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Quarterly tax developments

Things to know about this quarter's tax developments and related US GAAP accounting implications

Updated through 31 March 2024

EY

Building a better working world

Welcome to our March 2024 Quarterly tax developments publication, which focuses on income tax developments that could affect US GAAP accounting. This edition is updated for certain developments identified from 18 March through 31 March 2024. New developments are designated by an asterisk (*) after the state or country name.

Here we describe certain tax developments previously summarized in Tax Alerts or other EY publications or identified by EY tax professionals or EY foreign member firms. These developments may affect your tax provision or estimated annual effective tax rate.

We compile this information because we recognize that, for many companies, the most challenging aspect of accounting for income taxes is identifying changes in tax law and other events when they occur so the accounting can be reflected in the appropriate period. However, this publication is not a comprehensive list of all changes in tax law and other events that may affect income tax accounting.

*We list EY publications that you can access through our **Tax News Update website**, if you are registered. Anyone interested in registering should contact Amy Herlihy at **amy.herlihy@ey.com**.*

*See our **previous editions** for additional tax developments.*

Tax developments

Legislation enacted in the first quarter for US GAAP purposes

Companies are required to account for the effects of tax law changes on their deferred tax assets and liabilities in the period the legislation is enacted. Similarly, companies must reflect the effects of an enacted change in tax laws or rates in their annual effective tax rate computation in the period the changes are enacted. If an interim change is significant, temporary differences may need to be estimated as of the enactment.

Federal, state and territories

South Carolina – On 11 March 2024, South Carolina enacted legislation outlining the circumstances under which the state's Department of Revenue may require a taxpayer to file a combined return as an alternative apportionment method. The changes are effective upon enactment and apply to all open tax periods, except those currently under judicial review. See Tax Alert 2024-0577, dated 11 March 2024.

IRC conformity

The chart below lists the states that enacted legislation this quarter updating their conformity to the US Internal Revenue Code (IRC). The chart includes enactment and effective dates, the date of conformity and IRC provisions to which the state decided not to conform. Additional information on the state's IRC conformity can be found in the cited reference.

State	Enactment date	Date of conformity	Effective date	Reference
Idaho	1 February 2024	1 January 2024	Retroactively effective to 1 January 2024	State and Local Tax Weekly for 2 February 2024 and 9 February 2024
South Dakota	5 February 2024	1 January 2024 (for bank franchise tax)	1 July 2024	State and Local Tax Weekly for 2 February 2024 and 9 February 2024
West Virginia	7 February 2024	Changes made on or before 31 December 2023	Retroactively effective to the extent permitted under federal law	State and Local Tax Weekly for 2 February 2024 and 9 February 2024

International

Hong Kong – On 1 March 2024, Hong Kong enacted legislation that improves the preferential tax regime for aircraft leasing by allowing lessees to deduct 100% of their aircraft acquisition costs in the first year. The change is retroactively effective for financial years ending on or after 1 April 2023. See Tax Alert 2024-0542, dated 7 March 2024.

Japan*[1] – On 30 March 2024, Japan enacted legislation introducing an innovation box regime for software from in-house research and development (R&D) related to artificial intelligence (AI). Under the regime, taxpayers may deduct 30% of qualified income from domestic transfers or domestic or international licensing of the software. The regime applies to certain patent rights and copyrights for AI technology acquired or produced on or after 1 April 2024, and qualified income from 1 April 2025 to 31 March 2032.

[1] A Tax Alert has not been published on the law's enactment. For discussion of the tax reform outline on which the bill is based, see Tax Alert 2024-0357, dated 7 February 2024.

The legislation also:

- Taxes transfers of intangible property by a Japanese subsidiary to its foreign parent (effective for in-kind contributions made on or after 1 October 2024)
- Extends the carryforward period for excess interest under the earnings-stripping rules to 10 years from seven years (for tax years starting on or after 1 April 2022 through 31 March 2025)

Nigeria — On 6 March 2024, Nigeria enacted legislation with new tax incentives for the oil and gas industry provided certain requirements are met, including:

- Tax credits for non-associated gas greenfield developments in onshore and shallow-water terrains, with first gas production on or before 1 January 2029
- A 25% investment allowance that eligible gas utilization companies may apply to qualifying expenditures on new plants and equipment

The incentives are effective beginning 28 February 2024. See **Tax Alert 2024-0606**, dated 14 March 2024.

United Kingdom[2] — On 22 February 2024, the United Kingdom enacted legislation making permanent the provision permitting immediate capital expensing for firms investing more than GBP1 million a year on plants and machinery. The provision had previously been effective only for qualifying new plant and machinery purchased from 1 April 2023 until 31 March 2026.

Other changes include:

- Extending the expiration date of the tax benefits from Investment Zones by five years to 2031 and announcing five new Investment Zones
- Amending the rules for real-estate investment trusts (REITs), including exempting certain investors from rules requiring REIT holdings of 10% or more to be fragmented

Unless otherwise indicated, the changes are effective 1 April 2024.

