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Global Tax Alert

The Latest on BEPS and Beyond

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EY Tax News Update

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Highlights

In recent weeks, discussions between the United States (US) and its trading partners have intensified, focusing on tariffs, trade and taxes. These dialogues are crucial as they include ongoing negotiations on the Minimum Tax Rules of the Organisation for Economic Co-operation and Development (OECD)/G20 Base Erosion and Profit Shifting (BEPS) Pillar Two. As emphasized in our May edition, achieving clarity in these negotiations is imperative, given their significant attention and impact.

Beyond these pressing transatlantic discussions, government officials are also deeply engaged with the "tax conundrum" of grappling with the challenge of managing high and rising levels of debt, which has become increasingly relevant as we reach mid-year. Policymakers are navigating complex fiscal landscapes to address economic autonomy and sector-specific competitiveness, while also making sure that government budgets remain controlled. The tension between these ambitions was identified as a prominent theme in EY's *2025 Geostrategic Outlook*.

As governments prioritize economic autonomy and competitiveness, fiscal policies are increasingly focused on specific industries, such as digital technology, life sciences and advanced manufacturing. We see this approach exemplified in the strategic agenda that the European Union (EU) is currently rolling out to close the innovation gap, decarbonize industry and enhance strategic independence.

Shape the future with confidence

In pursuit of new revenue sources, governments focus on specific taxpayer categories or industries perceived to bear additional burdens more effectively than across-the-board tax hikes or public spending cuts. The US's currently proposed One Big Beautiful Bill Act illustrates this strategy with reforms that anticipate future revenues from tariffs and retaliatory measures affecting foreign taxpayers. Similarly, the EU is revisiting discussions around Financial Transaction Taxes, Financial Activity Taxes, excess profits taxes, Digital Services Taxes (DSTs) and digital levies, including whether to consider them as new "Own Resources."

Retaliatory measures proposed in draft Section 899 of the Internal Revenue Code may affect some industries, such as financial services, differently and reflect a broader trend in which sector-specific considerations influence policy design. The EU Commission has signaled its focus on digital services provided by US businesses when contemplating retaliatory measures if tariff discussions with the US do not yield satisfactory outcomes.

For some sectors, tax measures may clearly conflict with policies aimed at fostering strategic growth and development. For example, jurisdictions applying Pillar Two top-up taxes constrain the policy design for tax incentives intended to support strategic sectors by imposing restrictions on how incentives can be structured effectively. Similarly, although DSTs are seen as potential income sources for governments, they may hinder technological advancements as these – often gross-based – taxes can impose additional costs early in startups' critical growth phases.

In other words, within this fluctuating tax policy environment, it is crucial to realize that many developments have sector-specific impacts and that new tax proposals may increasingly affect specific sectors. Sector awareness when it comes to taxation is crucially important for governments and businesses alike. This latest edition of the Latest on BEPS and Beyond is aimed at helping businesses navigate the ever-evolving landscape of international taxation.

BEPS 2.0

Country developments

Hong Kong implements Pillar Two legislation

On 6 June 2025, Hong Kong published in the *Official Gazette* the legislation implementing Pillar Two. The new law implements the Income Inclusion Rule (IIR) and the Undertaxed Profits Rule (UTPR) in Hong Kong. In addition, the new law will impose a domestic minimum top-up tax, referred to as the Hong Kong Minimum Top-up Tax (HKMTT).

The new law has directly incorporated the Model Rules into the Inland Revenue Ordinance with limited adaptations. Certain provisions specify that the enacted global anti-base erosion (GloBE) rules will have to be read and applied in the way that best secures consistency with the requirements and guidance in the Commentary and Administrative Guidance on the Model Rules as published by the OECD.

For the purposes of the HKMTT, if certain conditions are met, the GloBE income is to be ascertained based on the local accounting standards, which cover both (a) the International Financial Reporting Standards (IFRS) and (b) accounting standards prescribed by the Hong Kong Institute of Certified Public Accountants, including the Hong Kong Financial Reporting Standards.

The new law will apply to fiscal years starting on or after 1 January 2025, although Hong Kong's imposition of the UTPR will be deferred to a date to be specified by the Secretary for Financial Services and Treasury.

See EY Global Tax Alert, *Hong Kong enacts law on BEPS 2.0 Pillar Two*, dated 9 June 2025.

Mauritius announces plans to implement a QDMTT

On 5 June 2025, Mauritius announced in its Budget 2025/2026 the plans to implement a Qualified Domestic Minimum Top-up Tax (DMTT). The regulations on the manner in which the Qualified DMTT (QDMTT) will be computed and administered, will be prescribed at a later date.

