based on data available data, to the taxpayer, including billing address, shipping address, phone number area code, global satellite positioning data, or IP address data. The method of determining a user's location depends on the type of revenue. In most cases, user location is their usual or ordinary location, and short visits to Canada would not change this status. However, for online advertising services revenue and user data sales based on real-time location, the user's location would be determined at the specific time the advertisement is displayed or the data is collected.

The August 2023 release further introduces an elective simplified method for calculating Canadian digital services revenue for calendar years before the DST Act comes into force. The simplified method would be relevant for both the determination of the CAD 20 million threshold and the taxpayer's DST liability as it would allow taxpayers to forgo the detailed calculation of Canadian digital services revenue for the years before the DST Act comes into force and use instead a ratio based on the revenue amounts of the year the DST Act comes into force. That ratio would then be applied to the taxpayer's total revenue for the previous years to arrive at a proxy amount for the historic years.

India: GST Amendments to Online Gambling Transactions

On August 19, 2023, India published the Central Goods and Services Tax (Amendment) Act, 2023 and the Integrated Goods and Services Tax (Amendment) Act, 2023 (together "the Act"), which clarifies the GST treatment of online gaming. The Act draws a distinction between "online gaming" and "online money gaming." "Online money gaming" is defined as online gaming in which players pay or deposit money or money's worth, including virtual digital assets, in the expectation of winning money or money's worth. The definition clearly states that it would include all games, schemes, competitions, whether it is a game of skill or chance and whether it is allowed under any other law. In addition, the Act includes a new definition of specified actionable claims to mean actionable claims inter-alia including online money gaming. Such specified actionable claims have been excluded from Schedule III of the CGST Act (i.e., activities that are treated as sales of neither goods nor services). Consequently, online money gaming is included in the ambit of "sale" under the GST laws. In addition, the Act clarifies that "online money gaming" platforms located outside India are subject to GST and are required to register for GST under the simplified registration mechanism for Online Information Database Access and Retrieval (OIDAR) services providers.

While online gaming was always classifiable as an OIDAR service, the Act clarifies that online money gaming does not qualify as OIDAR service. Further to this, on September 6, 2023, the Indian tax authority clarified online gaming valuation rules. The value is determined by the total amount paid or deposited by players using money or digital assets. Amounts from previous winnings used in games/bets are excluded, and any refunds to players are not deductible from the transaction value. To read a report prepared by the KPMG International member firm in India, click here.

Source: CCH, Global VAT News & Features, Indian Lower House Agrees 28pc GST On Gambling (Aug. 15, 2023); India – GST Council Recommends Relaxing Calculation of Taxable Value to Provide Relief for Online Gaming Companies, (August 8, 2023), News IBFD; India - Government Enacts GST Amendments for Taxation of Online Gaming Companies (August 29, 2023), News IBFD.

New Zealand: Proposal to Introduce Digital Services Tax

On August 31, 2023, the New Zealand government introduced the Digital Services Tax Bill applicable to multinational companies providing digital services in the country. Effective January 1, 2025, the Digital Services Tax (DST) applies to companies with global digital services revenues of at least EUR 750 million per year and New Zealand digital services of at least NZD 3.5 million per revenue year. The Bill defines digital services revenue as revenue generated from providing taxable digital services to New Zealand users or in connection with New Zealand land. Taxable digital services are defined to include intermediation platforms, social media and content-sharing platforms, internet search engines, and any activity that is incidental to these platforms, services, or advertising. The DST would be paid on the in-scope revenues attributable to New Zealand users or New Zealand land at a rate of 3 percent. If enacted, the bill will commence on January 1, 2025, however, the commencement date may be deferred by up to five years. The New Zealand Government has indicated that it would repeal the DST when an acceptable multilateral solution is implemented to tax the digital economy more comprehensively.

According to the bill, a digital service is considered provided to a New Zealand user if it has been used or consumed by a person who is normally in New Zealand, as evidenced by factors such as the person's billing address, the person's shipping address, the IP address of the device used by the person, the person's relevant bank details, phone number area code or country calling code, global satellite positioning data on the person or another geolocation method, other information considered relevant by the Commissioner, or an indicator agreed to by the Commissioner with the taxpayer.

The bill further clarifies that while the tax basis is the gross amount obtained from taxable digital services to the extent to which the services are provided to New Zealand users, the tax basis should be reduced by 50 percent for transactions on an intermediation platform if the amount is also connected to a user who may reasonably be assumed to use the platform in a foreign country or territory that has a tax that is substantially the same as the New Zealand DST.

Finally, the bill outlines the registration, filing, and payment obligations for the DST, requires the Commissioner to refund any overpaid DST, including any overpayment resulting from an amendment to an assessment, and establishes an anti-avoidance rule for the DST. To read a report prepared by the KPMG International member firm in New Zealand, please click here.