Legislation effective in the first quarter

Federal, state and territories

Arkansas — Effective for tax years beginning 1 January 2024, a seven-year phaseout begins of the throwback rule, which assigns a sale to Arkansas when the shipment originated in Arkansas and the company is not taxable in the destination state. The changes were enacted 10 April 2023. See the **State and Local Tax Weekly for 14 April 2023**.

Nebraska — For tax years beginning on or after 1 January 2024, the corporate income tax rate temporarily decreases to 5.84% (from 7.25%) for income above $100,000. Additional reductions will occur from 2025 through 2027. The changes were enacted 31 May 2023. See **Tax Alert 2023-0991**, dated 2 June 2023.

New Hampshire — Effective for tax years beginning on or after 1 January 2024, New Hampshire decouples from IRC Section 163(j) for gross business profits tax purposes. Taxpayers may also deduct previously disallowed interest expense equally over three years. These changes were enacted 28 July 2023. See the **State and Local Tax Weekly for 4 August 2023 and 11 August 2023**.

New Jersey — For privilege periods beginning on or after 1 January 2024, eligible concrete producers may claim a credit for corporation business taxes for (1) delivering low embodied carbon concrete or concrete that used carbon capture, utilization and storage technology and (2) the costs of conducting an environmental product declaration analysis of low carbon concrete. The changes were enacted 30 January 2023. See the **State and Local Tax Weekly for 3 February 2023**.

[2] A Tax Alert reflecting the law's enactment has not been published. For discussion of the proposed provisions, see **Tax Alert 2023-1945**, dated 22 November 2023.

Oregon — Effective for tax years beginning on or after 1 January 2024, eligible taxpayers in the semiconductor industry may claim a temporary R&D tax credit. The new credit is based on the federal research credit and equals 15% of the "excess amount" of qualified research activity performed in Oregon by a qualified semiconductor company in support of a trade or business directly related to semiconductors. Unused credits may be carried forward up to five years. The credit cannot exceed $4 million per taxpayer and expires before 1 January 2030. The changes were enacted 18 July 2023. See the **State and Local Tax Weekly for 21 July 2023 and 28 July 2023**.

International

Austria[3] — Effective for tax years beginning 1 January 2024, the corporate income tax rate decreases to 23% from 24%. For corporations with a fiscal year ending on a date other than 31 December, composite rates apply. The changes were enacted 14 February 2022.

Belgium — Effective for tax years ending on or after 31 December 2023, certain undistributed passive profits of a controlled foreign company (CFC) directly owned by a controlling Belgian company will be taxed, unless a safe harbor applies. To avoid double taxation, companies may, subject to certain conditions:

- Claim a carryforward nonrefundable foreign tax credit
- Apply the dividend received deduction regime on dividends received from the CFC
- Apply the participation exemption on capital gains realized on the shares in the CFC

The changes were enacted 21 December 2023. See **Tax Alert 2024-0248**, dated 22 January 2024.

Brazil — Effective 1 January 2024, companies must apply arm's-length transfer pricing rules to all cross-border intercompany transactions. The new rules broaden the related parties concept and align transfer pricing methods with the standards of the Organisation for Economic Co-operation and Development (OECD). The changes were enacted 15 June 2023. See **Tax Alert 2023-1078**, dated 16 June 2023.

Beginning 1 January 2024, companies must also add certain state and local tax incentives to their federal corporate income tax base. They may claim a tax credit on 25% of their tax incentives for expansion/modernization projects carried out jointly with a public entity/authority. Other changes include reductions on the calculation basis for interest on net equity paid or credited as a means of remunerating shareholders. The changes were enacted 29 December 2023. See **Tax Alert 2024-0153**, dated 9 January 2024.

Canada — Beginning 1 January 2024, first-year rates of depreciation decrease for certain property, depending on when it becomes available for use. Enhanced first-year resource-related deductions also decrease beginning 1 January 2024. The changes were enacted 21 June 2019. See **Tax Alert 2019-1145**, dated 24 June 2019.

Czech Republic[4] — Effective for tax years beginning on or after 1 January 2024, the corporate tax rate increases to 21% from 19%. The change was enacted 12 December 2023.

Ecuador[5] — Effective 1 January 2024, income tax does not apply for 10 years to income from new investments in renewable energy projects. Other changes include replacing Special Economic Development Zones with Free Trade Zones, which offer a 0% income tax rate for five years on income earned by a business operating in a Free Trade Zone and a 15% rate for the remainder of the time the business operates in the zone. The changes were enacted 20 December 2023.

Hong Kong — Effective 1 January 2024, the scope of disposal gains broadens to cover more asset classes under the foreign-sourced income exemption regime. The revised regime also:

- Excludes traders' disposal gains without requiring them to have substantial business activities in Hong Kong

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[3] A Tax Alert has not been published on these developments.

[4] Id.

[5] A Tax Alert has not been published on this development. For discussion of the bill's content upon introduction by the president, see **Tax Alert 2023-2008**, dated 6 December 2023.