The QDMTT is intended to be effective for fiscal years starting on or after 1 July 2025.

Other developments

OECD

Peru deposits its instrument of ratification of the MLI

On 11 June 2025, the OECD announced that on 9 June 2025, Peru deposited its instrument of ratification for the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS (MLI) with the OECD. Peru confirmed its preliminary MLI positions with the exception of Article 17, where they changed their position to make a reservation for the entirety of Article 17 not to apply to its Covered Tax Agreements (CTAs) that already contain a corresponding adjustment provision. This reservation applies if the corresponding adjustment provision is as described in Article 17(2).

The MLI will enter into force for Peru on 1 October 2025.

See EY Global Tax Alert, *Peru deposits MLI with OECD*, dated 17 June 2025.

OECD releases CARF Status Message XML Schema

On 2 June 2025, the OECD released the Crypto-Asset Reporting Framework (CARF) Status Message XML Schema, ahead of the first exchanges scheduled for September 2027. Jurisdictions are now establishing the necessary legislative, operational and information technology frameworks, relying on this XML Schema for information exchange with Reporting Crypto-Asset Service Providers. The CARF Status Message XML Schema enables competent authorities to report any file and record errors back to the sending authority, ensuring timely corrections. Although file errors prevent the use of the received file, record errors relate to data quality and are communicated on a best-effort basis.

Global Forum releases reports on Tax Transparency in Asia and Latin America

On 26 May 2025, the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) released the Tax Transparency in Asia 2025 report during its 8th Asia Initiative Meeting in the Maldives, co-organized by the Maldives Inland Revenue Authority and the Global Forum Secretariat.

The report highlights the achievements of the Asia Initiative, noting that in 2024, Asian jurisdictions identified €1.9b in additional annual revenue due to enhanced international tax cooperation. This includes €1.7b from exchange of information on request (EOIR) and offshore investigations, and approximately €200m from automatic exchanges of financial account information. Since the initiative's launch in 2021, a total of €24b has been identified through international tax transparency standards.

The report also indicates that Asian jurisdictions have established more than 3,200 bilateral relationships for information exchange, with most having a network covering more than 140 jurisdictions. Sixteen jurisdictions have already started exchanging financial account information by the end of 2024, and 18 are committed to automatic exchanges by 2026. Additionally, 15 jurisdictions received satisfactory ratings in the second round of EOIR peer reviews, and nine are set to implement the Crypto-Assets Reporting Framework by 2027 or 2028.

On 3 June 2025, the Global Forum released the Tax Transparency in Latin America 2025 report during its 12th Latin America Initiative Meeting in Salvador de Bahia, Brazil, co-organized by the Federal Revenue Service of Brazil and the Global Forum Secretariat.

The report highlights the achievements of the Latin America Initiative, noting that the 15 Latin American country members of the Global Forum identified €585m in additional revenue due to improved tax cooperation. It outlines that €94m was identified through EOIR and €491m through automatic exchanges of financial account information. Since the initiative's launch in 2018, a total of €28.4b has been identified through international tax transparency standards.

The report emphasizes that Latin American countries have established more than 2,000 bilateral relationships for information exchange, with the vast majority having a network covering more than 140 jurisdictions. Ten countries had already started exchanging financial account information by the end of 2024, and 11 are committed to starting automatic exchanges by 2026. Additionally, seven Latin American countries have joined a Pilot Project to explore the use of information exchanged under tax treaties for broader purposes, including tackling corruption and money laundering. In 2024, six Pilot Project members signed a competent authority agreement to implement this extended form of cooperation, which is now in effect for four of them.

Germany and Spain notify completion of domestic procedures for Covered Tax Agreements under the MLI

On 26 May and 1 June 2025, respectively, Spain and Germany notified the OECD Depositary about the completion of their internal procedures for implementing the MLI. This notification pertains to the entry into effect of the MLI provisions concerning their CTAs, with Spain completing its procedures with Azerbaijan, and Germany completing its procedures with Japan and Czech Republic.

This notification is required when a Contracting Jurisdiction has made the reservation under Article 35(7)(a) of the MLI. Article 35(7)(a)(i) allows a Contracting Jurisdiction to reserve the right to delay the entry into effect of MLI provisions until 30 days after the Depositary receives the last notification from all Contracting Jurisdictions making the reservation, informing the Depository that internal procedures for the entry into effect of the MLI with respect to that particular CTA are complete.

In line with the above, the MLI shall enter into effect for the CTAs between Germany and Japan, Germany and Czech Republic, and Spain and Azerbaijan no sooner than 30 days after Germany and Spain issued the notification that they have completed their internal procedures.