Other Related Developments

- **Korea:**[xi] On July 27, 2023, the Korean Ministry of Economy and Finance announced a tax reform proposal, which imposes penalties on unregistered nonresident providers of digital services. If enacted the proposed amendment would be effective January 1, 2024. For more information, click here.
- **Greece:**[xii] The Greek Ministry of Finance submitted a draft bill transposing the EU DAC7 reporting requirements into law. Under DAC7, digital platform operators located both inside and outside the EU are required to report income earned by sellers on sales of goods, accommodation, personal services, and transportation services on their platforms. EU Member States are required to automatically exchange this information.
- **Panama:**[xiii] The government of Panama recently announced that it is exploring measures to impose VAT on non-resident providers of digital services to level the playing field with traditional providers. Details of any potential measures are still pending.
- **Paraguay:**[xiv] On August 23, 2023, the Paraguayan tax authority published Binding Consultation No. 392, clarifying that digital call center services provided to a nonresident are not subject to VAT in Paraguay if they are not effectively used or exploited in Paraguay. In this regard, digital services are considered provided in Paraguay and taxable, if effectively used or exploited there and if the data is located there. This is determined by customers' internet protocol (IP) addresses, subscriber identity module (SIM) card country codes, billing address, or credit or debit card financial institutions.
- **Taiwan:**[xv] On August 11, 2023, Taiwan's National Tax Bureau announced that VAT should be collected on sales of virtual items and virtual wealth gained in online games. Platforms facilitating the sale of such intangibles are responsible for collecting VAT on the full consideration received and are required to issue an e-invoice to the buyer. Taxpayers who acquire such items or wealth must obtain an invoice to be able to claim input VAT credits on subsequent sales.
- **Thailand:**[xvi] On August 15, 2023, Thailand published Royal Decree No. 779, which establishes corporate income tax and VAT exemptions for transfers of digital investment tokens, effective August 16, 2023. The decree defines a "digital investment token" as a token used for determining the right of a person to invest in a project or business. It also provides corporate income tax and VAT exemptions to companies and juristic partnerships on the income or value of the tax base derived from transferring digital investment tokens issued to the public. Additionally, the decree requires that if the tokens are sold to the public, they must be separately characterized from digital tokens for other purposes for the exemption to apply.

Developments Summary of the Taxation of the Digitalized Economy

KPMG has prepared a development summary to help multinational companies stay abreast of digital services tax developments around the world. It covers both direct and indirect taxes and includes a timeline of key upcoming Organization for Economic Cooperation and Development (OECD), European Union (EU), and G20 meetings where discussion of the taxation of the digitalized economy is anticipated.

Back to top Back to top

E-Invoicing Updates

- **Bangladesh:**[xvii] The National Bureau of Revenue (NBR) recently issued a general order requiring 25 business sectors, including courier services, hotels, and retailers, to use Electronic Fiscal Devices (EFD) for real-time recording of purchase/sale transactions and VAT invoice issuance in both B2B and B2C transactions. This is intended to automate NBR activities and prevent tax evasion. Non-compliance with EFD usage can result in penalties, including financial penalties and temporary business closure.
- **Bolivia:**[xviii] On August 23, 2023, the Bolivian tax authority (SIN) issued National Resolutions (RND) Nos. 102300000026, 102300000027, and 102300000028, extending the permission for taxpayers in Groups 4, 5, and 6 to issue invoices using the computerized invoice system (SFV), assigned Online Invoicing System, and/or the authorized manual system until January 31, February 29, and March 31, 2024, respectively. During the extension period, these taxpayers will be allowed to use any or all of these systems s. After the extension, these taxpayers must use the Online Invoicing System designated by Resolution 102200000024 of 2022 and Resolutions 102300000019 and 102300000020 of 2023. To read reports prepared by the KPMG International member firm in Bolivia, please click here.
- **Egypt:**[xix] On August 22, 2023, the Egyptian Tax Authority (ETA) published Resolution 498/2023, mandating taxpayers doing business in the tourist areas of Stella Heights, Amwaj, Hacienda, Porto Golf Marina, Mountain View, Marassi, Portomarina, Zahran Commercial Center, and Rozana Commercial Center to register for the issuance on e-receipts for sales to final consumers (B2C) effective August 25, 2023.
- **Dominican Republic:**[xx] On August 21, 2023, the Dominican Tax Administration (DGII) announced that public entities must start issuing e-invoices for goods and services they provide. Under Law 32-23, government agencies and other public entities classified as "Large Nationals" (Grandes Nacionales) must begin using e-invoices by May 15, 2024, while all other state agencies must adopt e-invoicing by May 15, 2026. In addition, on August 24, 2023, the DGII updated the list of large taxpayers subject to the e-invoicing mandate under Law 32-23. Depending on the taxpayer, the effective date of the mandate is either January 15, March 15, or May 15, 2024.
- **Malaysia:**[xxi] The Malaysian tax authority, the Inland Revenue Board, and the Malaysian Digital Economy Corporation (MDEC) recently confirmed the phased implementation of electronic invoicing in Malaysia. The initial focus will be on B2B transactions, including imports and exports, starting in 2024. It will extend to B2G transactions in 2026, and it will encompass B2C transactions in 2027. This invoicing model operates on a clearance basis, in which the tax authority performs validation. In this model, the Inland Revenue Board of Malaysia (IRBM) assigns a unique identifier and a QR code to each document. Once the validation process is complete, both the sender and the receiver receive notifications from the IRBM. It is the responsibility of the vendor to transmit the validated PDF to the buyer using their own methods. The IRBM provides a specific timeframe during which e-invoices can be canceled or rejected. This model supports the exchange of various document types, including invoices, debit notes, credit notes, and refund invoices.
- **Panama:**[xxii] On August 22, 2023, Panama's tax administration (DGI) revealed plans to broaden the e-invoicing mandate to cover new taxpayers, including hotels, restaurants, bakeries, and small/medium/large-sized businesses. The DGI Director General stated that a draft law, containing compliance timelines for affected taxpayers, will be proposed to Congress.