- Allows tax to be deferred following an intra-group transfer if certain conditions are satisfied (e.g., requiring sellers and buyers to remain associated and be subject to Hong Kong profits tax for two years)
- Uses the nexus ratio to determine the tax-exempt portion of foreign-sourced gain from an intellectual property (IP) disposal following a tax-free transfer within an affiliated group

The changes were enacted 8 December 2023. See **Tax Alert 2023-2052**, dated 12 December 2023.

Separately, a new safe harbor rule considers Hong Kong-sourced equity disposal gains derived from 1 January 2024 to be nontaxable capital gains in Hong Kong, provided certain conditions are met. The changes were enacted 15 December 2023. See **Tax Alert 2023-2052**, dated 12 December 2023.

Italy — Effective 1 January 2024, new simplified alternative rules apply to the potential attribution of a CFC's income to its Italian parent. Other changes include:

- Introducing a penalty protection regime for hybrid mismatches under the Anti-Tax Avoidance Directive n. 2017/952 (ATAD 2) of the European Union (EU), with implementing measures to be issued soon
- A temporary 50% exemption from income tax and local tax (i.e., IRAP) for income from non-EU businesses that move to Italy without having operated in Italy during the last 24 months (the benefit is subject to recapture if the business relocates, wholly or partially, outside Italy within five or 10 years of the benefit's expiration)
- Aligning the tax residence rules for Italian corporations to the leading international practice so that a corporation is considered a tax resident in Italy if its place of effective management or day-by-day management is in Italy

The changes were enacted 28 December 2023. See **Tax Alert 2024-0260**, dated 23 January 2024.

Luxembourg — Effective 1 January 2024, the rate on the global investment tax credit (ITC) increases to 12% from 8%, and the credit's EUR150,000 cap no longer applies. A new 18% ITC also applies for qualified investments and business expenses related to the digital transformation or energy and ecological transition. The 13% tax credit for complementary investments was eliminated. The changes were enacted 22 December 2023. See **Tax Alert 2023-0243**, dated 22 January 2024.

Netherlands[6] — Effective 1 January 2024. A limited look-through rule applies to the withholding tax on certain dividends. The changes were enacted 27 December 2023.

Norway[7] — Effective 1 January 2024, Norwegian income tax applies to income derived by foreign entities participating in certain exploration or extraction business activities on the Norwegian continental shelf and in the 200-nautical-mile zone. Norwegian income tax also extends to income from various types of ship transport, supply services and service activities connected with these exploration-related activities (e.g., transport of personnel and catering activities), as well as activities connected with the construction and maintenance of facilities. The Ministry of Finance may exempt certain types of ship transport from tax liability.

Other changes include:

- Limiting deductions for interest expense on certain related party debt
- Increasing the limit on immediate deductions for non-substantial fixed assets to NOK30,000 from NOK15,000

The changes were enacted 20 December 2023.

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6 A Tax Alert has not been published on the legislation's enactment. For discussion of the bill upon passage by the Dutch Parliament, see **Tax Alert 2023-2098**, dated 19 December 2023.

7 A Tax Alert has not been published on this development. For discussion of the bill's content upon introduction to Parliament, see **Tax Alert 2023-1725**, dated 16 October 2023.

Effective 1 January 2024,[8] a 25% resource-rent tax on onshore wind power applies alongside the 22% ordinary corporate income tax. The 25% tax is designed as a cash flow tax with deductions for new investments, losses on the realization of fixed assets, certain operating expenses, property taxes and certain corporate income taxes. Finance expenses, sales and marketing expenses, and voluntary payments to municipalities are not deductible. The changes were enacted 19 December 2023.

Slovenia[9] — For business years beginning after 1 January 2024, the corporate income tax rate temporarily increases to 22% from 19% to raise funds to support areas affected by recent flooding. The increased rate applies through 2028. The changes were enacted 22 December 2023.

Spain[10] — Effective 1 January 2024, consolidated tax groups that could only claim 50% of their individual current-year losses in 2023 may claim the remaining 50% of those losses over 10 years. The changes were enacted 28 December 2022.

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8 Id.

9 A Tax Alert has not been published on this development.

10 Id.

Other considerations

Court decisions, regulations issued by tax authorities and other events may constitute new information that could trigger a change in judgment in recognition, derecognition or measurement of a tax position. These events also may affect your current or deferred tax accounting.

Federal, state and territories

Federal — The Internal Revenue Service (IRS) finalized two sets of regulations on direct-pay elections for certain tax credits, which taxpayers may elect to apply as a payment against their federal income tax liabilities. The IRC Section 6417 final regulations apply to direct-pay elections for certain energy credits under IRC Section 6417, which was added by the Inflation Reduction Act. The IRC Section 48D final regulations apply to direct-pay elections of the advanced manufacturing investment credit, which was enacted by the Creating Helpful Incentives to Produce Semiconductors Act of 2022. Both sets of final regulations adopt the proposed regulations with some modifications.

The final regulations are generally effective 10 May 2024 and apply to tax years ending on or after 11 March 2024. For tax years ending before that date, taxpayers may choose to apply the final regulations to property that is placed in service after 31 December 2022 if they apply the rules in their entirety and consistently. See **Tax Alert 2024-0624**, dated 18 March 2024.

