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.

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Global Rate Changes

- **Angola:**[i] On December 11, 2024, the Angolan Ministry of Finance published the 2025 budget bill, which, among other things, would introduce a 5 percent reduced VAT rate for qualified imports or transfers of industrial equipment by manufacturers, subject to the approval of the tax authority.
- **Anguilla:**[ii] Effective December 19, 2024, Angilla zero rates specific food items under the Goods and Services Tax (GST) Act. This follows a consultation held earlier with local stakeholders about removing the GST from food items, effective December 18, 2024.
- **Argentina:**[iii] On December 30, 2024, the Argentina published General Resolutions No. 5624/2024 and No. 5623/2024. The first resolution extends the suspension of income tax and VAT collection rules for specified import operations until June 30, 2025, applicable to final imports completed from January 1, 2025. The second resolution extends income tax and VAT exemptions for certain imports, including necessities and inputs for micro, small, and medium enterprises (MSMEs), until December 31, 2025.
- **Azerbaijan:**[iv] On December 4, 2024, the government of Azerbaijan proposed several amendments to its Tax Code to extend VAT exemptions and specific VAT rules for various sectors. The proposals include extending VAT exemptions for the sale of domestically manufactured buses and the import of their spare parts for production purposes by legal entities, under certain conditions, for eight years starting January 1, 2025. Additionally, the proposals aim to extend the current VAT exemption on the import of equipment and materials for major oil refinery reconstruction projects, which process at least 3 million tons of crude oil annually, until December 31, 2025. The proposal also seeks to extend the VAT exemption for the import and sale of second and third-level electric vehicle chargers by two years, until December 31, 2026. These changes, if approved, will take effect from January 1, 2025. Finally, the proposed amendments would extend the specific VAT rules for the wholesale and retail of locally produced agricultural products, which would continue to include only the trade margin in the taxable VAT base, effective until December 31, 2026.
- **Azerbaijan:**[v] On December 20, 2024, the Azerbaijani Ministry of Economy announced a new VAT exemption, effective for eight years starting January 1, 2025, applicable to the sale of domestically manufactured buses and the import of spare parts for bus production. In addition, on December 29, 2024, the Ministry of Economy announced that the provision of services by shipbuilding and ship repair enterprises to nonresidents, for repairing ships, other marine and water transport vehicles, and hydraulic structures is subject to VAT at zero percent.
- **Belgium:**[vi] On December 24, 2024, Belgium published an Act that includes measures to extend the transitional arrangement for the application of a reduced 6 percent VAT rate for the demolition and reconstruction of dwellings from December 31, 2024, through December 31, 2025. To read KPMG's previous discussion of this measure, click here.
- **Benin:**[vii] On December 12, 2025, Benin published Law No. 2024-34, which, among other things, extends the VAT exemptions until December 31, 2025, for qualifying vehicles and aircraft, along with their spare parts, containers for compressed or liquefied gas, and their related accessories and equipment; small and medium-sized entities not under an exceptional tax regime; and imports related to dialysis kits, herbicides, and agricultural machinery and equipment. Furthermore, the law extends the exemption from VAT and customs duties for new equipment and materials imported into Benin, as well as local materials, for the construction of service stations, sidewalk stations, oil, and diesel tanks until December 31, 2025.

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- **Bulgaria:**[viii] On December 13, 2024, the Bulgarian National Assembly accepted a bill for consideration that includes measures to extend the application of the VAT zero-rate regime on bread and flour from December 31, 2024, to December 31, 2025.
- **Canada:** On December 20, 2024, the Canadian Revenue Agency published frequently asked questions (FAQs) about the goods and services tax / harmonized sales tax (GST/HST) tax break for Canadians, effective from December 14, 2024, to February 15, 2025. (For KPMG's previous discussion about the temporary relief, click here.) The FAQs provide a list of qualifying items for the GST/HST tax relief, detailed definitions and conditions for these items, including size and design specifications for children's clothing and footwear. They also note that certain items, such as printed books and qualifying newspapers, are zero-rated. The tax relief also applies to the First Nations goods and services tax (FNGST) and First Nations Tax (FNT) under certain conditions. However, shipping services aren't zero-rated, but the goods themselves are if delivered during the eligible period, with specific rules for transactions that include both qualifying and non-qualifying goods.
- **Ecuador:**[ix] Ecuador recently extended the application of its temporarily increased standard VAT rate of 15 percent, which was introduced in 2024, through 2025. The increased VAT rate applied from April 1, 2024.
- **Estonia:**[x] On December 11, 2024, the Estonian parliament approved the Security Tax Act, which, among other things, increases the standard VAT rate from 22 percent to 24 percent effective July 1, 2025. In addition, Estonia's Finance Ministry recently initiated a consultation on a proposal to increase the VAT rate on sweets and chocolate from 14 percent to 25.5 percent, effective June 1, 2025.
- **Finland:**[xi] On December 19, 2024, the president of Finland ratified a law that amends the TV Tax for individuals and companies and revises the VAT on public broadcasting services. To read KPMG's previous discussion of this measure, click here.
- **France:**[xii] On November 27, 2024, the French General Directorate of Public Finance updated the administrative doctrine regarding reduced VAT rates for certain medicines and blood products for human use. The update clarifies the application of the 10 percent reduced VAT rate for medicines and pharmaceutical products for human use; of the 2.10 percent special VAT rate for specified medicines and blood products; of the 5.5 percent reduced VAT rate for condoms, art imports, feminine hygiene products, and HIV self-tests; and of the standard VAT rate for veterinary medicines, unregistered raw materials, and certain other pharmaceutical items.
- **Greece:**[xiii] On December 5, 2024, the Greek Ministry of Finance enacted legislation that includes measures extending the application of the VAT exemption for new buildings through December 31, 2025.
- **Guatemala:**[xiv] On December 9, 2024, the Guatemalan Congress approved Decree 31-2024, which, among other things, exempts the sale of products from the non-industrial primary sector and livestock destined for export from VAT. It also exempts parent organizations that provide goods for school programs from VAT.
- **Indonesia:**[xv] Effective January 1, 2025, Indonesia increased its standard VAT rate from 11 percent to 12 percent as mandated by Law Number 7 of 2021 on the Harmonization of Taxation Regulations. However, the effective VAT rate only increased to 12 percent for luxury goods, while for non-luxury goods the effective VAT rate remains at 11 percent.

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- **Ireland:**[xvi] On December 4, 2024, the Irish Revenue issued VAT Notes for Guidance – Finance Act 2024, clarifying recent changes to the VAT law, effective January 1, 2025. Among other things, these changes include the application of a 9 percent reduced VAT rate to low emissions heat pump systems and an extension of the 9 percent reduced VAT rate on gas and electricity until April 30, 2025.
- **Isle of Man:**[xvii] On December 9, 2024, the Isle of Man Treasury announced the implementation of amendments to the VAT law, including allowing the sale of caravans manufactured to meet the requirements of the 2023 version of British Standard 3632 to benefit from the VAT zero rate in the same way as caravans that meet the requirements of previous versions of British Standard 3632.
- **Kazakhstan:**[xviii] The Ministry of Foreign Affairs of Kazakhstan recently opened a consultation on a proposal to expand the list of goods exempt from VAT when imported under investment contracts, aiming to boost investments in the manufacturing industry. The current list includes 136 items, with proposed additions such as manganese ores and concentrates, various non-metallic compounds, sulphides, chromates, dichromates, peroxochromates, hydrogen peroxide, oxalic acid and its derivatives, thiuram mono-, di-, or tetrasulphides, unprocessed manganese, and powders.
- **Kyrgyzstan:**[xix] On November 26, 2024, Kyrgyzstan's Cabinet of Ministers published its approved lists of entities and goods for the development of sports that are exempt from VAT. The exempt sports goods include, among others, sports bags, tracksuits, balls, VAR systems, tatami mats, rowing boats, fencing gear, and lawn mowers for football fields. The VAT exemption applies retroactively from August 1, 2024.
- **Latvia:**[xx] On December 19, 2024, Latvia published the 2025 Budget Law, which, among other things, applies a reduced VAT rate of 12 percent indefinitely to certain fresh fruits, berries, and vegetables starting January 1, 2025.
- **Latvia:**[xxi] On December 28, 2024, Latvia published amendments to the country's VAT law, which, among other things, clarify the application of the zero percent VAT rate to exports of goods for humanitarian aid and charity, and simplify the process for applying a zero percent VAT rate to sales made to diplomatic and consular missions registered in Latvia.
- **Lithuania:**[xxii] On December 23, 2024, the Lithuanian Ministry of Finance proposed draft amendments to the VAT law to clarify that goods classified as humanitarian aid will qualify for a zero percent VAT rate if sold to state and municipal institutions or specified agencies, approved companies, or other entities with agreements for providing humanitarian aid. The zero percent VAT rate applies only if the goods are shipped outside the EU and delivered as humanitarian aid. Eligible entities can also deduct or reclaim VAT paid on goods purchased or imported for this purpose. If adopted, the amendments will be effective May 1, 2025.
- **Malta:**[xxiii] On December 17, 2024, Malta published amendments to the VAT Act, introducing a new VAT exemption for specific healthcare products. This exemption covers a range of items essential for health management, including sanitary products for women, medical accessories for cancer patients, mastectomy undergarments, devices for managing urinary incontinence, vacuum constriction devices, scalp cooling systems, absorbent incontinence care products, and supportive medical undergarments.
- **Moldova:**[xxiv] On December 16, 2024, Moldova's State Tax Service (STS) clarified that the VAT rate for hotel and restaurant services is reduced to 6 percent until February 13, 2025.
- **Netherlands:**[xxv] On December 16, 2024, the Dutch government announced a 6-month suspension, until June 30, 2025, on the transitional measures related to a proposed VAT rate increase from 9 percent to 21 percent on goods and services in the sports, culture, and

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media sectors, as outlined in the 2025 Tax Plan. Although the VAT hike is still officially part of the plan, it was effectively canceled after a parliamentary motion demanded alternatives. The announcement states that transitional measures will not apply from January 1 to June 30, 2025. This period allows time for the formal repeal of the VAT hike. To read KPMG's previous discussion of this measure, click here.

- **Norway:**[xxvi] On December 1, 2024, the Norwegian Ministry of Finance announced that it has notified the European Free Trade Association Surveillance Authority (ESA) of its intention to extend the end date for the VAT zero-rate regime on sales and leases of electric passenger vehicles from December 31, 2024, to December 31, 2026. The zero rate applies to sale or lease amounts up to NOK 500,000, while the standard 25 percent VAT rate applies to amounts exceeding this limit.
- **North Macedonia:**[xxvii] On December 11, 2024, the North Macedonian Assembly accepted Bill No. 08-6043/1/2024 for consideration, which, among other things, proposes to exempt from VAT a range of services and transactions, such as certain postal services, the sale and rental of specific residential buildings and apartments, banking and financial transactions, insurance and reinsurance services, and educational services.
- **Peru:**[xxviii] On December 20, 2024, Peru published Law 32,201, which, among other things, exempts from VAT fees charged to beneficiaries of money remittances from abroad and to foreign agents or correspondents handling these services.
- **Poland:**[xxix] On November 28, 2024, the Polish Ministry of Finance launched consultation on a draft bill to provide VAT exemptions for certain imports by the armed forces of countries involved in the Partnership for Peace, excluding NATO member countries. The exemptions apply to fuels, oils, and lubricants for official vehicles, aircraft, or vessels, and other goods for personal use during joint defense operations in Poland.
- **Poland:**[xxix] On December 3, 2024, the Polish Ministry of Finance announced government approval of a draft bill to amend various VAT measures. The bill proposes to apply a zero percent VAT rate to rescue ships and lifeboats used at sea, excluding seagoing ships and boats. It also extends the 8 percent VAT rate for medical devices introduced under the previously applicable Medical Devices Act and clarifies the provisions for applying a reduced rate on fertilizers, plant protection products, and feed. Furthermore, the bill maintains the reduced rate for agricultural goods temporarily subject to the 8 percent rate and reduces the VAT rate for mixed fertilizer products, excluding those consisting exclusively of fertilizer and liming agents already at the 8 percent rate. Additionally, it reduces the VAT rate on menstrual cups from 23 percent to 5 percent. These measures are set to take effect on April 1, 2025.To read a report prepared by KPMG in Poland, please click here.
- **Saint Kitts and Nevis:**[xxxi] Saint Kitts and Nevis announced in their 2025 Budget that they will temporarily reduce the VAT rate from 17 percent to 13 percent starting January 2025, with the reduction expiring in June 2025.
- **Saint Lucia:**[xxxii] On December 10, 2024, Saint Lucia's Prime Minister introduced the Value Added Tax (VAT) (Amendment of Schedule 3) (No. 6) Order in the House of Representatives, which implements VAT exemptions for the tourism sector. The Order updates the VAT Act by removing the Tourism Incentives Act from the list of applicable laws and introducing new exemptions. These exemptions apply to the Tourism Development Act 2024, effective from April 15, 2024, and the Tourism Stimulus and Investment Act, effective from May 13, 2014, and expired on April 15, 2024, unless continued under the new Act.