- **Poland:**[xxiii] On August 4, 2023, the president of Poland signed into law, Act of June 16, 2023. The Act introduces a mandatory e-invoicing system, the Krajowy System e-Faktur - KSeF. For most taxpayers, the mandatory use of KSeF begins on July 1, 2024. However, small and medium-sized VAT-exempt businesses must start using e-invoicing through KSeF effective January 1, 2025. In addition, on August 7, 2023, the Ministry of Finance proposed a draft regulation to update the e-invoice rules. The changes aim to clarify the roles of parties involved in the remittance and validation of e-invoices, as well as identifying invoice-issuing business locations.
- **Saudi Arabia:**[xxiv] The Zakat, Tax and Customs Authority (ZATCA) announced the criteria for selecting the seventh and eighth group of taxpayers that will be required to comply with the second phase of implementation of the e-invoicing system. According to the announcement, the seventh group will consist of taxpayers with revenues subject to VAT exceeding SAR 50 million during 2021 or 2022. For these taxpayers, the mandate will start between February 1, 2024, and May 31, 2024. The eighth group will consist of taxpayers with revenues subject to VAT exceeding SAR 40 million in 2021 or 2022. The mandate for these taxpayers will take effect from March 1, 2024. Under the regime, VAT-registered taxpayers meeting the criteria need to integrate e-invoicing solutions with the "Fatoora" platform. In addition, taxpayers are required to structure their electronic invoices using a defined electronic format that includes additional elements. To read KPMG's previous discussion of Saudi Arabia's e-invoicing measures, please click here.

Global E-invoicing & Digital Reporting Tracker

KPMG has released an Electronic Invoicing (e-invoicing) and Digital Reporting Global Tracker, providing a summary of tax administration developments relating to e-invoicing and digital reporting around the world. Tax authorities across the globe are constantly striving for visibility into a taxpayer's end-to-end sales process using technology tools that automate the tax reporting process, such as e-invoicing, digital reporting, and e-accounting. These technologies when used by tax authorities can be disruptive and require radical changes in the way taxpayers interact internally as well as with their customers, related parties, and the tax authorities.

Back to top Back to top

Other Indirect Tax Developments and News from Around the World

The Americas

Overview of Indirect Tax Developments in The Americas from KPMG International Member Firms

- **KPMG Canada** published a report discussing a consultation launched by the Canadian Department of Finance on a new draft legislation on outstanding 2023 federal budget measures, technical amendments, and revised draft legislation for certain previously announced measures. The draft includes changes related to the goods and services tax / harmonized sales tax (GST/HST) treatment of credit unions; technical amendments to the GST/HST rules for financial institutions, including exceptions to the new paragraph of the definition of "financial service" of the Excise Tax Act added in the 2023 federal budget related to certain debit and credit card fees; and revised luxury tax draft regulations.

- **KPMG Canada** published a report discussing guidance to help insurance intermediaries determine whether their services are GST/HST-exempt "arranging for" financial services. GST/HST rules generally exempt financial services, including insurance policy issuance and services by intermediaries "arranging for" qualifying financial services. Some administrative services are excluded from this concept, what constitutes exempt "arranging for" a financial service has been litigated over time. The guidance provides examples of services by insurance intermediaries, including managing general agents, third-party administrators, and corporations working on behalf of insurers.
- **KPMG in the Dominican Republic** published a report discussing a draft general rule concerning the appointment of withholding and collection agents for VAT and income tax. The draft designates payment processors, system administrators, aggregators, and other electronic payment entities as agents. For electronic payments, a 2 percent withholding applies to active taxpayers, an 18 percent VAT withholding applies to suspended, discharged or non-recurring taxpayers r. Affiliates with active status selling goods or providing exempt services and taxpayers who are e-receipt (e-CF) issuers are excluded from the regime after filing a request with the tax authority.