In a revenue procedure, the IRS effectively permitted public utilities to enter into securitization transactions with state financing entities that result in bond issuances without recognizing the income from receiving cash in exchange for a securitized revenue stream. The revenue procedure is effective on or after 29 February 2024 and may be applied to securitizations issued before that date. See **Tax Alert 2024-0500**, dated 1 March 2024.

California — The Franchise Tax Board reminded companies in an online publication that California has not conformed to changes made by the Tax Cuts and Jobs Act (TCJA) to the deduction of research expenses under IRC Section 174. As such, companies may need to adjust their California return to account for differences between federal and state provisions. See the **State and Local Tax Weekly for January 5 and 12, 2024**.

Indiana — In an updated information bulletin, the Department of Revenue outlined differences between Indiana law and the TCJA in the tax treatment of specified research and experimental expenses. According to the bulletin, Indiana law allows companies to deduct 100% of specified research and experimental expenses in the year the expense is paid or incurred, for tax years 2022 or later. See the **State and Local Tax Weekly for 2 February 2024 and 9 February 2024**.

New York[11] — The Department of Taxation and Finance (Department) finalized regulations implementing comprehensive franchise tax reform for corporations, banks and insurance companies, which was enacted in 2014, with subsequent technical and conforming amendments enacted in 2015 and 2016. The final regulations are substantially similar to proposed regulations (from August 2023) and are effective 27 December 2023, with retroactive application to tax years beginning on or after 1 January 2015. The Department may decide in some instances to not apply penalties where taxpayers took a position in their tax filings prior to the adoption of the proposed rule. See **Tax Alert 2024-0140**, dated 8 January 2024.

Pennsylvania — In a bulletin, the Department of Revenue provided guidance on applying market-based sourcing for sales of intangible property. The guidance defines certain terms and includes examples of how the sourcing rules apply in different scenarios. Under the guidance, companies may petition to use an alternative apportionment formula if the prescribed apportionment provisions do not fairly represent their business activities in the state. See the **State and Local Tax Weekly for January 5 and 12, 2024**.

South Carolina — The Administrative Law Court confirmed that the South Carolina Department of Revenue could use combined unitary reporting to apportion a Tennessee retailer's income to South Carolina rather than separate entity reporting as required by statute. Citing the absence of a reliable transfer pricing study and improper shifting of the retailer's income to a related company in Texas, the court concluded that separate reporting did not accurately reflect the retailer's business activity in South Carolina. See **Tax Alert 2024-0244**, dated 22 January 2024.

[11] This development occurred in December 2023.

International

Cyprus — The government announced the 10-year government bond yield rates for various countries as of 31 December 2023. Companies use these yield rates to determine the reference interest rate for their notional interest deduction for the 2024 tax year. See **Tax Alert 2024-0579**, dated 12 March 2024.

European Union — The EU Council removed Bahamas, Belize, Seychelles and Turks and Caicos Islands from Annex I of its list of noncooperative jurisdictions for tax purposes, which identifies jurisdictions whose tax policies fail to meet EU standards by the required deadline. Twelve countries remain on the Annex I list.

The Council removed Albania, Aruba, Botswana, Dominica, Hong Kong and Israel from Annex II. Annex II identifies jurisdictions that are making progress on reforming their tax policies to meet EU standards but remain subject to close monitoring. Ten countries remain on the Annex II list. See Tax Alerts **2024-0445**, dated 22 February 2024, and **2024-0542**, dated 7 March 2024.

Germany — In updated guidance, the Ministry of Finance noted that an employee's remote work generally does not constitute a permanent establishment (PE) for German tax or tax treaty purposes because the employer does not have sufficient power of disposal over the employee's premises. The conclusion could change if the employee exercises management functions.

The Finance Ministry noted that determining the place of effective management hinges on where the company actively conducts its regular business operations and organizational measures. Companies conducting management activities at multiple locations must generally weigh how significant the activity is at each location to determine the main place of management. See **Tax Alert 2024-0602**, dated 14 March 2024.

India — The Delhi Bench of the Income Tax Appellate Tribunal held that a US company facilitating airline and hotel bookings in India did not have an Indian PE. The Tribunal reasoned that the company did not have a fixed place of business in India because (1) Indian agents could not directly access its computer reservation system and (2) the US company did not provide Indian travel agents with any equipment or facilities within India. See **Tax Alert 2024-0602**, dated 14 March 2024.

Italy — In a final decree, the Minister of Economy and Finance implemented the Investment Management Exemption regime, which allows eligible foreign investment vehicles and their direct or indirect subsidiaries to qualify for a presumption that they have no Italian PE even though an asset or investment manager or an advisor operates in Italy on their behalf or for their benefit.

The final decree, which largely mirrors the draft version, defines foreign investment vehicle and outlines the criteria it must meet to qualify as an independent vehicle. Satisfaction of these requirements, among others, may allow the foreign investment company to qualify for the presumption. See **Tax Alert 2024-0530**, dated 6 March 2024.