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- **Slovakia:**[xxxiii] On November 25, 2024, Slovakia published Guide No. 4/DPH/2024/I, which outlines the application of the new 19 percent reduced VAT rate for electricity sales, effective from January 1, 2025. In addition, Slovakia published FAQs on the application of VAT rates effective from January 1, 2025. The questions mainly address the classification of goods and services under the correct tax rate and transitional rules. To read KPMG's previous discussion of rate change measures in Slovakia, click here.
- **Slovenia:**[xxxiv] On December 10, 2024, Slovenia published a Law, which, among other things, simplifies the application of the reduced VAT rate for medical equipment and devices. It also sets limitations on the application of the reduced VAT rate for plant protection products and fertilizers, effective from December 31, 2031. The law further revises the VAT rate for beverages with added sugar, sweeteners, or flavorings, which were subject to a reduced VAT rate, to the general VAT rate.
- **Tajikistan:**[xxxv] Effective January 1, 2025, Tajikistan exempts from VAT and customs duties imports of passport forms containing digital storage media imported by the Ministry of Foreign Affairs; a variety of agricultural goods such as super-elite, elite, and primary crop seeds, high-quality cocoon seeds for cocoon growing, flowers, ornamental and fruit trees, ornamental shrubs, purebred and beef cattle, and all types of livestock feed; and evergreen and ornamental trees designated for planting in parks and streets in Dushanbe. In addition, Tajikistan exempts from VAT and customs duties the import of equipment, special vehicles, their spare parts, and passenger buses (the list and quantity of which the Government will approve) financed through the state budget and the budget of the city of Dushanbe. Additionally, Tajikistan reduced the VAT rate from 15 percent to 10 percent on the import, processing, and sale of products processed from wheat (except for wheat imported to produce alcoholic beverages) and on pasta products produced in Tajikistan. Tajikistan further exempts the import of electricity into Tajikistan from VAT. Finally, the VAT rate on the sale of vegetable oil by enterprises processing vegetable oil is set at 10 percent while the sale of residues from the processing of oilseed crops is subject to VAT at 7 percent.
- **Tunisia:**[xxxvi] Tunisia recently published Law No. 2024-48 on the 2025 Finance Law, which, among other things, reduces the VAT rate on the sale of low-voltage electricity for domestic purposes from 13 percent to 7 percent for individuals whose monthly electricity consumption does not exceed 300 kWh; exempts from VAT pharmaceutical industries; reduces the VAT rate for buses purchased by industrial enterprises and designated for employee transportation from 19 percent to 7 percent; and exempts from VAT loan interest for projects financed through crowdfunding platforms.

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Digitalized Economy Indirect Tax Updates

United States: Tax Comptroller Clarifies Marketplace Facilitator Rules in Texas

The Texas Comptroller has released a series of letter rulings that discuss the considerations and obligations of marketplace providers, highlighting that the state's marketplace facilitator laws can extend to physical (as well as electronic) marketplaces. In Private Letter Ruling No. 202410006L, the Comptroller concluded that a construction and mining equipment dealer who sells manufacturer warranties at its dealership qualifies as a marketplace provider. This dealer has the responsibility to collect and remit Texas sales tax on taxable sales. The Comptroller based this decision on the Texas definition of a "marketplace," which encompasses both electronic and physical mediums. As such, the dealer's physical dealership location acts as a physical marketplace. Since the dealer also processes payment for the warranties, the Comptroller deemed the dealer a "marketplace provider." The Comptroller also reminded marketplace providers and sellers that providers must assure sellers that they are collecting and remitting sales tax on sales made on the marketplace. This assurance allows the seller to know they are not required to collect and remit the tax, and they can exclude such sales from their return.

In Private Letter Ruling No. 202410007L, the Comptroller identified a food catering and delivery service company as a marketplace facilitator that offers both electronic and physical marketplaces. The taxpayer provides three services to restaurants: popup, catering, and delivery. For popups, the taxpayer arranges for one or more restaurants to sell food at a client-designated location using a POS system provided by the taxpayer. The taxpayer charges the restaurant a fee for the popup and for using the POS system. In the case of catering, the taxpayer coordinates and manages catering services between clients and a restaurant. This coordination includes ordering, scheduling, tracking, and payment. The taxpayer equips restaurants with a POS system to upload catering menus and prices and to view order information. Customers book catering with these restaurants and make payments through the taxpayer's website. The taxpayer charges the restaurants a delivery fee for delivering the catering to the customer location and a scheduling fee, which is a percentage of the total order. For delivery services, restaurants accept orders placed through the taxpayer's mobile application. The taxpayer then coordinates with a driver to pick up and deliver the food. The taxpayer charges the restaurants a percentage fee based on the cost of the food delivered. The Comptroller determined that the taxpayer acts as a marketplace facilitator in all the scenarios described above. The taxpayer provides an electronic marketplace in all instances involving the taxpayer's POS platform or mobile application. The Comptroller also considered the popup events as physical marketplaces where restaurants can sell tangible personal property. Lastly, the Comptroller deemed all fees that the taxpayer charges to the restaurant as taxable sales of data processing services.

Other Developments

- **Australia:**[xxxvii] The Australian Government plans to impose a levy on social media platforms and search engines generating over AUD250 million in annual group revenues from Australia. This initiative, announced as the News Bargaining Incentive, aims to ensure these platforms contribute to the cost of quality journalism they benefit from. The new levy will credit any financial agreements already made with news agencies, targeting only those platforms without such agreements.
- **Benin:**[xxxviii] On December 12, 2024, Benin published Law No. 2024-34, which, among other things, introduces electronic reporting obligations for operators of digital platforms. The details of these new reporting obligations will be established by regulations.

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- **Bosnia & Herzegovina:**[xxxix] On December 2, 2024, the Bosnia & Herzegovina's Governing Board of the Indirect Taxation Authority proposed changes to the VAT implementing regulation. The proposal includes a detailed definition and scope of electronic services that are subject to VAT in the country.
- **Bulgaria:**[xl] On December 2, 2024, the Bulgarian Council of Ministers submitted to parliament a proposal for amendments to the VAT Act, which, among, other things, proposes to clarify that live internet broadcasts and virtual access services of performances and similar events are taxable where the consumer is located and not where the service is performed.
- **Canada:**[xl] Large businesses in Canada must register for the new 3 percent Digital Services Tax (DST) by January 31, 2025, and file their first DST returns and payments by June 30, 2025, including DST owed on specific online revenues since January 1, 2022. The Canada Revenue Agency (CRA) now allows these businesses to set up a DST program account. The DST registration requirement applies to businesses with total revenue of EUR 750 million or more in the previous calendar year and more than CAD 10 million of in-scope revenue related to Canadian users (i.e., online marketplace services, online advertising services, social media services, and user data). The DST payment obligation is triggered when the in-scope revenue is above CAD 20 million. The CRA will provide further details on DST return requirements and filing procedures. To read a report prepared by KPMG in Canada, please click here.
- **Chile:**[xl] On December 3, 2024, the Chilean tax authority published draft Circular Letter 300079.2024GE to clarify the VAT obligations for nonresident sellers and platform operators, as outlined in the recently adopted Tax Compliance Bill. (For KPMG's previous discussion on this bill, click here.) The draft Circular clarifies the VAT sourcing rules for remote services and the new VAT collection responsibilities for remote sellers of goods to consumers in Chile. It specifies that services provided from outside Chile to users within the country are considered "remote" and outlines the requirement for these providers to register under a simplified compliance system starting November 1, 2024. Additionally, foreign businesses selling goods valued under USD 500 to Chilean consumers must register and comply with VAT obligations through the same simplified system starting October 24, 2025. The portal for foreign taxpayers will continue to be known as "Portal IVA Digital," maintaining the term "IVA Digital" for these taxes. For more information, click here.
- **China:**[xl] On December 20, 2024, the Chinese State Administration of Taxation (SAT) initiated a consultation on a draft regulation concerning the reporting of tax-related information by internet platform companies. The proposed regulation would require these companies to submit tax-related information to the tax authorities, while income information of employees involved in labor activities, such as distribution, transportation, and housekeeping, would be exempt from reporting. The draft regulation also stipulates that internet platform companies should provide the relevant income information of operators and employees for the previous quarter during the tax declaration period in the subsequent month.
- **European Union:** On November 19, 2024, the European Commission published VAT Committee Working Paper No. 1090, which examines whether sales of "skins" in the secondary market qualify as digital services for VAT purposes. These skins are digital items that alter the appearance of game characters or items but do not impact gameplay. The paper details the criteria for a service to be considered as digital services, which include delivery over the internet or an electronic network, the necessity of information technology, and minimal human intervention. While initial sales of skins typically meet these criteria, the VAT Committee is exploring whether secondary market transactions do as well, given that these are not always automated. The paper suggests a detailed examination of each transaction to determine if it qualifies as ESS. For more information, click here.

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- **Ireland:**[xlii] On December 5, 2024, the Irish tax authority published a new Tax and Duty Manual titled "VAT & Share Transactions and Trading Platforms," which clarifies VAT treatments for share-related activities. The manual confirms that the sale or transfer of shares and trading in shares, when conducted during business, are considered VAT exempt sales. The issuance of new shares for finance-raising purposes falls outside the VAT scope. For trading platforms, access fees charged to users for enabling share trading are VAT exempt, while connection fees, such as line rentals or data connections, are subject to the standard VAT rate of 23 percent.
- **Ireland:**[xliii] On December 20, 2024, the Irish Revenue published Revenue eBrief No. 333/24, providing updated guidance on reporting requirements for cross-border payment service providers (PSPs) under the EU's central electronic system of payment information (CESOP) (To read KPMG's previous discussion of the CESOP, click here). These updates aim to combat VAT fraud and reflect amendments in the Finance Act 2024, effective January 1, 2025. The updated guidance specifies the PSPs within the scope of the CESOP obligations and requires them to submit all necessary information from their records by the end of the month following the end of each quarter. A fixed penalty of EUR 4,000 applies to a PSP for failing to keep or report required records related to payment services provided, with an additional EUR 4,000 penalty for each subsequent period of noncompliance. Additionally, a fixed penalty of EUR 4,000 applies if a PSP fails to retain records for three years from the date of payment.
- **Italy:**[xliv] On November 30, 2024, Italy published Legislative Decree No. 180/2024, which, among other things, implements changes to the VAT sourcing rules for live streaming services, providing that these services are sourced to Italy if the consumer is domiciled or resident in Italy rather than where the performance of occurs.
- **Japan:**[xlv] Japan's government is considering revising the consumption tax to tackle challenges arising from increased cross-border e-commerce. The government aims to address non-compliance by foreign sellers and the misuse of the exemption for low-value imports, which disadvantages domestic sellers. While specific details and timelines for these revisions are still pending, Japan is looking to align with international practices by potentially modifying the de minimis exemption and imposing full VAT responsibilities on digital platforms that facilitate e-commerce. An expert group was established by the Ministry of Finance in November to explore these approaches, drawing insights from EU and Australian models.
- **Japan:**[xlvi] The Japanese tax authority recently published an English version of the explanatory guide to the new Japanese consumption tax rules for platforms facilitating the sale of digital services effective April 1, 2025. (For KPMG's previous discussion on the new platform rules in Japan, click here.)
- **Latvia:**[xlvi] On December 28, 2024, Latvia published amendments to the country's VAT law, which, among other things, implement changes to the VAT sourcing rules for live streaming services, providing that these services are sourced to Latvia if the consumer is domiciled or resident in Latvia rather than where the performance of occurs.
- **Netherlands:**[xlviii] On December 17, 2024, the State Secretary for Finance of the Netherlands announced that starting January 1, 2025, the government will reinstate administrative fines for non-payment or late payment of VAT on e-commerce transactions. These fines had been waived from July 1, 2021, to December 31, 2024, due to initial uncertainties in regulations, start-up issues faced by tax authorities in other EU Member States, and challenges such as lack of staff and the costs of handling taxpayer appeals.