United States: Michigan Clarifies Taxability of Software and Digital Goods

The Michigan Department of Treasury recently issued a comprehensive Revenue Administrative Bulletin (RAB 2023-10) addressing the taxation of computer software, computer software service contracts, and digital goods. The new RAB replaces RAB 1999-5 and is retroactive to all tax periods open under the statute of limitations. Generally, prewritten computer software is subject to Michigan sales or use tax as a sale or use of tangible personal property. The RAB notes that although some products can be easily identified as prewritten computer software, other types of products (particularly those characterized as cloud computing) often require a fact-intensive review of the product and how that product is delivered to the consumer to determine whether it qualifies as "prewritten computer software." Characterizations such as IaaS, PaaS, and SaaS are not dispositive as to the taxation of a product; the product will need to be evaluated under applicable statutory provisions and legal principles developed from Michigan case law. The RAB sets forth an analysis that the Department of Treasury will follow when examining software delivery models to determine whether computer software will be taxable. Notably, the Department will examine whether there is some delivery of the software in Michigan and, if so, will apply the incidental to services test to determine whether the transaction is taxable. The RAB also addresses the taxation of digital goods, including NFTs, and micro-transactions, which are commonly referred to as "in app" or "in-game" purchases. Generally, to the extent that an item or product constitutes a "digital good" that does not fall within the definition of "prewritten computer software," it is not subject to sales tax or use tax regardless of whether it is downloaded, streamed, or accessed through a subscription service. However, there are products that may appear to be "digital goods" but actually constitute taxable "prewritten computer software." These products include certain applications and video games downloaded or otherwise installed onto electronic devices such as smartphones, tablets, and game consoles. For more SALT developments, check out This Week in State Tax (TWIST).

Miscellaneous Developments in the Americas

- **Argentina:**[xxv] Effective July 25, 2023, Argentina implemented a new surcharge on foreign currency purchases for importing goods, excluding certain food and energy generation items. The surcharge is based on the Free On Board (FOB) value of the import and rates are either 28.50 percent or 7.125 percent, depending on the good's tariff code under the Mercosur Common Nomenclature. Importers must pay the surcharge along with other duties and charges during the importation process at the Argentinian customs.

- **Aruba:**[xxvi] Effective August 9, 2023, Aruba amended the regulations extending the gross receipts tax to imports. Additionally, the Aruba Customs Department released an updated Import Duty Tariff Book, effective from August 1, 2023. It includes temporary import duty reductions anticipating future legislation for simplification and modernization of import duties. To read KPMG's previous discussion of Aruba's introduction of the border indirect tax levy, please click here.
- **Paraguay:**[xxvii] On August 10, 2023, the Paraguayan tax authority published Binding Consultation No. 351, clarifying that a tax withholding agent is required to withhold 100 percent of VAT and issue an invoice on a single and final payment to contracted personnel if they are unregistered nonprofessionals. However, in the case of payments to professional personal service providers, the withholding agent must withhold 30 percent of VAT, and the provider must register and issue an invoice.
- **Paraguay:**[xxviii] On August 21, 2023, the Paraguayan tax authority published Binding Consultation No. 408, clarifying that insurance and reinsurance services are subject to VAT. In case of cross-border transactions, nonresident companies providing reinsurance services to customers in Paraguay are subject to a 10 percent VAT withholding on 10 percent of the reinsurance price.
- **Saint Lucia:**[xxix] Effective August 2, 2023, Saint Lucia announced a temporary VAT exemption for construction materials and imported medical equipment, through August 1, 2025. Saint Lucia further announced a new tax amnesty program that applies between August 2, 2023, to August 1, 2024, for VAT arrears due up to financial year 2021.

Back to top Back to top

Europe, Middle East, Africa (EMEA)

Overview of Indirect Tax Developments in EMEA from KPMG International Member Firms

- **KPMG Albania** published a report discussing the implementation of tax incentives available to users of the new technological and scientific parks, including customs and VAT exemptions for goods, equipment, and services. The regime was enacted in 2022 and is aimed at high-tech industries, research and development, and innovation industries. These activities include research and development for product or service development, creating new production methods or using advanced technology in software production, improving products and services with substantial changes, and training and professional capacity building for developing and producing innovative products and services. Transferring existing activities in Albania to the parks to benefit from incentives is prohibited.
- **KPMG in the Czech Republic** published reports discussing three recent VAT developments: (1) Clarifications on changes to the VAT Act for real estate effective from January 1, 2024, as it relates to the construction industry; (2) a Supreme Administrative Court ruling allowing input VAT deduction for advertising services at motorcycle races, even if the racer wearing the advertisement only raced for three months due to injury; and (3) a government draft consolidation package that would limit the right to deduct VAT for passenger vehicles in category M1 with a purchase price of over CZK 2 million.
- **KPMG in the Czech Republic** published a report discussing changes to a tax amendment bill that are expected to become effective from January 1, 2024. The updated bill includes a proposal to introduce a unified 12 percent VAT rate for newspapers and periodicals, and measures to slow scheduled increases to excise duty on electronic cigarettes, but accelerate schedules increases in duties on alcohol.