New Zealand — The government announced that New Zealand will not adopt the OECD's new transfer pricing rules for in-country baseline marketing and distribution activities (i.e., Amount B) under Pillar One of the Base Erosion Profit Shifting (BEPS) 2.0 initiative. Existing transfer pricing rules and practice will continue to apply to determine arm's-length outcomes for foreign-owned distributors operating in New Zealand. Small foreign-owned wholesale distributors with revenue under NZD30 million may continue to apply an existing domestic simplification measure. See **Tax Alert 2024-0450**, dated 23 February 2024.

OECD — In a final report, the OECD outlined new transfer pricing rules under the Pillar One initiative. The new rules apply to in-country baseline marketing and distribution activities (i.e., Amount B) and will be included in the OECD's transfer pricing guidelines. Unlike other BEPS 2.0 measures, the new rules do not include a minimum revenue threshold, so they could apply to many multinational businesses.

Jurisdictions can choose to apply the new rules for fiscal years starting on or after 1 January 2025. See **Tax Alert 2024-0449**, dated 22 February 2024.

Peru — The Tax Court (Court) held that a 5% withholding tax applies to deemed distributions from Peruvian branches to an Ecuadorian parent. The Court reasoned that the branches were resident in Peru, not Ecuador, because Peruvian tax law treats branch companies as separate from the parent company (taxed only on their Peruvian-source income). In response to the taxpayer's claim that Peruvian

tax law discriminated against them by requiring them to pay withholding tax on deemed dividend distributions, the Court noted that Peruvian companies must also pay withholding tax on dividend distributions, just at a different time (i.e., when the dividends are paid rather than the deadline for filing the annual income tax return). See **Tax Alert 2024-0504**, dated 4 March 2024.

Philippines — In a Revenue Memorandum Circular, the Bureau of Internal Revenue (BIR) clarified that 25% withholding tax applies to service payments to a foreign company even if those services were performed offshore. The BIR reasoned that the payments are Philippine-sourced income of the foreign service provider because related activities in the Philippines are so essential that the entire service transaction cannot be accomplished without them. See **Tax Alert 2024-0257**, dated 23 January 2024.

Saudi Arabia — In regulations, the government outlined the criteria for claiming tax benefits under its Regional Headquarters program. The program grants a 0% corporate income tax rate and 0% withholding tax rates for dividends, related party payments and certain payments to unrelated service providers to eligible multinational companies that relocate their regional headquarters to Saudi Arabia. See **Tax Alert 2024-0439**, dated 21 February 2024.

Switzerland — In a set of questions and answers, federal tax authorities clarified how to assess whether intercompany transactions between affiliates occur at arm's length. The Q&As included examples of how to apply specific methodologies and how to treat financial transactions and adjustments within the context of Swiss tax law. They also included an example of a comparability analysis. See **Tax Alert 2024-0488**, dated 29 February 2024.

United Arab Emirates — In a corporate tax guide, the Federal Tax Authority explained that companies in a consolidated tax group may only exclude income from their foreign PE if the group's parent elects to exclude that income. If the parent elects to exclude the PE's income, the election will apply to all group members, including new members joining the group.

When determining a PE's income, companies must apply the arm's-length standard and treat the PE as if it were a separate, independent entity. See **Tax Alert 2024-0366**, dated 8 February 2024.

United Kingdom — In operational guidance, His Majesty's Revenue & Customs outlined how to analyze economically significant risk when conducting a transfer pricing analysis. The guidance incorporates the OECD's six-step process for analyzing risk, which is outlined in its transfer pricing guidelines. See **Tax Alert 2024-0363**, dated 8 February 2024.

Vietnam — In an official letter, the government clarified that treaty benefits will not apply to income from the transfers of shares in a Vietnamese company unless the nonresident claiming treaty benefits is the beneficial owner of the income. See **Tax Alert 2024-0535**, dated 6 March 2024.

Things we have our eyes on

National, state and local governments continue to seek to increase their revenues. Companies should continue to monitor developments in this area. Some of these potential tax law changes are summarized here.

Federal, state and territories

Corporate tax – The Biden administration released its fiscal year 2025 budget and explanation of its revenue proposals (the Green Book). Proposed changes to US corporate income tax rules include:

- Increasing the corporate alternative minimum tax to 21% from 15%
- Raising the corporate income tax rate to 28%, and together with other changes to the global intangible low-taxed income (GILTI) regime, raising the effective rate on GILTI to 21%
- Eliminating a corporation's ability to transfer property to its shareholders without the transfer qualifying as a dividend
- Changing the requirements for tax-free divisive reorganizations
- Ending corporate deductions for the compensation costs for any employee (not just top executives) of more than $1 million per year
- Modifying the GILTI regime to align with the global minimum tax rules under Pillar Two
- Replacing the Base Erosion and Anti-avoidance Tax with an undertaxed-profits rule and introducing a domestic minimum top-up tax similar to the OECD's Pillar Two model rules but allowing taxpayers to continue benefiting from tax credits and incentives that promote US jobs and investment, including clean energy tax provisions enacted in the Inflation Reduction Act
- Repealing the tax benefit for foreign-derived intangible income and replacing it with unspecified R&D benefits
- Providing a new general business credit for businesses that bring back jobs to the US
- Eliminating tax preferences for fossil fuels

See Tax Alerts **2024-0578,** dated 11 March 2024; **2024-0612**, dated 15 March 2024; **2024-0615**, dated 15 March 2024; **2024-0618,** dated 15 March 2024; **2024-0619,** dated 15 March 2024.