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- **OECD:**[xlix] On November 28, 2024, the OECD published the names of 48 signatories to the Multilateral Competent Authority Agreement on Automatic Exchange of Information Pursuant to the Crypto-Asset Reporting Framework (CARF MCAA), with some countries signing during a ceremony at the 17th Global Forum in Asunción, Paraguay. This agreement facilitates the automatic exchange of tax-relevant information concerning crypto-assets, adhering to the reporting and due diligence procedures outlined in the CARF. The jurisdictions plan to start exchanging information by 2027 or 2028, following the OECD's implementation timelines and transitional arrangements, aiming to enhance tax transparency in the evolving crypto-asset market.
- **Peru:** On December 14, 2024, Peru's Ministry of Economy and Finance introduced new regulations under Supreme Decrees 253-2024-EF and 254-2024-EF, refining the excise duty legislation for remote gaming and sports betting. These decrees clarify the tax determination and compensation procedures, particularly addressing the withholding of excise duty on money or bonuses used for betting, and the tax calculations for transactions in foreign currencies using the current exchange rates published by the Peruvian Superintendency of Banking and Insurance (SBS). Additionally, they mandate that non-resident gaming providers refund any excise duty withheld in excess and allow the Peruvian Tax Authority access to servers and databases to monitor gaming activities. These regulations, effective from January 1, 2025, aim to streamline tax compliance and ensure fair competition between domestic and foreign sellers. To read a report prepared by KPMG in Peru, please click here.
- **Peru:** On December 26, 2024, the Peruvian tax administration (SUNAT) published Superintendency Resolution No. 000294-2024/SUNAT outlining new VAT compliance requirements for nonresident digital services providers, set to take effect on January 1, 2025. (For KPMG's previous discussion on Peru's new VAT rules for nonresident digital services providers, click here.) The Resolution introduces a new VAT return, Virtual Form N° 0623 - IGV - Digital Economy, to be filed within 10 business days after the month of tax obligation in either Peruvian sol (PEN) or U.S. dollars (USD). It specifies different reporting requirements for nonresidents acting as collecting agents or withholding agents and allows for the filing of substitute or rectifying returns in case of errors. SUNAT plans to support these processes through a dedicated online platform, offering various payment methods including direct debit and SWIFT transfers. For more information, click here.
- **Russia:**[l] On December 23, 2024, the Russian Federal Tax Service introduced new VAT rules for digital currency transactions under Tax Code amendments enacted by Federal Law No. 418-FZ/2024, effective January 1, 2025, which exempt the mining and sale of digital currency from VAT and provide a VAT exemption for services sold by authorized organizations facilitating digital currency transactions within the experimental legal framework for digital innovations.
- **Serbia:**[li] On December 25, 2024, Serbia published a rulebook on VAT, which, among other things clarifies the definitions of telecommunications and digital services as well as the sourcing rules for these services.
- **South Africa:**[lii] On December 20, 2024, South Africa published the Law No. 51827, which, among other things, waives the requirement that representative vendors appointed by digital services providers must reside in South Africa and to extend this concession to non-resident vendors with no, or a limited presence in South Africa in specified circumstances.

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- **Sri Lanka:** On December 18, 2024, the President of Sri Lanka gave a speech to the parliament, announcing a tax reform, which, among other things, would require nonresident digital services providers to register for, collect, and remit VAT on sales made to Sri Lankan consumers. To read a report prepared by KPMG in Sri Lanka, please click here.
- **Taiwan[liii]:** On December 24, 2024, the Taiwanese Ministry of Finance initiated a consultation on draft VAT amendments to Finance and Tax Order No. 10604539420, proposing to raise the registration threshold for nonresident digital services providers to annual sales exceeding TWD 600,000, up from the current threshold of annual sales exceeding TWD 480,000.
- **United States:** On December 4, 2024, the Governor of Louisiana approved several tax measures, including House Bill 8 (Act 10), which, effective from January 1, 2025, mandates state and local sales and use taxes on specific digital products and services, including digital works, applications, games, and other electronically transferred tangible personal property. However, it excludes intangible property, professional services in electronic form, telecommunications, and various media services. The bill also outlines exemptions for digital products and services used in certain business processes, such as those directly involved in producing customer services and products subject to various taxes, as well as those used by FDIC-insured financial institutions and licensed healthcare facilities for specific operational and medical purposes. These provisions ensure that digital products are taxed similarly to tangible goods while considering their use in professional and commercial contexts. For more information, click here.

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.

E-Invoicing Updates

- **Argentina:[liv]** On December 12, 2024, the Argentinean tax authority (ARCA) published General Resolution 5614/2024, which modifies and complements existing regulations regarding invoice issuance. The resolution stipulates that the VAT and other federal indirect taxes affecting the pricing of sales, work locations, or services must be itemized on invoices. The resolution also includes changes to the use of "Fiscal Controllers" of "New Technology" in line with the Transparency Fiscal Regime to the Consumer established by Law 27.743. The resolution further modifies the resolution regarding the electronic issuance and storage of original invoices. The implementation of the Transparency Fiscal Regime to the Consumer will be gradual and segmented by taxpayers, starting with "large companies" on January 1, 2025 and remaining companies on April 1, 2025.
- **Brazil:** On December 6, 2024, the Brazilian government published an updated version of Technical Note NT 2024.002, introducing additional validation rules for calculating new indirect taxes (CBS and IBS) under Brazil's indirect tax reform. The updated technical

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note includes a new tax code (CST) for CBS, IBS, and IS (selective tax), providing more detailed and objective determination of how each item in the e-invoice will be taxed. The implementation of these changes will begin on September 1, 2025, in the testing environment, and will fully take effect on January 1, 2026. As the Brazilian Congress continues to debate the new indirect tax systems, further updates to Technical Note NT 2024.002 are expected. For more information, click here.

- **Bulgaria:**[lv] On December 13, 2024, the Bulgarian government submitted draft amendments to the Tax and Social Security Procedure Code (TSSPC) to the parliament. The amendments aim to introduce an obligation for enterprises to submit a Standard Audit File for Tax (SAF-T). The SAF-T implementation will be phased, beginning on January 1, 2026, for large enterprises that meet specific revenue and tax contribution thresholds. By January 1, 2030, this obligation will extend to all enterprises that fall under the defined criteria.
- **China:**[lvi] On November 24, 2024, the State Administration of Taxation (SAT) of China announced that it had started implementing fully digitalized e-invoices (e-fapiao) nationwide as of December 1, 2024. Following successful Provincial pilot programs, most companies have now switched to e-invoicing. This announcement formalizes the requirement for local taxpayers to use the system. Authorities will notify taxpayers of their obligation to issue invoices electronically, which will carry the same legal status as traditional paper invoices. The mandatory system applies to both B2B and B2C transactions.
- **Estonia:**[lvii] On December 3, 2024, the Ministry of Finance proposed requiring more detailed invoice data in the VAT return and mandating the use of e-invoices for transactions between VAT-registered taxpayers. Currently, the VAT Act requires additional invoice data in the VAT return only if the taxable value is at least EUR 1,000 per invoice or totals at least EUR 1,000 for the relevant tax period per trading partner. This requirement does not apply to transactions that are exempt or zero-rated for VAT purposes. Starting in 2027, the Ministry intends to mandate the inclusion of all purchase and sales invoice data in the VAT return, except for exempt and zero-rated transactions, regardless of the taxable value. Additionally, starting in 2027, the Ministry plans to require VAT taxpayers to submit machine-readable e-invoices. The Ministry expects to prepare the draft law by the first quarter of 2025.
- **Germany:**[lviii] On October 29, 2024, Germany published the Fourth Bureaucracy Reduction Act, which, among other things, reduces the required archiving retention time for invoices from ten to eight years. However, the retention period for other documents, such as commercial books, inventories, and annual financial statements, will remain at ten years. This change will apply to invoices whose retention period has not expired by December 31, 2024.
- **Greece:** On November 29, 2024, the Greek Ministry of Finance and the Independent Authority for Public Revenue issued Decision A. 1174/2024 extending the deadlines for implementing the e-waybill system and digital tracking of goods shipments. (For KPMG's previous discussion on Greece's e-waybill system, click here.) Starting April 1, 2025, businesses with FY2022 gross revenues over EUR 200,000 or those in specific sectors such as fuel/energy, pharmaceuticals, medical supplies, construction materials, and olive oil production must start issuing e-waybills, reporting in real-time to the tax platform (myDATA), and digitally monitoring shipments via QR code scanning. The second phase, which involves digital monitoring of deliveries, goods receipt reporting via QR code scanning on domestic shipping documents, en-route transloading, and quantitative and qualitative checks by the recipient, is now required for all domestic businesses starting October 1, 2025, instead of the previously set date of April 1, 2025. To read a report prepared by KPMG in Greece, please click here.

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- **Greenland:**[lix] On November 11, 2024, the Greenland published an executive order on Digital Invoicing. This order mandates all individuals and legal entities to use digital invoicing when selling goods or services to a public authority. The order defines a digital invoice as an invoice that is issued, sent, and received in a structured electronic format, allowing for automatic and digital processing. Public authorities must register in the joint public NemHandelsRegister, overseen by the Danish Business Authority, to receive these digital invoices. The order provides an exemption for individuals and legal entities that do not meet a certain annual turnover threshold. The municipal board will determine this threshold later. The executive order will take effect on March 1, 2025. After this date, any electronic invoices that cannot be digitally processed will be rejected.
- **India:**[lx] On November 5, 2024, the Indian tax administration announced an expansion of the scope of taxpayers required to submit invoices to the Invoice Registration Portal (IRP) within 30 days of issue. Starting April 1, 2025, taxpayers with annual earnings over 10 crores must report e-invoices no older than 30 days on IRP portals. This 30-day reporting restriction, which previously applied only to taxpayers earning over 100 crores annually, covers all document types requiring an Invoice Reference Number (IRN), including invoices, credit notes, and debit notes.
- **Italy:**[lxi] On November 29, 2024, the EU extended until December 31, 2027, Italy's authorization to require all taxpayers in Italy, except for those benefiting from the exemption for small enterprises, to comply with the e-invoicing mandate.
- **Kazakhstan:**[lxii] On December 17, 2024, the State Revenue Committee (SRC) of Kazakhstan recently launched consultations for a pilot project using the "E-Tamga" Information System for automated VAT balance calculations. The project, running from January 1, 2025, to December 31, 2025, will provide taxpayers with expected VAT liabilities for the tax period, based on data from submitted e-invoices, declarations of goods, and indirect tax payment applications. However, this does not replace the taxpayer's obligation to report their VAT obligations. The system will automatically calculate the VAT balance cumulatively for the tax period and notify the taxpayer weekly about the expected VAT balance.
- **Romania:**[lxiii] On December 5, 2024, the Romanian government published Emergency Government Ordinance (EGO) No. 138, amending the country's e-invoicing, e-transport, and e-VAT mandates. The Ordinance clarifies that starting in January 2025, the mandate will include simplified invoices under the mandatory e-invoicing and reporting requirements. Transactions that are sourced outside Romania will not require mandatory B2B e-invoicing. If the recipient of intra-community goods deliveries provides a VAT number from another EU country, even if VAT-registered in Romania, these invoices will not require e-reporting. For B2C transactions, e-invoices must use a 13-digit placeholder code of zeros if the consumer does not provide a VAT ID. The Ordinance further provides entities with Authorized Economic Operator (AEO) status an additional delay before imposing penalties for non-compliance with mandatory international transport reporting in the e-transport system, with penalties beginning on March 31, 2025. Finally, the Ordinance postpones the compliance notification and related penalties within the e-VAT mandate until July 2025.
- **Saudia Arabia:** On November 28, 2024, the Zakat, Tax and Customs Authority (ZATCA) announced the criteria for the Eighteenth group of taxpayers required to comply with the second phase of the e-invoicing system implementation. The eighteenth group will include taxpayers whose VAT-liable revenues exceeded SAR 2 million in 2022 or 2023. The mandate for this group will commence on August 31, 2025.