- **KPMG Germany** published a report discussing a draft tax reform bill, which would introduce mandatory e-invoicing requirements and require the buyer of emission certificates to self-assess VAT.
- **KPMG Ghana** published a report discussing direct and indirect tax administration provisions in the 2023 mid-year budget review, including establishing a revenue compliance team to oversee VAT non-registration penalties at importation, updating the integrated customs management system for better product classification and accurate import duties and tax assessment, and enhancing customs operations to improve preventive measures and control of suspense regimes, including special free zone audits.
- **KPMG Mauritius** published a report discussing the extended tax amnesty program included in the Finance Act 2023. The regime offers a full waiver of penalties and interest on outstanding tax amounts as of June 2, 2023, related to income tax, VAT, or gambling regulatory law. To qualify, applicants must apply to the Mauritius Revenue Authority by January 3, 2024, and fully pay tax debts by April 1, 2024. To read KPMG's previous discussion of the tax amnesty program, please click here.
- **KPMG Nigeria** published a report discussing a tax authority notice announcing that tax measures in Finance Act 2023, are effective from September 1, 2023. To read KPMG's previous discussion of the tax measures in the Finance Act 2023, please click here.
- **KPMG Poland** published a report discussing a recent court decision holding that the assignment of rights and obligations under a preliminary land sale contract should be considered a service performed for the recipient against payment, rather than a sale of goods, as they focus on transferring rights and obligations.

Miscellaneous Developments in EMEA

- **Belgium:**[xxx] Belgium recently announced that it will maintain the annual default VAT interest rate of 8 percent and an 8 percent moratorium VAT interest rate for 2024.
- **Bulgaria:**[xxxi] On August 1, 2023, Bulgaria published the Budget Act 2023, which amends the VAT Act effective August 1, 2023. The amendments require taxpayers to report the following information on a quarterly basis: (1) the total amount of cash available (if it exceeds BGN 50,000 at the end of the calendar quarter); (2) the amount of receivables (including from granted loans) from owners who are individuals (if such amount exceeds BGN 50,000 at the end of the calendar quarter); and (3) the amount of receivables (including from granted loans) from workers, employees, persons employed under a management and control contract, and accountable persons (if such amount exceeds BGN 50,000 at the end of the calendar quarter). In addition, Bulgaria has made amendments to the Excise Duties and Tax Warehouses Act (EDTWA), expanding the scope of excise duties on tobacco products. As of August 1, 2023, tobacco substitutes containing nicotine and e-cigarette liquids without nicotine are now considered tobacco products and subject to excise duties. Furthermore, administrative simplifications have been introduced, including exemptions from affixing excise duty labels on certain alcoholic and tobacco products shipped for commercial purposes within the EU.
- **Denmark:**[xxxii] On July 28, 2023, the European Commission proposed authorizing Denmark to extend the application of the flat-rate regime for the private use of light vehicles (weighing up to three tons) until December 31, 2026. Without the special measure, the Danish legislation implies that any private use of such a vehicle registered solely for business purposes would cause the taxpayer to lose the full VAT deduction right on the purchase cost of the vehicle. Under the flat-rate regime, businesses can pay a daily fee of DKK 40 covering the private use of the vehicle up to 20 days per year while still deducting fully the VAT incurred in relation to such vehicles.

- **Egypt:**[xxxiii] The Egyptian Tax Authority (ETA) recently mandated that all businesses subject to VAT must register each of their branches separately and obtain a VAT registration certificate for each branch. The ETA also requires that VAT registration certificates be displayed in a place visible to the public in both the main office (green certificate) and any branches (blue certificate). The ETA considers the failure to register branches a case of tax evasion punishable by law.
- **European Union:** On August 17, 2023, the European Commission published the Implementing Regulation detailing the reporting rules for the Carbon Border Adjustment Mechanism (CBAM) transitional phase, spanning from October 1, 2023, to December 31, 2025. CBAM is designed to address carbon leakage by imposing a carbon price on imported goods based on their embedded emissions and thereby create a level playing field for EU and imported goods, encouraging both EU and foreign producers to reduce their carbon emissions. During the transitional phase, traders must report embedded emissions of imported goods within CBAM's scope, but payments for adjustments are not yet required. The first reporting period ends January 31, 2024. The Implementing Regulation establishes reporting rules for calculating embedded emissions and provides lists of required data. Additionally, the European Commission published two guides on CBAM implementation, an optional communication template for information exchange between importers and installation operators, and announced a series of webinars and e-learning courses on the Customs & Tax EU Learning Portal covering general and sector-specific content. To read KPMG's previous discussion on the EU's CBAM, please click here.
- **France:**[xxxiv] On August 23, 2023, the French General Directorate of Public Finance opened a consultation on new administrative guidelines for VAT rules concerning bundled transactions. The draft rules aim to clarify the VAT treatment of these sales by addressing four aspects: principles and definitions, methods to determine whether the distinct transactions qualify as a single transaction, identifying the correct VAT regime for different elements in a bundled transaction, and the VAT treatment for challenging transactions such as packaging and public procurement contracts. The guidelines would further include an overview of the Court of Justice of European Union case law on bundled transactions. The consultation is open until January 31, 2024.
- **Georgia:**[xxxv] On August 15, 2023, Georgia published a draft bill proposing amendments to the tax code. Among the proposed changes, the bill would prohibit VAT deductions in cases involving false or fictitious VAT invoices. Additionally, the bill would impose import tax rates of 5 percent or 12 percent on the customs value of specified goods.
- **Ghana:**[xxxvi] On August 28, 2023, the Ghanaian Revenue Authority issued guidance detailing online and offline tax registration procedures for individuals and businesses operating in Ghana, regardless of whether they have a physical or virtual presence. The guidance highlights the benefits of registration, including avoiding penalties and obtaining VAT Registration Certificates. Additionally, the guidance provides information on the necessary documentation required for registration, ensuring a smooth process for those looking to comply with Ghana's tax regulations.
- **Isle of Man:**[xxxvii] Effective August 22, 2023, the Isle of Man increased the late payment interest rate to 7.75 percent and the repayment/refund interest rate to 4.25 percent.
- **Israel:**[xxxviii] Israel's tax authorities recently expanded the VAT relief measure for life-saving drugs, targeting seriously ill patients with medication costs exceeding ILS 90,000 per year. The measure ensures VAT refunds for medications not covered by the state's basic healthcare services or "Shaban" additional health insurance programs. The government will also refund import VAT on medicines provided for free to seriously ill patients by pharmaceutical companies.