Tax incentives — The U.S. House of Representatives passed the Tax Relief for American Families and Workers Act of 2024 (H.R. 7024), which would restore IRC Section 174 expensing for domestic R&D and the prior parameters around interest expense deductibility under IRC Section 163(j). The changes would be retroactive to 2022 (with elections) and extended through 2025. Other proposals include extending 100% bonus depreciation. The bill is with the Senate awaiting consideration. See Tax Alerts **2024-0325**, dated 1 February 2024, and **2024-0403**, dated 14 February 2024.

California — In the 2024-25 State Budget, the Governor proposed conforming to federal rules that limit usage of carryforward net operating losses (NOLs) to 80% of taxable income. Other proposals include eliminating the immediate deduction for intangible drilling costs, percentage depletion rules for fossil fuels and credit for enhanced oil recovery costs. The changes would be retroactively effective to 1 January 2024. See **Tax Alert 2024-0534**, dated 6 March 2024.

Illinois — In the FY2025 State Budget (Budget), the Governor proposed extending the expiration date for the limitation on corporate net loss deductions, which is set to expire at the end of 2024. The Budget also contains a proposal to increase the cap on allowable corporate losses to $500,000 from $100,000. See **Tax Alert 2024-0534**, dated 6 March 2024.

New Hampshire — The Department of Revenue Administration proposed regulations that would permit businesses to deduct their disallowed interest expense under IRC Section 163(j) over three consecutive years, provided certain conditions were met. Other changes include modifying the apportionment formula to effectively increase how much income an out-of-state financial institution apportions to New Hampshire. See the **State and Local Tax Weekly for 16 February 2024 and 23 February 2024**.

New Jersey — The Governor proposed reinstating the 2.5% corporate surtax on top of the current 9% Corporation Business Tax for corporations with income over $10 million. See **Tax Alert 2024-0534**, dated 6 March 2024.

Rhode Island — In the FY 2025 budget, the Government proposed extending the carryforward period for NOLs to 20 years from five years, beginning with losses in tax year 2025. Other changes include decreasing the corporate minimum tax to $350 from $400 a year. See **Tax Alert 2024-0534**, dated 6 March 2024.

Vermont — The Department of Taxes proposed amendments to rules on allocating and apportioning corporate net income to Vermont so they align with the state's previously enacted change from a three-factor (property, payroll and double weighted-sales) apportionment formula to single sales factor apportionment. Proposed changes also would reflect:

- Repeal of the throwback rule, which assigns a sale to Vermont when the shipment originated in Vermont and the company is not taxable in the destination state
- Repeal of special rules for the property factor in the former three-factor apportionment formula

Conforming changes would also be made to the rules on unitary combined reporting to reflect the repeal of Vermont's so-called "80/20 provisions," reflect a change to the definition of a unitary business, a change to how a group calculates its combined net income, and the repeal of NOL carryforwards and carrybacks under the rules on attributes of a separate corporation, among other things. See the **State and Local Tax Weekly for 19 January 2024 and 26 January 2024.**

International

Gibraltar[12] —In draft legislation, the government proposed taxing the interest income of insurers and distributed ledger technology firms. The change would apply retroactively for tax years beginning on or after 1 February 2024.

Hong Kong — In its 2024/25 Budget, the government proposed a new patent box regime that would allow tax eligible income from patents or patent-like intellectual property in Hong Kong to be taxed at a 5% rate. The new regime would comply with Action 5 of OECD's BEPS initiative.

Other proposals include:

- Allowing purchasers of industrial and commercial buildings and structures that have already been depreciated over 25 years to claim tax depreciation (i.e., capital allowances) on those purchases if certain conditions are met
- Allowing a tax deduction for expenses incurred in restoring leased premises to their original condition

See **Tax Alert 2024-0542**, dated 7 March 2024.

Singapore — In its 2024 Budget, the government proposed changes to existing tax incentives to give existing and prospective incentive recipients greater flexibility in choosing the appropriate incentive award. The changes include adding a new 15% rate to the possible rate options for various incentives (including the Development and Expansion Incentive and Intellectual Property Development Incentive). A new 10% rate would be added to the possible rate options for other incentives, such as the Finance and Treasury Centre Incentive. See **Tax Alert 2024-0447**, dated 22 February 2024.

United Kingdom — In its Spring Budget, the government proposed extending the expiration date of the Energy (Oil and Gas) Profits Levy (EPL) by one year, to 31 March 2029, and providing additional tax relief for the creative sector (e.g., theater and film industries). It also promised to allow full expensing for leased assets when the government has reached a certain funding level. See **Tax Alert 2024-0541**, dated 7 March 2024.

[12] A Tax Alert has not been published on the publication of the draft legislation. For discussion of the proposals before legislation was published, see **Tax Alert 2024-0277**, dated 26 January 2024.