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- **Senegal:**[lxiv] In December 2024, the Ministry of Finances and the Budget of Senegal introduced the draft Finance Bill 2025, which, among other things, proposes requiring businesses to issue, transmit, and receive invoices electronically. Non-compliance will lead to a penalty of 25 percent of the VAT on the invoice or that should have been on the invoice, up to a maximum of XOF 5 million per invoice. Although the budget law's provisions usually come into effect on January 1, the authorities plan to set a specific compliance schedule for the proposed e-invoicing system.
- **Serbia:** On November 28, 2024, Serbia introduced The Law on Amendments and Supplements to the e-invoicing system (SEF), which becomes effective January 1, 2025. The law mandates entities to declare their VAT payer status within five days of being listed as SEF users by December 15, 2024, or the tax authority will provide it. It also requires electronic recording of all VAT transactions, including those previously exempted, with an extended deadline from 10 to 12 days after the end of the relevant tax period, and allows for corrections. The same rules and timeline apply to the recording of deductible VAT. SEF users can now view data on imports or the delivery of goods put into free circulation according to customs regulations, and a preliminary VAT return will be prepared in SEF based on the available data. The law also prohibits further processing of an e-invoice if its issuer has sold a not-yet-due monetary claim, addresses factoring, and prescribes penalties for failing to disclose or update an entity's status. However, errors identified and corrected in the electronic recording of VAT and input VAT before any tax audit procedure will not be considered an offense. To read a report prepared by KPMG in Serbia, please click here.
- **Serbia:** On November 28, 2024, Serbia published the Law on Electronic Goods Delivery Notes. This law, effective from December 6, 2024, will be fully implemented starting January 1, 2026, with specific provisions for private sector entities taking effect on October 1, 2027. The law covers the requirements for sending, receiving, and processing these e-notes among public and private sector entities, excluding individuals not subject to self-employment income tax. It stipulates that all parties involved in the movement of goods must issue these e-notes, except in cases like goods moved through networks such as electricity or natural gas, retail movements under the Fiscalization Law, or movements related to military or security-sensitive goods. Violations of the law could result in fines ranging from 50,000 to 2,000,000 dinars. To read a report prepared by KPMG in Serbia, please click here.
- **Seychelles:**[lxv] On December 11, 2024, the Seychelles Revenue Authority announced that starting January 1, 2025, various business sectors must implement electronic cash registers and point of sale (POS) systems. These new systems need to interface with other systems through standard Application Programming Interfaces (APIs) and adhere to strict security protocols to protect taxpayer data during transmission and storage. The mandate affects businesses such as currency exchange service providers, funeral parlors, jewelry manufacturers and retailers, electronic item retailers, and stores selling hardware, spare parts, and building materials, including wholesale retailers. Additionally, businesses like restaurants, takeaways, pubs, clubs, bars, and insurance providers must adopt an electronic POS system but are not required to use an electronic cash register.
- **Slovakia:**[lxvi] On December 3, 2024, the Ministry of Finance of Slovakia proposed a new law to replace the existing legislation on electronic cash registers (Act No. 289/2008 Coll., as amended). The new law would require the issuance of invoices using software-based online cash registers. The law would mandate all businesses to accept electronic

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or cashless payments, either through a QR payment application linked to a bank or via a payment terminal. Additionally, the law would allow qualified third parties, including public administration bodies, to access cash register data to increase the number of entities that can verify cash receipts. The law would also revise the penalty system to impose harsher penalties for failures to register sales compared to minor administrative infractions and simplifies the process for imposing penalties in cases of unregistered sales.

- **Slovakia:**[lxvii] On December 18, 2024, the Ministry of Finance of Slovakia launched a consultation on a proposal to introduce a mandatory e-invoicing and reporting system from January 1, 2027. If approved, taxpayers would be required generate and receive invoices in a standardized electronic format, and report data from both issued and received e-invoices for domestic transactions.
- **Uruguay:**[lxviii] On November 28, 2024, the Uruguayan tax authority announced that by December 31, 2024 all remaining taxpayers subject to VAT will have to join the e-invoicing system. From January 1, 2025, all VAT taxpayers, must comply with the e-invoicing mandate with a few specific exceptions, such as those engaged exclusively in agricultural activities with annual income below 4 million Index Units, those involved exclusively in value-added construction activities on real estate, non-resident income taxpayers, and those exempt from taxes administered by the tax authority for all their operations (except direct and indirect users of the free zone) and contributors to the Monotributo, Monotributo Social Mides, and the single PPL social contribution.

Global E-invoicing & Digital Reporting Tracker

The world of taxation and compliance is constantly becoming more digitalized, and governments are continuously issuing new regulations and requirements for taxpayers. To help businesses stay up-to-date with tax administration developments in e-invoicing, digital reporting, and real-time reporting, we have created this e-invoicing developments timeline which will be regularly updated.

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 in Canada** published a report discussing indirect tax changes that took place in 2024 and the upcoming measures for 2025. The report emphasizes the importance of businesses, including platform operators, retailers, and importers, ensuring they meet their indirect tax obligations as the year-end approaches. The changes are related to GST/HST, Quebec sales tax (QST), provincial sales tax (PST), and other indirect taxes. The report

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also highlights the increased audit activities by tax authorities, and the need for businesses to meet all audit timelines and respond promptly to audit queries. It provides an overview of tax status and rate changes, obligations for importers and exporters, digital platform operators, digital businesses, builders, owners of residential property, employers, financial institutions, businesses with cross-border insurance coverage, and dental practices. The report underscores the need for businesses to take proactive steps to manage their indirect tax compliance obligations, risks, and unrecoverable tax costs.

Brazil: Indirect Tax Reform Bill Adopted by Parliament

On December 17, 2024, Brazil's Chamber of Deputies approved Complementary Law Bill (PLP) 68/2024 that introduces the new Contribution on Goods and Services (CBS) and the Tax on Goods and Services (IBS). This approval followed the Constitutional Amendment 132/2023, which initiated a tax reform replacing five taxes: IPI, PIS, COFINS (federal), ICMS (state), and ISS (municipal), with the CBS and IBS. (For KPMG's previous discussion on Brazil's indirect tax reform, click here.) The new taxes will be gradually introduced effective 2026.

The bill establishes a standard rate of 26.5 percent and defines key concepts such as goods, services, sale, seller, acquirer, recipient, individual, and legal entity. It also outlines the tax features of the IBS and CBS, such as taxable events, tax exemptions, tax base, taxpayer, tax rate, among others.

The bill further includes measures requiring nonresident sellers and/or digital platforms facilitating the sale of goods and services to consumers in Brazil to register for, collect, and remit IBS and CBS.

The bill provides certain benefits for low-income families, such as cashback and zero rate on IBS and CBS applicable to essential goods like rice, beans, roots, butter, infant formulas, sugar, salt, and meat. It also introduces different forms of collection methods of IBS and CBS, including collection by taxpayer, automated collection via direct debit, and split payment, where financial institutions involved in the transaction would be responsible for collecting and remitting the tax to the tax authority.

The bill also establishes a differentiated tax regime for areas such as health, education, and transportation, as well as regional incentives, like those offered in the Free Trade Zone of Manaus. It also provides a zero rate on IBS and CBS for medicines used in the treatment of serious diseases, including oncological treatments, rare diseases, and neglected diseases that affect the low-income population. It also establishes specific regimes for industries like mining, real estate, bars, restaurants, hotels, and parks.

Miscellaneous Developments in the Americas

- **Canada:** British Columbia recently published updated guidance on claiming bad debt adjustments for provincial sales tax (PST) and carbon tax. Taxpayers must claim the bad debt adjustment on their PST return for the period when the debt was written off as uncollectible. If not claimed in the same period, they must apply for a refund instead. For carbon tax, collectors and natural gas retail dealers can claim adjustments through their respective accounts in eTaxBC. In addition, taxpayers who receive a payment on a previously written-off bad debt must remit tax on the recovered amount if they have already claimed an adjustment or refund. To determine the tax owed, they should recalculate the adjustment or refund as if the recovery was received before the debt was written off, and then subtract this revised amount.

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- **Chile:**[lxx] On November 28, 2024, the Chilean tax authority issued Circular 50-2024, which clarifies the application of recent amendments to the two percent tax on luxury goods. Among other things, the Circular clarifies the taxation of certain luxury goods in Chile, such as helicopters, airplanes, yachts over 160 kg valued above 122 Tax Units (UTAs), and vehicles valued above 62 UTAs. It establishes a legal presumption that any helicopter, airplane, or automotive vehicle registered in a Chilean public registry is deemed to be "located in Chile." In addition, the tax base is now the "normal market value" as determined by the tax authority, replacing the previous "current market value." Further, each December, the tax authority will publish a Resolution listing the goods subject to the tax, based on information from public institutions. Exemptions from the tax include goods owned by the state, municipalities, resident companies in normal business, and certain sports yachts. The tax is due on December 31 each year, and taxpayers subject to First Category Tax cannot deduct the luxury goods tax as an expense.
- **Costa Rica:**[lxxi] On December 10, 2024, the Costa Rican Legislative Assembly accepted for consideration, Bill No. 24750, which, among other things, would requires acquirers, entities that process digital payments via credit or debit cards, to withhold VAT on payments to entities earning taxable income from local sales of goods or services. Additionally, it imposes a six percent withholding on the net sales amount paid to affiliates, excluding VAT, and treats this withholding as a prepayment toward the VAT the affiliate must pay under existing regulations. The bill exempts taxpayers under the simplified tax regime from withholding tax and prevents withholding on transfers via specific electronic banking channels. It exempts withholding on sales and services by affiliates to the credit or debit card payment system, clarifies payment deadlines for withheld amounts, and establishes reporting guidelines for acquiring entities. Lastly, it introduces penalties for non-compliance.
- **Guatemala:**[lxxii] On December 9, 2024, the Guatemalan Congress approved Decree 31-2024, which, among other things, provides that taxpayers with multiple commercial establishments are now required to declare and pay taxes by aggregating all their activities. If they are registered in a special regime, they must declare it separately.

Europe, Middle East, Africa (EMEA)

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

- **KPMG in Austria** published a report discussing, among other things, two key VAT developments. Firstly, the Austrian Administrative Supreme Court clarified that in business-to-consumer transactions, if the import process is entirely within the seller's control, the responsibility for the import is attributed to the seller. This interpretation aligns with the Austrian VAT law, which treats the definition of import differently from customs duties. Secondly, the Austrian Federal Finance Court ruled that only the lessor, who retains control over the machinery at the time of importation, can claim an input VAT deduction on the import VAT. Consequently, the lessee, lacking control over the imported machinery, cannot claim this deduction.