- **Italy:**[xxxix] On August 14, 2023, the Italian parliament gazetted the Delegation Law, aiming to revise the domestic tax system, reduce the tax burden on taxpayers, and decrease the number of tax disputes. The law sets out general principles and guidelines, including revising the VAT by reviewing the definition of taxable events, available exemptions and deductions, and rationalizing applicable VAT rates and VAT group rules. The law also addresses the gradual phase-out of the regional tax on productive activities (IRAP) and rationalizing other indirect taxes, including registration tax and stamp duties. The government must adopt the necessary legislative measures to implement these principles and guidelines within 24 months from August 29, 2023 when the Delegation Law took effect.
- **Latvia:**[xl] The Latvia State Revenue Service (SRS) recently launched a tax amnesty providing taxpayers with unpaid debts reduced penalties if they settle their debts promptly. Taxpayers can have penalties reduced up to 85 percent or have them completely canceled depending on when they reach an agreement with the SRS. Different terms are offered based on whether the tax due is identified through tax control efforts or a tax audit. All payments, including fees and penalties, must be made within one year of an agreement's conclusion, with a two-year term available for resident natural persons not involved in economic activity.
- **Moldova:**[xli] The tax authority of Moldova recently initiated a public consultation on tax reform. The reform would promote business credit card payments through a VAT deduction for purchases up to MDL 2,000 and a total of MDL 10,000 per tax period. The package also proposes easing import VAT exemption rules for goods exported and promptly returned, reducing the regulatory burden on entrepreneurs using cash register machines connected to the Electronic Sales Monitoring System, and modernizing tax administration by expanding digital communications with taxpayers.
- **Netherlands:**[xlii] On August 14, 2023, the Netherlands published the Small Businesses Regulation Implementation Act, which allows small businesses with annual gross receipts of less than EUR 20,000 to opt to be exempt from VAT for goods and services sold in the Netherlands. Additionally, small businesses in other EU Member States can also opt to be exempt from their VAT obligation in the Netherlands if their EU-wide annual gross receipts do not exceed EUR 100,000. Similarly, Dutch small businesses can request exemption for other EU Member States if their annual gross receipts in the EU are below EUR 100,000. The updated small business rules will generally apply from January 1, 2025.
- **Norway:**[xliii] On August 14, 2023, the Norwegian Tax Administration published Tax Appeals Board Decision No. SKNS1-2023-39 regarding deductions of import VAT on goods imported from abroad for installation in a Norwegian plant. In the case, the taxpayer had contracted with a seller to import goods for installation as production equipment in their manufacturing facility. The Tax Authority argued that the taxpayer could not deduct the VAT incurred on import, as it was attributable to the seller's business activities rather than those of the taxpayer. The Tax Appeals Board ruled in favor of the taxpayer, stating that the ownership of goods is not a requirement to deduct import VAT. In this respect, the right to deduct import VAT is not limited to goods for direct and actual use in a registered business but covers goods that are "relevant" and have a "sufficient and naturally close connection" to the business, which the taxpayer met as the goods were for use as operating assets in its registered business.
- **Seychelles:**[xliv] On July 28, 2023, the Seychelles published the Environment Protection (Tourism Environmental Sustainability Levy) Regulations, which implement an environmental levy for visitors to the Seychelles effective August 1, 2023. The levy small amounts to SCR 25 per night per room for small hotels (24 rooms or less), SCR 75 per night per room medium-sized hotels (25-50 rooms), SCR 100 per night per room and large hotels (over 50 rooms). Tourism establishments must collect and remit the levy to the Seychelles Revenue Commission monthly. Seychelles citizens and residents, children under 12, and airline and yacht crew members are exempt from the levy.