Appendix I

Pillar Two legislation – US GAAP enactment status

This following table reports the enactment status under US GAAP of the implementation of Pillar Two legislation in various countries. This information is complete through 19 March 2024.

For up-to-date information on Pillar Two developments, please see our **Pillar Two tracker**, which is updated weekly.

		QDMTT		IIR		UTPR		IFRS	US GAAP	IAS 12
No.	Country	Adopted	Entry into effect	Adopted	Entry into effect	Adopted	Entry into effect	substantively enacted as of 20 February 2024	enacted as of 20 February 2024	IFRS adapted local country endorsement
1	Austria	✓	31-Dec-23	✓	31-Dec-23	✓	31-Dec-24	✓	✓	✓
2	Belgium	✓	31-Dec-23	✓	31-Dec-23	✓	31-Dec-24	✓	✓	✓
3	Bulgaria	✓	31-Dec-23	✓	31-Dec-23	✓	31-Dec-24	✓	✓	✓
4	Croatia	✓	31-Dec-23	✓	31-Dec-23	✓	31-Dec-24	✓	✓	✓
5	Czech Republic	✓	31-Dec-23	✓	31-Dec-23	✓	31-Dec-24	✓	✓	✓
6	Denmark	✓	31-Dec-23	✓	31-Dec-23	✓	31-Dec-24	✓	✓	✓
7	Finland	✓	31-Dec-23	✓	31-Dec-23	✓	31-Dec-24	✓	✓	✓
8	France	✓	31-Dec-23	✓	31-Dec-23	✓	31-Dec-24	✓	✓	✓
9	Germany	✓	31-Dec-23	✓	31-Dec-23	✓	31-Dec-24	✓	✓	✓
10	Hungary	✓	31-Dec-23	✓	31-Dec-23	✓	31-Dec-24	✓	✓	✓
11	Ireland	✓	31-Dec-23	✓	31-Dec-23	✓	31-Dec-24	✓	✓	✓
12	Italy	✓	31-Dec-23	✓	31-Dec-23	✓	31-Dec-24	✓	✓	✓
13	Japan	×	Not applicable	✓	1-Apr-24	×	Not applicable	✓	✓	×
14	Liechtenstein	✓	1-Jan-24	✓	1-Jan-24	✓	1-Jan-25	✓	✓	✓
15	Luxembourg	✓	31-Dec-23	✓	31-Dec-23	✓	31-Dec-24	✓	✓	✓
16	Malaysia	✓	1-Jan-25	✓	1-Jan-25	×	Not applicable	✓	✓	✓
17	Malta	×	Delayed	×	Delayed	×	Delayed	✓	✓	·
18	Mauritius*	✓	Final legislation		Unclear		Unclear	·	·	·
19	Netherlands	✓	31-Dec-23	✓	31-Dec-23	✓	31-Dec-24	✓	✓	✓
20	Norway	✓	12-Jan-24	✓	12-Jan-24	×	Not applicable	✓	✓	×
21	Qatar*		Unclear		Unclear		Unclear	·	·	·
22	Romania	✓	31-Dec-23	✓	31-Dec-23	×	31-Dec-24	✓	✓	✓
23	Slovakia	✓	31-Dec-23	✓	31-Dec-29		31-Dec-29	✓	✓	✓
24	Slovenia	✓	31-Dec-23	✓	31-Dec-23	✓	31-Dec-24	✓	✓	✓
25	South Korea	×	Not applicable	✓	1-Jan-24	✓	1-Jan-25	✓	✓	✓
26	Sweden	✓	31-Dec-23	✓	31-Dec-23	✓	31-Dec-24	✓	✓	✓
27	Switzerland	✓	1-Jan-24	×	Not applicable	×	Not applicable	✓	✓	✓
28	United 12Arab Emirates*		Intended		Intended		Intended	·	·	·
29	United Kingdom	✓	31-Dec-23	✓	31-Dec-23	×	Not applicable	✓	✓	✓
30	Vietnam	✓	1-Jan-24	✓	1-Jan-24	×	Not applicable	✓	✓	×

Appendix II
Treaty changes

Tax treaties are agreements between countries that typically address withholding tax rates or exemptions on dividends, interest and royalties paid in multiple jurisdictions. Exceptions may apply based on tax treaty (for instance, reduced rates may apply to certain categories of investors, capital gains from immovable property or property-rich companies may be taxable). All of the following tax treaty changes were effective in the first calendar quarter, except where indicated.