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- **KPMG in Belgium** published a report discussing amendments to the VAT compliance, VAT refund processes, and procedural rules, set to begin on January 1, 2025, unless stated otherwise. These reforms include extending the filing and payment deadline for quarterly VAT returns from the 20th to the 25th day following the reporting period, while maintaining the 20th-day deadline for monthly filings. Starting May 1, 2025, VAT payments must be made to new bank account numbers, and from 2026, VAT debts can be paid via direct debit. The reforms also modify how VAT refunds are processed: requests for refunds will only apply to the VAT credit from the return period itself, not accumulated credits, which will be managed through a new "VAT provision account" on the MyMinfin portal. Additionally, new fines have been introduced for late filings and payments, and the procedural rules now include a statutory response time for taxpayer communications with VAT authorities.
- **KPMG in the Czech Republic** published a report discussing a recent ruling by the Supreme Administrative Court (SAC) which upheld a decision denying a company's claim for a refund of excise duty on mineral oils used to produce heat. The company failed to prove that it maintained immediate control over the heat production process, a necessary condition under the Excise Duty Act. Despite the company's argument that the law does not mandate physical control over the production of heat, both the Municipal Court and the SAC concluded that to recover excise duty, it must be demonstrated that the oil was indeed used for heat production, necessitating full control over the heating facilities and detailed record-keeping of oil consumption.
- **KPMG in Estonia** published a report outlining upcoming changes to tax laws, including adjustments to income tax rates, value added tax (VAT), excise duties, and new taxes and regulations, with most changes taking effect from January 1, 2025. Additionally, it highlights amendments to the VAT law and other legislation that will impact various sectors and individuals, with some changes extending into 2026 and 2027.
- **KPMG in Germany** published a report discussing recent indirect tax developments in Germany. Among other things, the report covers measures in the German Annual Tax Act 2024, which includes changes to the sourcing rules for certain virtual events and clarifies the application of various VAT exemptions. Additionally, the report discusses a recent federal tax court rulings on the VAT treatment of the provision of free heat for business reasons and the deduction of VAT charged on invoices for legal consulting services to assert claims for damages and a lower tax court decision on the right to deduct VAT on invoices for legal consulting services to asset claims for damages.
- **KPMG in Hungary** published a report discussing the autumn tax package, which, among other things, introduces changes to the VAT and retail sales tax laws. For VAT, the package specifies that indirect customs representatives must carry out a "partner audit" of importers before concluding contracts and periodically thereafter, to mitigate tax risks. This audit is not required if no importations occur in a given month or if the importer holds an import VAT self-assessment license. Detailed criteria for these audits will be provided by the National Tax and Customs Administration of Hungary, and the outcomes must be reported electronically by the 10th of the following month. Additionally, indirect customs representatives must maintain a "reliable taxpayer" status to exercise the right of VAT deduction. In terms of retail sales tax, the base now includes not only net sales revenue from services and discounts from sellers but also the delivery fees paid by customers. The report also clarifies rules for platform operators, including the requirement to declare tax advances within 15 days from the start of retail activities and removes the provision for access restrictions to websites for non-compliance with tax obligations.

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- **KPMG in Italy** published a report discussing the new regulations introduced by the Italian government for fiscal representatives of non-EU companies, as outlined in Legislative Decree no. 13/2024. This decree, published on February 21, 2024, mandates that non-EU companies must submit a guarantee to register their Italian VAT identification number with the EU's VAT Information Exchange System (VIES), which is essential for conducting intra-EU transactions. Fiscal representatives are required to verify the completeness and accuracy of documentation from non-EU entities and adhere to specific trustworthiness standards. Further clarifications were provided through ministerial decrees issued in December 2024, detailing the guarantee requirements based on the number of companies represented. The Italian Tax Authority and the Italian tax police will evaluate the risk profiles of fiscal representatives, with non-compliance potentially leading to the removal of the VAT identification number from VIES.
- **KPMG in Luxembourg** published a report discussing a recent decision of the Luxembourg District Court on November 22, 2024, confirming that VAT does not apply to directors' fees received by members of the board of directors of public limited companies. This follows a similar decision by the Court of Justice of the European Union (ECJ) in TP (Case C-288/22), which held that directors might not be working independently and therefore shouldn't be taxed like businesses. In a separate report, KPMG in Luxembourg discusses Circular 781-2 issued by the VAT authorities on December 11, 2024, confirming that the consequences of these rulings extend beyond just board members of Luxembourg public limited companies. Directors must assess whether they meet the criteria set by these decisions, including acting on their own responsibility and bearing the economic risk related to their activity, to determine their VAT status. Directors in Luxembourg who are already VAT-registered and meet the conditions prescribed by both judgements can benefit from a regularization of VAT they invoiced and collected for non-prescribed years, provided the request is made before July 1, 2025. This circular also reinstates the application of VAT for directors exercising their activities independently, requiring regularization for past periods where no VAT was charged due to the suspension of Circular 781 of September 30, 2016.
- **KPMG in the Netherlands** published a report discussing the announcement made by the Deputy Minister of Finance on December 10, 2024, regarding the repeal of the VAT Holding Resolution and the Decree on the Sale of Shares from July 1, 2025. The Minister also introduced new guidelines in two policy decrees, which will come into effect on the same date. These guidelines significantly change the policy on the recovery of VAT on costs related to the acquisition, holding, and sale of shares. This change will have a major impact on all organizations with holding activities, requiring action before July 1, 2025. Under the new policy, there will be more situations where holding companies will likely face non-recoverable VAT on sale costs.
- **KPMG in Poland** published a report discussing recent indirect tax developments, including the implementation of the new VAT exemption for small and medium-sized entities within the EU, updates to the Q&A on the standard audit file (JPK), a Supreme Administrative Court decision holding that services rendered by a company to electric vehicle users, related to the provision of electric vehicle recharging, qualify as a single comprehensive service, and the suspension of the obligation to integrate cash registers with payment terminals.
- **KPMG in Serbia** published a report discussing the recent adoption of the Law on Amendments to the Value Added Tax Law. Key changes include the introduction of a preliminary VAT return based on a set of data obtained from the e-invoicing system. The law also outlines new rules for changes in the tax base, including obligations to issue debit notes in the case of a subsequent increase and conditions for reducing VAT in the case of a subsequent decrease. The law also stipulates new requirements for VAT deduction, notably

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that deductions can only be made based on accepted e-invoices. Other changes include rules for the cancellation of invoices, correction of VAT deduction, obligations for creating internal invoices, changes in the import tax base, and new registration requirements for taxpayers. The law also outlines changes in the tax period and rules for the transfer of assets.

- **KPMG in Slovakia** published a report discussing recent amendments to the VAT Act. The amendments refine the definition of "investment property," introduces the concept of "first use," expand situations requiring correction or adjustment of deducted VAT, and modify the rules and methods for such corrections. They also clarify changes in VAT registration and the special mechanism for small enterprises. Additionally, the amendments alter the determination of the VAT base for personal use or other non-business purposes, free-of-charge sale of goods and services, and VAT payment upon deregistration and unlawful appropriation of goods.
- **KPMG in Slovakia** published a report discussing recent amendments to the Financial Transaction Tax Act. The amendments expand the list of entities exempt from being taxpayers, including citizens' and interest associations, foundations, and research and development entities. They further clarify and extend exemptions from the tax subject, covering operations such as payment of collateral and customs debt, operations of crypto-asset service providers, transactions of administrators, and operations of public universities and health insurance companies, among others. The amendments also apply a maximum tax of EUR 40 per transaction only to those recharged costs that can be individually identified per transaction. Furthermore, they introduce obligations for notifying the tax collector if a person is not a taxpayer and if financial transactions exempt from tax will be carried out from a special account.
- **KPMG in Spain** published a report discussing the introduction of a new tax on financial institutions, effective from December 21, 2024, as outlined in Law 7/2024. This law introduces a tax on the net interest and commission income of financial institutions and modifies several existing tax laws. The tax applies to credit institutions, financial credit establishments, and Spanish branches of foreign credit institutions, with a tax base calculation that excludes the first Euros 100 million of net interest and commission income. The tax rate is progressive, ranging from 1 percent to 7 percent, and the tax liability can be reduced by 25 percent of the net corporate or non-resident income tax payable for the same period. The law also includes provisions for an extraordinary tax relief and mandates self-assessment and installment payments. The tax is set to be in force for three consecutive tax periods starting from January 1, 2024.
- **KPMG in Spain** published a report discussing the introduction of a new excise duty on liquids for e-cigarettes and other tobacco-related products, which is set to take effect on April 1, 2025. The duty will apply to the consumption of e-cigarette liquids, nicotine pouches, and similar products, excluding Ceuta, Melilla, and the Canary Islands. It will impact manufacturers, importers, and retailers, including tobacconists and supermarkets, unless they are under a duty suspension arrangement. The report outlines the taxable events, chargeability, taxpayer obligations, and applicable rates, which vary based on nicotine content and product type. Exemptions and refunds are available under specific conditions, such as for personal use or scientific analysis.
- **KPMG in Spain** published a report discussing the introduction of new measures to optimize VAT control on hydrocarbons leaving bonded warehouses. These measures, effective from December 21, 2024, aim to combat VAT fraud prevalent in transactions involving petrol, diesel, and biofuels used as motor vehicle fuels. The amendments include treating certain transactions as imports, requiring the final depositor or the tax warehouse

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owner to guarantee VAT payment, and imposing joint and several liability on warehouse owners for tax debts related to unauthorized fuel removals. Additionally, the new regulations mandate monthly VAT settlements for relevant transactions and introduce stricter controls on the documentation required to prove tax payments on hydrocarbons.

Roundup of Latest Court of Justice of the European Union Cases

On December 5, 2024, the Court of Justice of the European Union (ECJ) published its decision in Modexel, Case C-680/23, in which it held that if a business stops its economic activities, it cannot carry forward any excess deductible VAT that was declared at the time of stopping its economic activities to the next period. Instead, the business must request a refund within 12 months from the date it stopped its activities.

On December 12, 2024, the ECJ published its decision in Dranken Van Eetvelde, Case C-331/23, holding that national laws can impose a strict joint and several liability for VAT on a person even if they are not the one who should normally pay the tax, as long as they can prove they did everything possible to avoid being part of tax evasion. Furthermore, such laws can also impose VAT liability without considering the person's right to deduct VAT. In this regard, national legislation can combine criminal and administrative penalties for similar offenses occurring over consecutive tax years, even if they are handled in separate proceedings.

On December 12, 2024, the ECJ published its decision in Weatherford Atlas Gip SA, Case C-527/23, in which it held that the EU VAT Directive prohibits national legislation or practices that deny a taxpayer's right to deduct VAT incurred on services acquired from other taxpayers in the same group of companies. This applies even if the services are provided simultaneously to these group entities and their purchase is deemed unnecessary or inappropriate, if the services are used for the taxpayer's own taxed transactions.

On December 19, 2024, the ECJ published the nonbinding Opinion of its Advocate General (AG) in P GmbH, Case C-794/23, in which the AG opined that a taxpayer is not liable for VAT for the incorrect invoices it has issued to non-taxable persons, even if it has issued further incorrect invoices to other taxable persons, for which it is then liable for the tax under that article. If necessary, the proportion of such invoices is to be determined by means of an estimate. The criteria for estimating the proportion of invoices that pose a risk of loss of tax revenue can be derived from the type of service and typical customers. Similarly, the circumstances giving rise to the error and the way in which the issuer of the invoice was involved in establishing the facts may be relevant criteria in that estimation.