- **South Africa:**[xlv] On July 31, 2023, South Africa launched a consultation on the Draft Taxation Laws Amendment Bill 2023 (draft TLAB), which would amend the VAT treatment of specific transactions in the short-term insurance industry; clarify the VAT treatment of prepaid vouchers in the telecommunications industry; and clarify VAT rules dealing with documentary requirements for gold exports.
- **South Africa:**[xlvi] On August 28, 2023, the South African Revenue Service issued Binding General Ruling No. 65, which clarifies the VAT treatment of rounding differences in cash transactions. The ruling addresses situations in which vendors do not need to issue credit notes for rounding differences in cash sales, the requirement for tax invoices to state that VAT can only be deducted on the adjusted amount in the case of a cash transaction, allowing the recipient business to use the tax invoice issued by the vendor for the purpose of deducting VAT provided that the recipient performs a reasonable split for goods and services subject to different rates.
- **South Africa:**[xlvii] The South African Revenue Service (SARS) recently announced plans to outsource the collection of some tax debts older than five years, starting October 2023. SARS will use third parties to collect overdue debt when no active payment or payment arrangement attempts have been made. Affected taxpayers will be notified before the intervention and given the opportunity to regularize their tax affairs.
- **Sweden:**[xlviii] On August 1, 2023, Sweden's tax agency increased interest rates on outstanding tax liabilities and deferred liabilities. The rate on credit balances in taxpayers' accounts rose from 1.6875 percent to 2.25 percent. The rate for non-payment and late payment increased from 18.75 percent to 20 percent, and the rate on tax debt repayment plans negotiated with the tax authority went up from 3.75 percent to 5 percent.
- **Türkiye:**[xlix] Türkiye recently initiated a public consultation on proposed amendments to the General Communiqué on the Implementation of VAT. The draft clarifies that the sale of cards, passwords, and codes for activating products and services is not subject to VAT, but intermediary services in their sale are. It also addresses VAT exemption for goods and services related to constructing housing for earthquake victims until December 31, 2024, and outlines exemption implementation, VAT refund claims, and joint liability. The draft also amends provisions regarding the abolished VAT exemption for disposal of immovables.
- **Uganda:**[l] On August 17, 2023, Uganda enacted the Value Added Tax (Amendment) (No. 2) Act 2023, which amends the rules applicable to Islamic financial and takaful (i.e., business under Shariah principles) businesses. The Act expands the VAT credit rules for taxpayers involved in Islamic financial businesses, adjusts the tax point rules, and adds exemptions for Islamic financial arrangements. The Act further includes definitions of "Islamic financial business" and "takaful," provisions for takaful business managers to furnish tax returns, and provisions allowing the Commissioner to re-characterize arrangements under Islamic financial business. The amendments are effective from July 1, 2023.
- **United Kingdom:**[li] On August 2, 2023, HMRC updated its guidance on the new VAT penalties regime, introduced from January 1, 2023. The guidance outlines when late interest may be waived for errant taxpayers. It also specifies that late payment interest applies from the first overdue day until fully paid. If the payment is over 15 days late, a late payment penalty will be added, with the amount decreasing the sooner the taxpayer pays. In addition, taxpayers cannot appeal late payment interest charges, but may object to interest charges in certain instances, such as HMRC mistakes, unreasonable delays, or mitigating circumstances. In addition, HMRC will accept interest objections only if the tax has been fully paid.

- **United Kingdom:**[lii] Following the Bank of England Monetary Policy Committee's vote on August 3, 2023, to increase the Bank of England base rate, from 5 percent to 5.25 percent. HMRC interest rates for late payment and repayment will increase to 7.5 percent, from August 14, 2023, for quarterly instalment payments, and from August 22, 2023, for non-quarterly payments. The repayment interest rate will also increase to 4.25 percent.

Back to top Back to top

Asia Pacific (ASPAC)

Overview of Indirect Tax Developments in ASPAC from KPMG International Member Firms

- **KPMG Cambodia** published a report discussing an Instruction from the Ministry of Economy and Finance (MEF) to guide businesses on applying VAT for importing or distributing imported cigarettes in Cambodia, effective August 1, 2023. According to the MEF, for domestic sales, companies must apply a 10 percent VAT on imported cigarettes intended for domestic sale, as with other imported goods. They can also credit VAT incurred from importing or local purchases against VAT collected. In addition, businesses importing cigarettes for the purpose of exporting need only pay the 10 percent VAT upon importation, as previously practiced.
- **KPMG Cambodia** published a report discussing Notification 28271 GDT issued by the General Department of Taxation (GDT) on August 15, 2023. The notice is intended to inform all enterprises in the non-alcoholic beverage industry that produce and sell locally in Cambodia of the new excise tax rates applicable effective September 1, 2023: (1) 15 percent on all kinds of energy drinks; and (2) 5 percent on certain non-alcoholic beverages, including milk-based drinks that undergo high ultraviolet (UV) radiation, soy milk, coconut water-based drinks, coffee-based drinks or drinks with coffee-added flavor, and non-carbonated drinks for instant consumption; and (3) 10 percent on other non-alcoholic beverages not mentioned above
- **KPMG Malaysia** published a report discussing recent tax developments, including updated voluntary disclosure forms and a proposed updated sales tax on low-value goods (LVG) guide. To read KPMG's previous discussion of the postponement of Malaysia's sales tax on low-value goods, please click here.
- **KPMG in the Philippines** published a report discussing changes in the documentation requirements and procedures for VAT refund claim applications, effective July 1, 2023. The new checklist reduces documentation requirements from 30 to a maximum of 22, eliminating the need for VAT returns, withholding VAT returns, and digital copies of sales and purchase documents. In addition, claims filed beyond the two-year period will be accepted but recommended for denial. The tax authority will accept applications from taxpayers with tax delinquencies, but liabilities will be offset against approved refunds.
- **KPMG in the Philippines** published a report discussing the parliamentary approval of tax incentives for the "Philippine Downstream Natural Gas (PDNG) projects" on August 2, 2023. The incentives include a zero VAT rate on liquefied natural gas (LNG) terminals, PDNG transmission systems, and PDNG distribution systems, and natural gas.