OECD updates Arbitration Profiles of Finland and New Zealand under MLI

On 26 May 2025, the OECD updated the Arbitration Profiles of Finland and New Zealand, which contain information regarding their position with respect to applying Part VI (mandatory binding arbitration) of the MLI. The profiles contain relevant information, including reservations on the scope of cases eligible for Part VI of the MLI, and list the cases in which a competent authority has, by mutual agreement, settled the mode of application of the provisions contained in Part VI of the MLI with the competent authority of a treaty partner jurisdiction.

Finland and New Zealand have updated their arbitration profiles to include each other in the list of competent authority agreements.

OECD releases document summarizing common errors made by MNE groups in preparing country-by-country reports

In May 2025, the OECD published an updated document highlighting common errors made by multinational enterprises (MNEs) in preparing country-by-country (CbC) reports. This document serves as a revised edition of the summary of errors initially released in 2019, broadening the scope of common errors identified.

Tax administrations have encountered several common errors in CbC reports, which can hinder effective use of the data. To mitigate these issues, tax administrations have implemented various validation processes, including automated checks at the time of filing using the CbC reporting XML schema format and manual validations after submission. These measures aim to identify and correct errors before the reports are exchanged between jurisdictions. The document encourages tax administrations to share this guidance with MNEs and their advisors to ensure awareness of these common pitfalls and the necessity for accurate CbC reporting.

Newly identified errors in this update include incorrect reporting year dates, omission of information regarding the exchange rate used, and submission of a CbC report by a subgroup of a larger MNE group containing information solely related to that subgroup. The document also identifies as common errors the inappropriate reporting of negative figures for income tax paid or accrued, as well as the submission of duplicate CbC reports for the same reporting period without any indication as to which report contains updated data.

European Union

CJEU Advocate General delivers opinion on ATAD's transposition by Belgium and ATAD's legal basis

On 22 May 2025, the Court of Justice of the European Union (CJEU) published an Opinion of the Advocate General (AG) regarding case C-524/23. The European Commission had initiated this case, alleging that Belgium had failed to fulfill its obligation under the Anti-Tax Avoidance Directive (ATAD) to implement Article 8(7), which allows foreign taxes paid by Controlled Foreign Companies (CFCs) to be deducted from the domestic tax liability of the parent company, because Belgium had declined to grant the deduction.

In her opinion, the AG evaluated whether Belgium's failure to transpose Article 8(7) of ATAD constituted a breach of its obligations under EU law, while also addressing two questions: (i) whether Article 115 of the Treaty on the Functioning of the EU (TFEU) can serve as the legal basis for ATAD and (ii) whether a Member State can use the unlawfulness of an EU directive as a defense in a transposition failure action.

Regarding the first question, the AG acknowledged existing doubts in academic literature about the validity of Article 115 TFEU as the legal foundation for recent tax directives, concluding it is questionable whether the ATAD can rely on this legal basis. On the second question, the AG referenced case law that presumes the lawfulness of EU actions in cases of non-fulfillment of obligations. However, she noted that different conclusions might arise in cases involving acts with severe irregularities that could render them legally nonexistent. Despite these considerations, the AG indicated that, for procedural reasons, these questions may not be resolved in the current case, stating that the issue of competence could likely be clarified only through preliminary ruling proceedings that challenge the validity of the ATAD at national courts of the Member States.

Finally, the AG concluded that Belgium's non-transposition of Article 8(7) does not constitute a failure to comply with ATAD, as Article 3 of the ATAD permits minimum harmonization, allowing Member States to adopt stricter measures. Furthermore, the AG determined that the deduction is not applicable to "non-genuine" arrangements under Article 7(2)(b) of the ATAD, as these typically do not result in double taxation.

Country developments

Argentina enacts Multilateral Instrument law

On 28 May 2025, Argentina published in its *Official Gazette,* Law No. 27,788 approving the MLI.

The MLI will enter into force upon the expiration of a period of three calendar months beginning on the date the instrument is submitted to the OECD.

Multinational companies with a presence in Argentina should analyze the potential impact of the MLI in cross-border transactions.

See EY Global Tax Alert, *Argentina enacts Multilateral Instrument law*, dated 30 May 2025.

Chile clarifies effective tax rate calculation for the purposes of controlled foreign corporations regime under Article 41G of the Income Tax Law

On 5 June 2025, the Chilean Tax Administration published Ruling No. 1067-2025, clarifying that the rules set out in Ruling No. 2758-2021 for determining the effective tax rate (ETR) of a CFC apply to any company, regardless of its residency.