On December 19, 2024, the ECJ published its decision in A, B and Association C, Case C-573/22, in which it held that the EU VAT Directive does not prevent a Member State from continuing to tax public broadcasting activities financed by a compulsory statutory fee paid by any owner of equipment capable of receiving broadcasting programs, regardless of whether these activities fall under the concept of sale of services for consideration. The ECJ further ruled that the EU VAT Directive does not prevent a Member State from continuing to tax these activities when the legislation related to the fee was amended to include any device capable of receiving broadcasting programs, including smartphones or computers. Furthermore, the EU VAT Directive does not prevent a Member State from continuing to tax these activities when the legislation on the fee was amended to allow a small part of the revenue from the fee to finance broadcasters and media or film undertakings that contribute to broadcasting activities.

On December 19, 2024, the ECJ published the nonbinding Opinion of its AG in *Határ Diszkont Kft.,* Case C-427/23, in which the AG opined that a seller's administrative procedure for refunding amounts paid as a VAT advance by non-EU customers in the context of VAT-exempt transactions involving sales of goods they subsequently export does not give rise to a specific

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and independent provision of service relating to the sale of such goods. Therefore, that procedure is not taxable under the EU VAT Directive.

Source: European Union; Portugal - ECJ Decides on Interpretation of 'The Following Period' for Right to Deduct Excess VAT: Modexel (Case C-680/23) (VAT), (December 5, 2024), News IBFD; European Union; Belgium - ECJ Decides on Scope of Joint and Several Liability for Participation in VAT Frauds and Liability of Unknown Third Party for Tax Debts According to Principle of Proportionality Applied to Penalties: Dranken Van Eetvelde (Case C-331/23) (VAT), (December 12, 2024), News IBFD; European Union; Romania - ECJ Decides on Right to Deduct VAT Paid for Administrative Services Provided between Intra-Group Companies: Weatherford Atlas Gip (Case C-527/23) (VAT), (December 12, 2024), News IBFD; European Union; Austria - ECJ Advocate General Opines on VAT Liability for Partially Incorrect Invoice Issued to Non-Taxable Person: P GmbH (Case C-794/23) (VAT) (December 19, 2024), News IBFD; European Union; Denmark - ECJ Decides on Lawfulness of Charging VAT in Respect of Radio and Television Licence Fee: Foreningen C and Others (Case C-573/22) (VAT) (December 19, 2024), News IBFD; European Union; Hungary - ECJ Advocate General Opines on VAT Treatment of Administration Services Relating to Refunds of VAT Advance Payments: Határ Diszkont (Case C-427/23) (VAT) (December 19, 2024), News IBFD.

Miscellaneous Developments in EMEA

- **Austria:**[lxxiii] On December 4, 2024, the EU authorized Austria to continue excluding the right to deduct VAT on business goods and services when more than 90 percent of the goods and services are used for the private purposes of a taxpayer or their employees, or more generally, for non-business purposes or non-economic activities. This extension applies through December 31, 2027.
- **Belgium:**[lxxiv] On December 24, 2024, Belgium published a Royal Decree No. 19, implementing the EU's small business VAT reform, effective from January 1, 2025. This reform allows EU Member States to maintain small business exemptions up to EUR 85,000 (EUR 25,000 in the case of Belgium) and extends these exemptions to small businesses in other EU states, provided their gross receipts in the non-established state are below the national threshold and their total EU gross receipts are below EUR 100,000. Non-EU businesses are not eligible for these exemptions. Small businesses in Belgium with annual gross receipts not exceeding EUR 25,000 must notify the VAT administration to obtain a VAT number and can opt into this exemption regime, which excludes certain activities like work on immovable property and sales requiring a cash register receipt. Businesses can switch to this regime quarterly or annually if they meet the gross receipts criteria and must adjust VAT deductions for unused goods, services, and assets when changing tax regimes. If a business exceeds the gross receipts threshold by more than 10 percent, they must exit the regime immediately and cannot re-enter for one year. Additionally, businesses must electronically report their annual gross receipts by March 31 of the following year.
- **Bosnia & Herzegovina:**[lxxv] On December 2, 2024, the Bosnia & Herzegovina's Governing Board of the Indirect Taxation Authority proposed changes to the VAT implementing regulation. The proposal includes increasing the minimum invoice amount eligible for VAT refunds for nonresidents from BAM 100 to BAM 200, including VAT. VAT refund claims for goods and services provided under internationally financed projects must be submitted within 24 months of the invoice date. Detailed conditions and required documents for VAT refunds for sales to diplomatic and consular missions are provided. If reciprocity agreements exist between Bosnia and Herzegovina and other countries, the limitations on minimum refund amounts and annual refunds in these agreements apply. Diplomatic missions can submit VAT refund requests within 12 months of the invoice date. Additionally,

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taxpayers registering for VAT for the first time can deduct VAT on capital assets purchased or imported within one year prior to VAT registration.

- **Bulgaria:**[lxxvi] On December 2, 2024, the Bulgarian Council of Ministers submitted to parliament a proposal for amendments to the VAT Act. Among other things, the proposal includes measures to implement the EU's small business VAT reform, effective from January 1, 2025. This reform allows EU Member States to maintain small business exemptions up to EUR 85,000 and extends these exemptions to small businesses in other EU states, provided their gross receipts in the non-established state are below the national threshold and their total EU gross receipts are below EUR 100,000. Non-EU businesses are not eligible for these exemptions. In addition, it proposes new reporting obligations for VAT-registered persons to provide quarterly data on available fixed assets and material stocks, introducing an obligation for mandatory VAT registration before performing a taxable sale related to land and buildings (regardless of the gross receipts), amending the special procedure for charging VAT on imports for investment projects, and clarifying the computation of the taxable gross receipts for second-hand goods and travel services.
- **Croatia:**[lxxvii] On December 24, 2024, Croatia published a law amending the VAT law effective January 1, 2025. Among other things, the law increases Croatia's VAT registration threshold from EUR 40,000 to EUR 60,000. In addition, the law implements the EU's small business VAT reform. This reform allows EU Member States to maintain small business exemptions up to EUR 85,000 (EUR 60,000 now in the case of Croatia) and extends these exemptions to small businesses in other EU states, provided their gross receipts in the non-established state are below the national threshold and their total EU gross receipts are below EUR 100,000. Non-EU businesses are not eligible for these exemptions. Finally, the law repeals the requirement for reciprocity for non-EU businesses to be able to request a nonresident VAT refund claim.
- **Czech Republic:**[lxxviii] On December 23, 2024, the Czech Republic's published a bill amending the VAT law. This bill includes measures to implement the EU's small business VAT reform, effective from January 1, 2025. The reform allows EU Member States to maintain small business exemptions up to EUR 85,000 and extends these exemptions to small businesses in other EU states, provided their gross receipts in the non-established state are below the national threshold and their total EU gross receipts are below EUR 100,000. Non-EU businesses are not eligible for these exemptions. Additionally, the bill changes the standard VAT registration threshold starting from January 1, 2025. Taxpayers must now monitor their gross receipts for VAT registration purposes based on a calendar year instead of 12 consecutive months. If their annual gross receipts exceed CZK 2,000,000 but are below CZK 2,536,500, the taxpayer will become a VAT payer from January 1 of the following year. However, if their gross receipts exceed CZK 2,536,500 during the year, the taxpayer will become subject to VAT immediately, starting from the day after the threshold is exceeded.
- **Czech Republic:**[lxxix] On December 31, 2024, the Czech Ministry of Finance published a list of countries that qualify for reciprocal VAT refunds for taxpayers without a business presence in the European Union. Effective from January 1, 2025, until further notice, the countries eligible for this arrangement include Bosnia and Herzegovina, Norway, the United Kingdom, and Switzerland.
- **Denmark:**[lxxx] On December 6, 2024, the Danish tax authority published Tax Council Binding Answer No. SKM2024.617.SR, clarifying VAT deduction rules for real property purchases. In this case, the taxpayer planned to buy a property for renting out for education and conference activities. The property is divided into several parcels, all but one of which are

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co-registered. Furthermore, there is an activity track on the property, for which the seller is voluntarily VAT registered for renting out. The taxpayer sought clarification on whether it could deduct the VAT charged by the seller on the purchase price. The Tax Council concluded that the co-registration results in the transfer of two separate properties, which must be assessed individually. It determined that the transfer of the co-registered parcels, including a larger building, several smaller buildings, and the activity track, is a VAT-exempt business transfer under the VAT Act, as the company intends to continue renting out the activity track.

- **Denmark:**[lxxxi] On December 10, 2024, the Danish tax authority published Tax Council Binding Answer No. SKM2024.624.SR, clarifying the VAT liability rules for charging station concessions. In the case, the taxpayer, a public authority that owned several properties, entered into a concession agreement with an operator in which it sold the right to use parking spaces to establish and operate charging stations. The taxpayer sought clarification regarding whether this amount was subject to VAT. The Tax Council held that the taxpayer's activity was subject to the same treatment as a private enterprise because the contract did not involve the exercise of its authority as a public body. Therefore, the consideration paid to the taxpayer was subject to VAT.
- **Denmark:**[lxxxii] On December 13, 2024, the Danish tax authority published Tax Council Binding Answer No. SKM2024.635.SR, clarifying the zero-rating for international transportation of passengers. In the case, the taxpayer was engaged in commercial sailing with a Danish ship. Most of the taxpayer's voyages involved transporting paying anglers to a destination outside 12 nautical miles of Denmark. The taxpayer sought confirmation that the voyage was considered international transportation, allowing the taxpayer to receive fuel for the ship VAT-free. The Tax Council confirmed that the voyage was considered international shipping, as the ship was predominantly used to transport anglers to a destination outside of the Danish territorial waters. For this assessment, it was not crucial whether the destination outside the Danish VAT area was a port or another defined destination.
- **Denmark:**[lxxxiii] On December 18, 2024, the Danish tax authority published Tax Council Binding Answer No. SKM2024.646.SR, clarifying whether the transfer of rental properties can qualify as a VAT-exempt business transfer. In the case, a taxpayer, involved in constructing rental properties for residential and commercial use, contributed a property with a lease agreement and a tenant to a property company. The tax authority determined that this contribution in kind was a VAT-exempt business transfer. The tax authority confirmed the tax authority's position highlighting that the transfer involves an entire rental property with associated rental agreements and other rights and obligations, and the acquirer, according to the information provided, intends to continue the VAT-liable rental activity.
- **Denmark:**[lxxxiv] On December 16, 2024, the DCTA published City Court Decision No. SKM2024.640.BR, which clarified VAT deductions on operating costs related to subcontractor expenses and material sales. In the case, the taxpayer, a development and design company, claimed VAT deductions for subcontractor expenses and material sales. The tax authority denied the taxpayer the VAT deduction on these expenses and increased the taxpayer's taxable income and VAT liability. On appeal, The City Court upheld this decision, concluding that the company failed to prove the legitimacy of the subcontractor services and correctly increased the sales VAT and taxable income due to unrecognized income from material sales.
- **European Union:**[lxxxv] On December 10, 2024, the EU's Economic and Financial Affairs Council (ECOFIN) agreed on introducing an electronic VAT exemption certificate. Proposed by the European Commission in July 2024, this initiative aims to modernize the VAT

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exemption process, reduce administrative burdens, and align with the EU's digitalization efforts. Member States have until July 1, 2026, to implement the new procedure, with a transitional period allowing the use of paper certificates until June 30, 2030. The electronic certificate will apply to both domestic and cross-border transactions and VAT exemptions via refunds under article 151(2) of the EU VAT Directive. The proposal also clarifies that if exemption conditions are no longer met, the entity providing the certificate is liable for the VAT. The Agreement will undergo finalization before formal adoption by the Council of the European Union and publication in the Official Journal of the European Union.