Countries involved		Summary of changes
Albania	Finland	Provides general withholding tax rates of 15% on dividends and 5% on interest and royalties; exempts capital gains from tax.
Algeria	Denmark	Provides general withholding tax rates of 15% on dividends, 8% on interest and 10% on royalties; exempts capital gains from tax.
Andorra	Croatia	Provides general withholding tax rates of 5% on dividends, interest and royalties; exempts capital gains from tax.
Andorra	Czech Republic	Provides general withholding tax rates of 10% on dividends and royalties; exempts interest and capital gains from tax.
Andorra	Monaco	Provides general withholding tax rates of 5% on royalties; exempts dividends, interest and capital gains from tax.
Armenia	Kyrgyzstan	Provides general withholding tax rates of 10% on dividends, interest and royalties; exempts capital gains from tax.
Australia	Iceland	Provides general withholding tax rates of 15% on dividends and 10% on interest and royalties; exempts capital gains from tax.
Azerbaijan	Japan	Provides general withholding tax rates of 7% on dividends, interest and royalties; exempts capital gains from tax.
Bangladesh	Iran	Provides general withholding tax rates of 15% on dividends,10% on interest, and 7.5% on royalties and technical service fees; exempts capital gains from tax (effective as of 1 July 2023 for Bangladesh).
Barbados	Norway	The treaty is terminated.
Brazil	Uruguay	Provides general withholding tax rates of 15% on dividends and interest, and 10% on royalties and technical services fees; exempts capital gains from tax.
Cambodia	Macau	Provides general withholding tax rates of 10% on dividends, interest, royalties and technical service fees; exempts capital gains from tax.
Cambodia	Türkiye	Provides general withholding tax rates of 10% on dividends, interest, royalties and technical service fees; exempts capital gains from tax.
Chile	United States	Provides general withholding tax rates of 15% on dividends, 10% on interest (15% for five years beginning 1 February 2024) and royalties, and 16% on capital gains.
Croatia	Cyprus	Provides general withholding tax rates of 5% on dividends, interest and royalties; exempts capital gains from tax.
Curacao	Norway	The treaty is terminated.
Cyprus	Netherlands	Provides general withholding tax rates of 15% on dividends; exempts interest, royalties and capital gains from tax.

Countries involved		Summary of changes
Czech Republic	Kosovo	Provides general withholding tax rates of 15% on dividends and 10% on royalties; exempts interest and capital gains from tax.
Democratic Republic of Congo	United Arab Emirates	An official English translation of the treaty text is not yet available.
Denmark	France	Provides general withholding tax rates of 15% on dividends; exempts interest, royalties and capital gains from tax.
Denmark	Russia	The treaty is terminated.
Ethiopia	Luxembourg	Provides general withholding tax rates of 10% on dividends, 5% on interest and royalties, and 7.5% on technical service fees; exempts capital gains from tax (effective as of 8 July 2024 for Ethiopia).
Ethiopia	Switzerland	Provides general withholding tax rates of 15% on dividends and 5% on interest and royalties; exempts capital gains from tax (effective as of 8 July 2024 for Ethiopia).
France	Greece	Provides general withholding tax rates of 15% on dividends and 5% on interest and royalties; exempts capital gains from tax.
Georgia	Kyrgyzstan	Provides general withholding tax rates of 10% on dividends and royalties, and 5% on interest; exempts capital gains from tax.
Georgia	Poland	Provides general withholding tax rates of 5% on dividends, interest and royalties; exempts capital gains from tax.
Hungary	United States	The treaty is terminated.
Jamaica	Norway	The treaty is terminated.
Korea	Taiwan	Provides general withholding tax rates of 10% on dividends, interest and royalties; exempts capital gains from tax.
Latvia	Russia	The treaty is terminated.
Luxembourg	United Kingdom	Exempts dividends, interest, royalties and capital gains from tax (effective as of 6 April 2024 for capital gains in the United Kingdom).
Malaysia	Poland	Provides general withholding tax rates of 5% on dividends,10% on interest, and 8% on royalties and technical services fees; exempts capital gains from tax.
Oman	Russia	Provides general withholding tax rates of 15% on dividends and 10% on interest and royalties; exempts capital gains from tax.
Monaco	Montenegro	Provides general withholding tax rates of 10% on dividends, interest and royalties; exempts capital gains from tax.
Norway	Sierra Leone	The treaty is terminated.
Norway	Trinidad and Tobago	The treaty is terminated.
San Marino	United Kingdom	Exempts dividends, interest, royalties and capital gains from tax (effective as of 6 April 2024 for capital gains in the United Kingdom).
Sri Lanka	Turkey	Provides general withholding tax rates of 10% on dividends, interest and royalties; exempts capital gains from tax (effective as of 1 April 2024 in Sri Lanka).

Appendix III

Accounting considerations for the global minimum tax under the Pillar Two GloBE model rules

The Pillar Two Global Anti-Base Erosion (GloBE) model rules of the Organisation for Economic Co-operation and Development (OECD) define the scope and mechanics of a 15% global minimum tax, which is based primarily on financial reporting amounts with certain adjustments. Several OECD member countries have enacted tax legislation based on the GloBE rules with effective dates as early as 1 January 2024. Additional countries have drafted legislation or announced an intent to implement legislation based on the GloBE rules.

In response to a technical inquiry, the FASB staff said it believes that the GloBE minimum tax is an alternative minimum tax (AMT), as discussed in ASC 740. Because the tax in the GloBE rules is an AMT, companies will need to consider the effects beginning in the period that includes the date the laws are effective.

This publication provides a high-level summary of the GloBE approaches and the accounting implications for entities that will be subject to the rules, including interim reporting considerations. To see the complete publication, click **here**.

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