Taiwan: Guidance on VAT Refunds for Nonresident Businesses

On August 5, 2023, Taiwan's Ministry of Finance issued a notice outlining VAT refund requirements for foreign business entities purchasing goods or services for exhibitions or temporary business activities in Taiwan. Eligible applicants must have no fixed place of business in Taiwan, have tax registration qualifications in their home country, and the country in which the head office of the business entity is located must provide reciprocal treatment or exempt similar taxes. VAT refunds can be claimed if the purchase of goods or services with VAT amounts totaling TWD 5,000 or more within one year from the date of the first entry. Foreign business entities must obtain and retain relevant documentary evidence. Applications for VAT refunds must be submitted within 18 months of the first entry date or start date of the recalculation term. The competent tax authority for VAT refunds depends on whether the foreign entity applies by itself, appoints a foreign agent, or appoints a local agent. Foreign business entities can access the "Exhibitor's VAT Refund System" on the eTax Portal website for tax refund guidelines and application forms.

Source: Tax Analysts, Taiwan Refunds VAT for Foreign Entities With Temporary Business in Taiwan (Aug. 8, 2023).

Miscellaneous Developments in ASPAC

- **China:**[liii] On August 2, 2023, the Chinese Ministry of Finance published Announcement No. 16/2023 introducing a VAT exemption policy for interest on small and micro loans provided by financial institutions to small- and medium-sized enterprises (SMEs). Effective until December 31, 2027, the policy offers two exemption options: one for interest on small loans not exceeding 150 percent of the announced loan market quotation rate (LPR), and another for interest on micro loans capped at 150 percent of the announced LPR, with VAT applying to excess interest. Financial institutions can choose either option by fiscal year, and the election remains in place for the entire fiscal year.
- **China:**[liv] On August 2, 2023, the Ministry of Finance extended the VAT exemption and reduction policy for small businesses until December 31, 2027. This policy provides tax relief through VAT exemptions for businesses earning up to CNY 100,000 monthly, and a reduced one percent levy rate (or prelevy) on taxable sales income ordinarily subject to the 3 percent rate or pre-levy rate.
- **India:**[lv] On July 17, 2023, the Central Board of Indirect Taxes and Customs (CBITC) issued Circular No. 196/08/2023-GST clarifying that Goods and Services Tax (GST) does not apply to the holding of shares by a holding company in its subsidiary company. According to the CIBTC, securities are neither considered goods nor services under the Central Goods and Services Tax (CGST) Act. Additionally, the purchase or sale of shares or securities is not a sale of goods or services. Finally, a holding company cannot be said to provide a service to its subsidiary company solely based on the Service Accounting Code (SAC) entry "997171," unless there is a provision of services in accordance with section 7 of the CGST Act.
- **New Zealand:**[lvi] Effective August 29, 2023, New Zealand increased the use of money interest (UOMI) rates on both underpayments and overpayments of tax and duties, aligning them with market rates. The rate charged on underpaid tax and duty increased from 10.39 percent to 10.91 percent, while the rate for overpayments increased from 3.53 percent to 4.67 percent.
- **New Zealand:** New Zealand's Inland Revenue recently launched a consultation on two draft interpretation statements regarding GST grouping. The first statement, "GST Grouping for Companies," outlines the consequences of GST grouping for companies, including that the representative member is treated as carrying on all group members' activities and claims all

GST deductions. The statement further explains how the GST grouping rules can change the GST treatment of certain inter-company transactions and provides examples illustrating the application to various scenarios. The second statement, "GST - Who can group register?," details the two tests for group registration: one for companies with at least 66 percent common ownership interests, and another for non-companies and limited partnerships under common control, allowing them to form mixed groups. The statement further discusses special grouping requirements for non-residents.

Back to top Back to top

About *Inside Indirect Tax*

Inside Indirect Tax is a monthly publication from the KPMG U.S. Indirect Tax practice. Geared toward tax professionals at U.S. companies with global locations, each issue will contain updates on indirect tax changes and trends that are relevant to your business.

Back to top Back to top

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