- **European Union:**[lxxxvi] On December 2, 2024, the EU's Group on the Future of VAT published the minutes of its 47th meeting. The meeting included an update on the state of play and implementation of the VAT in the Digital Age package, which was subdivided into two parts: digital reporting requirements and platform economy interpretation. The Commission services presented a working paper on the elements of electronic invoicing and the Digital Reporting Requirements (DRR), along with a timeline and next steps. The European Commission services also introduced a working paper on the platform economy, detailing elements to be addressed in explanatory notes, along with a timeline and next steps. Additionally, the European Commission services informed delegates about the launch of the SME Web Portal.
- **European Union:**[lxxxvii] On December 16, 2024, the European Commission published the "VAT after VIDA. Reflections on the Future of VAT" report, prepared by the VAT Expert Group (VEG). This report outlines both immediate and long-term strategies for modernizing the VAT system, building on the developments introduced by the VAT in the Digital Age package (ViDA). It recommends immediate changes in areas such as taxpayer status, composite sales, and various other aspects including e-mobility, crypto-assets, and drop shipments. The report also sets a vision for the future VAT system based on principles like neutrality, broadening the VAT base, and aligning VAT rules for goods and services with technological advancements. It proposes shifting from VAT Directives to EU Regulations for direct applicability and suggests establishing an EU VAT Agency to ensure uniform application and interpretation of VAT rules across Member States. The VEG emphasizes designing a future VAT system that incorporates sustainability and takes full advantage of digital technologies for VAT collection and refunds.
- **European Union:**[lxxxviii] On December 18, 2024, the European Commission published the annual VAT Gap Report 2024, based on data from 2022, showing notable progress in VAT collection across EU Member States. The VAT gap, indicating the difference between expected and actual VAT revenues, decreased from EUR 121 billion in 2018 to EUR 89 billion in 2022, reflecting enhanced measures against VAT fraud and evasion. Despite this improvement, the VAT compliance gap slightly increased by EUR 13.3 billion in 2022, reaching 7 percent of the theoretically expected revenues, which the European Commission attributes to a leveling effect after significant declines in previous years. The report highlights the impact of digitalization, such as e-invoicing and real-time transaction reporting, in reducing the VAT gap. It also points out that exemptions and reduced rates significantly contribute to uncollected revenue, suggesting room for policy reforms.
- **European Union:**[lxxxix] On December 13, 2024, the European Parliament's Committee on Economic and Monetary Affairs published a Draft Report on the VAT in the Digital Age (ViDA) package. (For KPMG's previous discussion on the ViDA proposal, click here.) The Draft Report approves the draft Council Directive, urges the Council to inform the Parliament if it plans to deviate from the approved text, and requests re-consultation if significant amendments are made. This action follows the Council's approval of the ViDA package on November 5, 2024, and its decision on November 7, 2024, to re-consult the Parliament

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due to major differences between the Commission's proposal and the Council's version, particularly regarding the deemed seller regime. The Council decided to implement these rules voluntarily by July 1, 2028, and mandatorily by January 1, 2030, allowing flexibility for Member States to exempt SMEs and manage their invoicing systems, including the option to continue using summary invoices. The European Parliament supported extending implementation deadlines beyond the Commission's original proposal, advocating for a simplified procedure without amendments to ease the transition for Member States and businesses.

- **European Union:** On November 19, 2024, the European Commission published VAT Committee Working Paper No. 1089 REV, which analyzes the applicable sourcing rules for the resale of single-purpose vouchers (SPVs). The VAT Committee suggested that the sourcing rules in the VAT Directive must always be considered, particularly when their application depends on the recipient's status as a taxpayer or non-taxpayer. For instance, for resales of SPVs linked to a digital service, the general business-to-business rules should apply, while for the transfer of the voucher to a final consumer, the sourcing rules applicable to digital services (i.e., where the consumer is located) should apply. For more information, click here.
- **Estonia:**[xc] On December 2, 2024, the Estonian parliament published Law No. 462 SE, amending the VAT and Tax Administration Acts. Among other things, the law includes measures to implement the EU's small business VAT reform, effective from January 1, 2025. The reform allows EU Member States to maintain small business exemptions up to EUR 85,000 (EUR 40,000 in the case of Estonia) and extends these exemptions to small businesses in other EU states, provided their gross receipts in the non-established state are below the national threshold and their total EU gross receipts are below EUR 100,000. Non-EU businesses are not eligible for these exemptions. Furthermore, the law amends the Tax Administration Act to detail state supervision regarding recordkeeping and reporting under the special VAT exemption regime for small enterprises.
- **Finland:**[xci] On September 23, 2024, the Finnish tax authority published Central Tax Board Preliminary Decision No. KVL:2024/30, clarifying the VAT treatment of electricity sales. In the case, the taxpayer, a company engaged in electricity production, owned shares in production companies that sold electricity to their shareholders. Under the established structure, a shareholder sold electricity to the electricity exchange on the taxpayer's behalf, including to two non-shareholding parties. The taxpayer bought the electricity back and sold it to the shareholder at market prices. The taxpayer sought clarification on the VAT treatment on the various sale transactions. The Central Tax Board determined that the taxpayer's electricity sales to shareholders were taxable business activities, making the taxpayer a taxpayer for VAT purposes. Additionally, the taxpayer had the right to deduct VAT on purchases from production companies because the electricity was bought for its taxable business.
- **Finland:**[xcii] On September 25, 2024, the Finnish tax authority published Central Tax Board Preliminary Decision No. KVL:2024/29, clarifying the VAT treatment of accommodation services in apartments and apartment hotels. In the case, the taxpayer offers accommodation services in furnished apartments, hostel apartments, and apartment hotels. These services are provided under fixed-term contracts ranging from one day to 180 days, with the possibility of extension up to a maximum of 360 days. The accommodation includes amenities such as electricity, heating, water, Wi-Fi, bed linen, and towels, with options for recurring or final cleaning. The apartments are marketed similarly to hotels. The taxpayer sought clarification on its VAT liability for the sale of accommodation services. The Central Tax Board concluded that the accommodation services are subject to VAT, as they

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involve the transfer of the right to use rooms in a manner comparable to taxable hotel and camping operations, according to the VAT Act.

- **France:**[xciii] On December 22, 2024, France published Decree No. 2024-1195, providing details on France's implementation of the EU's small business VAT reform, effective from January 1, 2025. The reform allows EU Member States to maintain small business exemptions up to EUR 85,000 (varying depending on the activity type in the case of France) and extends these exemptions to small businesses in other EU states, provided their gross receipts in the non-established state are below the national threshold and their total EU gross receipts are below EUR 100,000. Non-EU businesses are not eligible for these exemptions. Among other things, the Decree provides measures allowing small enterprises established in France and other EU countries benefiting from the VAT exemption regime to issue simplified invoices, specifying the required information for businesses wishing to benefit from the regime in other EU countries, including prior notification and update requirements for tax exemptions, requiring electronic communication of information related to tax exemptions and compliance for taxpayers not established in France, defining time limits when a taxpayer may be required to fulfill VAT obligations in France, defining the conversion requirements, and specifying new invoicing rules and procedures.
- **Hungary:**[xciv] On November 29, 2024, the EU extended until December 31, 2027, Hungary's authorization to limit the right to deduct VAT on leased passenger cars to 50 percent when not used for business purposes, and exempting businesses from accounting for tax on private use.
- **Hungary:**[xcv] On December 23, 2024, the EU extended until December 31, 2026, Hungary's authorization to require the customer to self-assess VAT on domestic sales of capital goods made by a taxpayer subject to liquidation or any other proceedings legally establishing its insolvency and sales of other goods and services with an open market value exceeding HUF 100,000.
- **Ireland:**[xcvi] On December 4, 2024, the Irish Revenue issued VAT Notes for Guidance – Finance Act 2024, clarifying recent changes to the VAT law, effective January 1, 2025. Among other things, these changes include an increase in VAT registration thresholds to EUR 85,000 for sellers of goods and EUR 42,500 for sellers of services, restrictions on VAT recovery for food, drink, accommodation, or personal services except in specific cases, and the imposition of a new EUR 4,000 fixed penalty for failure to comply with the information reporting requirement for payment service providers.
- **Ireland:**[xcvii] On December 13, 2024, the Irish Revenue published eBrief 315/2024, providing details on Ireland's implementation of the EU's small business VAT reform, effective from January 1, 2025. The reform allows EU Member States to maintain small business exemptions up to EUR 85,000 (EUR 85,000 for sellers of goods and EUR 42,500 for sellers of services in the case of Ireland) and extends these exemptions to small businesses in other EU states, provided their gross receipts in the non-established state are below the national threshold and their total EU gross receipts are below EUR 100,000. Non-EU businesses are not eligible for these exemptions. In addition to the above, the eBrief provides that to be eligible for the regime in another Member State, an Irish business must also file quarterly reports once registered. An Irish business that intends to benefit from the regime in other Member States must make a formal application to Irish Revenue. Furthermore, it provides that the regime is optional, and businesses can choose not to use it for sales in other Member States, in which case normal VAT rules will apply. Irish businesses benefiting from the regime in Ireland for domestic transactions do not have to register for VAT but can choose to do so.

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- **Isle of Man:**[xcviii] On December 9, 2024, the Isle of Man Treasury announced the implementation of amendments to the VAT law. Among other things, these amendments include giving the Treasury the power to request further evidence from a person who has submitted a DIY housebuilder's claim on or after May 24, 2024. This is to assist the Treasury with validating claims and carrying out compliance checks. If the required documents are not produced, the Treasury may refuse to refund the amount of VAT (or any part of it) in respect of which a claim was made. Additionally, the amendments include reducing the interest rate for late payment of VAT from 7.5 percent to 7.25 percent and the repayment interest for VAT from 4 percent to 3.75 percent.
- **Italy:**[xcix] On November 30, 2024, Italy published Legislative Decree No. 180/2024, which includes measures transposing into national legislation the EU's small business VAT reform, effective from January 1, 2025. The reform allows EU Member States to maintain small business exemptions up to EUR 85,000 and extends these exemptions to small businesses in other EU states, provided their gross receipts in the non-established state are below the national threshold and their total EU gross receipts are below EUR 100,000. Non-EU businesses are not eligible for these exemptions. Taxpayers established in Italy may benefit from the regime in other EU Member States if their total gross receipts do not exceed the following thresholds: EUR 100,000 in all other EU Member States in the current calendar year and in the previous calendar year, and the exemption threshold provided by the Member State in which the taxpayer wishes to benefit from the regime.
- **Italy:**[c] On December 13, 2024, the Italian tax authority (ITA) published Letter No. 256/2024, clarifying the VAT treatment of services procured by an alternative investment fund. The case involved a Reserved Italian Alternative Investment Fund that contracted with a nonresident company for services related to third party litigation funding. These services are essential for managing investment activities in litigation funding, including the recruitment of companies for collective legal actions, data analysis, and legal support. The ITA confirmed these services as VAT-exempt, considering them intrinsically connected to the management of investment funds. Additionally, the taxpayer inquired about the VAT treatment of brokerage services paid to intermediaries by the nonresident provider. The ITA confirmed that these services were not subject to VAT in Italy due to their lack of territorial relevance.
- **Italy:**[ci] On December 13, 2024, the Italian Ministry of Economy and Finance published Ministerial Decree of 4 December 2024 defining the applicable conditions and procedures for the issuance and submission of the guarantee required for the registration of qualifying non-resident taxpayers in the VAT Information Exchange System (VIES), following amendments to the VAT law. It provides that taxpayers not residing in an EU Member State or an European Economic Area country and registered for VAT purposes in Italy through a VAT representative must submit an adequate guarantee before being registered in the VIES to carry out intra-EU transactions. The guarantee, which can be a deposit of government or government-guaranteed bonds, a bank guarantee, or a surety policy, must have a minimum coverage value of EUR 50,000 and be provided for at least 36 months. After this period, there is no need to renew the guarantee.
- **Kenya:**[cii] On December 13, 2024, Kenya published the Tax Procedures (Amendment) Act 2024, which, among other things, extends the tax amnesty on penalties, interests, and fines on unpaid taxes from June 30, 2024, to June 30, 2025. Initially, the amnesty applied to unpaid taxes up to December 31, 2022, if the outstanding principal taxes were paid by June 30, 2024. The amendment extends this to December 31, 2023, if the principal taxes are paid by June 30, 2025. Taxpayers seeking amnesty must apply, pay all outstanding principal taxes by the deadline, avoid incurring further tax debt, and sign a commitment letter (To read KPMG's previous discussion of the tax amnesty program, click here). The law also includes

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measures providing relief for unpaid taxes under certain conditions, including where it may be difficult or impossible to recover the unpaid tax. Further, it excludes weekends and public holidays in the period for lodging objections, clarifies the required information in e-invoices, and various penalties for non-compliance with tax obligations. These measures include penalties for failing to submit required returns, failing to withhold or remit taxes, and failing to integrate electronic tax systems with the tax authority systems.