According to the last paragraph of Article 41 G(C) of the Income Tax Law, an exception to the application of CFC rules exists when the CFC's income is subject to an income tax ETR of at least 30%, in the country where it resides. Ruling No. 2758-2021 initially addressed the ETR calculation for CFCs in the United States, but it was unclear whether these rules extended to CFCs in other jurisdictions. The recent ruling explicitly confirms that the 2021 guidelines are applicable to all countries, thereby broadening the scope of compliance for Chilean taxpayers.

Latvia's Cabinet of Ministers implements DAC8 on crypto assets

On 3 June 2025, the Cabinet of Ministers approved draft amendments to the Law on Taxes and Duties and filed to the Government for review and approval on 11 June 2025. The amendments are aimed at partially implementing the eighth Directive on Administrative Cooperation (DAC8), implementing the OECD framework for reporting for crypto assets in the EU. The proposed amendments impose an obligation on taxpayers and crypto-asset service providers to report transactions involving crypto assets to the tax authorities when specific conditions outlined in the tax legislation are met.

Furthermore, the amendments empower the Cabinet of Ministers to issue detailed regulations that will specify the conditions triggering the reporting obligation, the scope of reportable information, and the procedures for obtaining, verifying and submitting this information. The tax authorities will also be authorized to impose penalties of up to €14,000 for noncompliance with the reporting requirements.

EU Member States are required to transpose most DAC8 provisions by 31 December 2025, with the domestic law provisions taking effect from 1 January 2026.

Lithuania introduces amendments to domestic rules implementing DAC7

On 23 April 2025, the State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania implemented amendments to Order No. VA-95, which implements DAC7 (EU Directive on Administrative Cooperation in the Field of Taxation to extend its scope to reporting obligations of digital platform operators) into domestic law regarding the submission of information by reporting platform operators.

The revised regulations define a "reportable seller" as an individual or entity engaged in relevant activities during the reporting period, who is a resident of Lithuania, another EU member state, or a non-EU state with an effective agreement with Lithuanian authorities.

Moreover, the rules stipulate that represented platform operators must submit an annual XML data file through the TIES portal, even if their data is submitted by another platform operator, to ensure accountability and prevent duplicate reporting.

Additionally, the structure of data submissions must adhere to specific XML format requirements, as outlined in Annex I. XML Schema Definition (XSD) files will be accessible on the tax authorities' website.

The amendments also detail enforcement measures for noncompliance, which may include the suspension of access to the websites of noncompliant operators.

Switzerland updates list of jurisdictions for exchange of country-by-country reports

On 11 June 2025, the Directorate of International Law of Switzerland published an updated list (RO 2025 380) of jurisdictions for the Exchange of CbC reports under the Multilateral Competent Authority Agreement on Exchange of CbC Reports (CbC MCAA). Compared to the previous update, Switzerland added to the list Cameroon and Mongolia, with effect from 1 January 2024.

Cameroon is classified as a permanently nonreciprocal jurisdiction, meaning it does not receive CbC reports from Switzerland.

The updated list came into effect on 1 June 2025, superseding the earlier version released on 1 April 2024.

Switzerland and Sweden sign mutual agreement on arbitration under double tax treaty

On 1 May 2025, the competent authorities of Switzerland and Sweden entered into a mutual agreement concerning arbitration under Article 26 of their double tax treaty.

The mutual agreement stipulates that a request for arbitration must be submitted in writing and include sufficient information to identify the case. It also outlines the timeline for initiating arbitration, which may only occur after a four-year period from the date the case was presented to both competent authorities. The arbitration process will involve the appointment of an independent panel of three arbitrators with expertise in international tax matters, ensuring impartiality and adherence to the principles outlined in the OECD Model Tax Convention.

Furthermore, the mutual agreement allows the two competent authorities to choose a streamlined arbitration process by mutual consent as an alternative to the two optional arbitration processes (i.e., Independent Opinion or Final Offer). It also establishes a framework for confidentiality and regulates the cost sharing of the arbitration proceedings.

The decision will be binding on both Contracting States except if: (1) the directly affected parties do not accept the mutual agreement and pursue litigation in a court or an administrative tribunal; (2) the decision is found to be unenforceable by the courts of one of the Contracting States; or (3) the competent authorities agree on a different solution no later than six months after the decision's release.

The agreement is effective from 22 May 2025 and applies to all arbitration requests under paragraph 5 of Article 26, with the exception of paragraphs 2 and 3, which will only apply if the request for the initiation of the mutual agreement procedure was submitted after 22 May 2025. For mutual agreement procedures that are pending at the time of the agreement's conclusion, the competent authorities will determine the arbitration start date by mutual consent.

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