- **Latvia:**[ciii] On November 29, 2024, the EU extended until December 31, 2027, Latvia's authorization to limit the right to deduct VAT on expenses incurred on certain passenger cars which are not wholly used for business purposes.
- **Latvia:**[civ] On December 10, 2024, the Latvian State Revenue Service (SRS) updated its guidance on the application of VAT for transactions involving vouchers. This material covers the definition of a voucher as an instrument accepted as consideration for goods or services, and the VAT treatment of single-purpose vouchers, where VAT is calculated at the time of sale. It also addresses the VAT treatment of multi-purpose vouchers, specifying the tax period for indicating VAT in returns, and includes guidance on other circumstances involving vouchers, along with various situational examples.
- **Latvia:**[cv] On December 16, 2024, the Latvian SRS published guidance on the application of VAT in transactions between main companies and their branches. The guidance explains that a branch is an independent part of a company, separated from the main company, where commercial activities are carried out on behalf of the merchant. VAT is applicable only if both the service provider and recipient are involved in the transaction. If a branch lacks equity, the economic risk lies with the parent company, making them a single taxpayer, and VAT is not applied to services between them. However, if either the main company or branch is part of a VAT group, they are considered separate taxpayers for VAT purposes. The guidance also outlines the procedure for applying VAT in transactions for the sale of goods.
- **Latvia:**[cvi] On December 23, 2024, the EU extended until December 31, 2026, Latvia's authorization to require the purchaser to self-assess VAT on domestic sales of timber and related services.
- **Latvia:**[cvii] On December 27, 2024, the Latvian SRS published informational material on Regulation No. 17, detailing updates to VAT law provisions and administration requirements effective January 1, 2025. Among other things, the regulation clarifies the VAT exemptions for new medical services, including dietary recommendations, palliative care, and pharmaceutical care in pharmacies, as well as for catering services provided by preschools to their staff. It also eliminates age restrictions for VAT exemptions on sports training and children's camps and allows VAT deductions for employee transport when commuting options are unavailable due to work conditions.
- **Latvia:**[cviii] On December 28, 2024, Latvia published amendments to the country's VAT law, which include measures transposing into national legislation the EU's small business VAT reform, effective from January 1, 2025. The reform allows EU Member States to maintain small business exemptions up to EUR 85,000 (EUR 50,000 in the case of Latvia) and extends these exemptions to small businesses in other EU states, provided their gross receipts in the non-established state are below the national threshold and their total EU gross receipts are below EUR 100,000. Non-EU businesses are not eligible for these exemptions. The amendments also modify the VAT registration threshold for taxpayers established in Latvia. Under the new rules, businesses are not required to register for VAT if their total value of goods and services sold in Latvia, excluding VAT, is below EUR 50,000 in a calendar year. This total includes taxable sales and certain exempt sales, such as immovable property transactions and financial and insurance services. Previously, the rule

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applied to the total taxable value of goods and services sold in the preceding 12 months. The amendments also include adjustments to VAT regulations, such as introducing a special VAT regime for second-hand goods, works of art, collectors' items, and antiques.

- **Liechtenstein:**[cix] On December 10, 2024, Liechtenstein published Regulation No. 641.201, amending the VAT Ordinance, effective January 1, 2025. Among other things, the regulation outlines the conditions for the registration of a VAT group, and mandates reporting any changes in group representation to the tax authorities. Additionally, it specifies that taxpayers wishing to switch to annual reporting must request this change within 60 days from the start of the relevant tax period.
- **Luxembourg:**[cx] On December 20, 2024, Luxembourg published a law which includes measures transposing into national legislation the EU's small business VAT reform, effective from January 1, 2025. The reform allows EU Member States to maintain small business exemptions up to EUR 85,000 (EUR 35,000 in case of Luxembourg) and extends these exemptions to small businesses in other EU states, provided their gross receipts in the non-established state are below the national threshold and their total EU gross receipts are below EUR 100,000. Non-EU businesses are not eligible for these exemptions.
- **Malta:**[cxi] On December 17, 2024, Malta published Act No. XXXVIII/2024, which includes measures transposing into national legislation the EU's small business VAT reform, effective from January 1, 2025. The reform allows EU Member States to maintain small business exemptions up to EUR 85,000 (between EUR 14,000 and EUR 35,000, depending on the activities, in the case of Malta) and extends these exemptions to small businesses in other EU states, provided their gross receipts in the non-established state are below the national threshold and their total EU gross receipts are below EUR 100,000. Non-EU businesses are not eligible for these exemptions. Other key amendments to the VAT law include measures setting the process for cancelling and re-registering for VAT and clarifying that a registered person's first tax period commences on the date of registration.
- **Moldova:**[cxii] On December 6, 2024, the Moldovan State Tax Service clarified that amounts collected by customs commissioners as a guarantee for the payment of customs duties for goods under the temporary import regime do not represent sales of either goods or services and, therefore, are not subject to VAT.
- **Netherlands:**[cxiii] On December 12, 2024, the Dutch government published a Decree amending the interpretation on VAT liability and VAT groups. Among other things, the decree clarifies the VAT status of supervisory board members, following the ECJ decision in IO, Case C-420/18 (June 13, 2019), in which the ECJ held that such board members are not independent taxpayers for VAT purposes. In this regard, the decree clarifies that individuals who are appointed, whether or not on nomination, in a personal capacity to a supervisory body of a legal entity based on public or private law, do not act independently in the exercise of their activity as a supervisor. The decree further clarifies that foundations and associations lack independence if their articles of association indicate that the supervisory members act on behalf of and under the responsibility of the supervisory body, rather than bearing individual responsibility for the supervisory body's actions. This applies to non-executive directors and members of certain committees. Furthermore, the decree allows for VAT adjustments for supervisory board activities performed between June 13, 2019, and May 7, 2021. The decree further clarifies that pure holding companies, which only hold shares, are not considered entrepreneurs for VAT purposes and cannot be part of a VAT group. However, holding companies with management roles within a group can be included in a VAT group if they meet specific conditions.
- **Norway:**[cxiv] On November 8, 2024, the Norwegian tax authority published Tax Appeals

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Board Decision No. SKNA11-2022-15, clarifying the requirement to adjust VAT deducted on the acquisition of capital goods. In this case, the taxpayer deducted the VAT incurred for constructing pedestrian and bicycle paths. The tax authority reversed the deduction on the basis that the transfer of the paths to certain public entities triggered an adjustment event under the VAT Act. The taxpayer appealed, arguing that parts of the expenses should be considered maintenance and not capital goods, thus not subject to adjustment. On appeal the Tax Office recalculated the VAT refund, stating that since the paths were moved and significantly modified, the work must be treated as new construction or upgrades, which required a VAT adjustment. On further appeal, the Tax Appeals Board partially upheld the taxpayer's claim, finding that a portion of the work expenses related to maintenance of the paths while some of the work was new construction, justifying the VAT adjustment.

- **Norway:**[cxv] On December 9, 2024, the Norwegian tax authority published a Statement of Principle regarding the VAT treatment of interpretation services when the main contractor employs a subcontractor. Interpretation services are exempt from VAT when they are considered an integral part of a health, social, or educational service. This exemption also applies when interpretation services are provided by a subcontractor under the conditions outlined in the statement. The Statement of Principle confirms that interpretation services, even when provided through subcontractors, are VAT-exempt if they are integrated into and become part of an exempt health, social, or educational service, provided specific conditions are met.
- **Portugal:**[cxvi] On December 19, 2024, the Portuguese tax authority published Circular No. 25049, which clarifies VAT obligations for single taxable operations or isolated acts, including requirements for registration and compliance for occasional operations. The circular specifies that an individual performing a single taxable operation related to economic activity is considered a VAT taxpayer and that VAT registration is mandatory for regular economic activities but not for isolated acts under EUR 25,000. VAT is applicable to isolated acts at the relevant rate, with exemptions for operations conducted outside Portugal. Invoices must be issued for these isolated acts, with issuance options varying based on the timing of payment. Additionally, VAT on these acts must be paid by the end of the month following the operation, and a declaration is required if the value exceeds EUR 25,000.
- **Romania:**[cxvii] On December 17, 2024, Romania published Law No. 313/2024, amending the VAT tax point rules for non-reusable primary packaging under a deposit return system (DRS), where the tax point is now delayed until the legal deadline for filing the annual financial statements by the DRS administrator, rather than at the end of the calendar year as previously stipulated. Additionally, the law extends the indirect tax exemption through a refund for certain deliveries to NGOs or companies wholly owned by NGOs for transactions with a tax point in the last five years prior to the law's enactment. This extension builds on the earlier Law No. 204/2024, which updated VAT exemptions for goods and services provided to public hospitals and introduced a possibility for VAT reimbursement on acquisitions with a VAT tax point prior to its enactment on June 30, 2024. Law No. 313/2024 is effective December 20, 2024.
- **Seychelles:**[cxviii] On October 31, 2024, the Seychelles published the 2025 Budget Statement, which, among other things, proposes to amend the VAT Law to enhance clarity and efficiency in tax administration. The amendments would confirm that levies will remain independent of the evaluation of other taxes and introduce an VAT deduction credit schedule for transactions equal to or above SCR 50,000. Additionally, the amendments aim to streamline the tax refund process to prevent claims from accumulating for more than three months. The budget also proposes a review of personal allowances for air travelers, allowing

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one electronic device per person and setting other goods allowances at SCR 15,000 for travelers over 18 and SCR 8,000 for those under 18. Furthermore, the amendments would refine the procedure for voluntary registration of businesses and introduce a transitional period for businesses exiting the VAT system.

- **Slovakia:**[cxix] On December 2, 2024, Slovakia's tax authority announced the implementation of the EU's small business VAT reform, effective from January 1, 2025. The reform allows EU Member States to maintain small business exemptions up to EUR 85,000 (EUR 50,000 in the case of Slovakia) and extends these exemptions to small businesses in other EU states, provided their gross receipts in the non-established state are below the national threshold and their total EU gross receipts are below EUR 100,000. Non-EU businesses are not eligible for these exemptions.
- **Slovenia:**[cxxx] On December 10, 2024, Slovenia published a Law, which includes measures transposing into national legislation the EU's small business VAT reform, effective from January 1, 2025. The reform allows EU Member States to maintain small business exemptions up to EUR 85,000 (EUR 60,000 in the case of Slovenia) and extends these exemptions to small businesses in other EU states, provided their gross receipts in the non-established state are below the national threshold and their total EU gross receipts are below EUR 100,000. Non-EU businesses are not eligible for these exemptions. The Law further increases the VAT registration threshold from EUR 50,000 to EUR 60,000 and allows two or more related taxpayers resident in Slovenia, or their permanent establishment in Slovenia, to be considered a VAT group.
- **South Africa:**[cxxi] On December 17, 2024, the South African Revenue Service published an updated VAT guide for vendors. The guide includes amended definitions for various relevant terms and discusses the registration of foreign entities, introducing a new provision to alleviate administrative difficulties for foreign entities required to register for VAT. It also clarifies that a VAT-registered telecommunications provider can issue a credit note if the nature of the sale changes after issuing a prepaid voucher. The guide further explains that exempt and out of scope supplies are supplies of goods or services where no VAT is levied and input tax may not be deducted on the VAT incurred to make these supplies. Finally, the guide introduces new provisions for dwelling units developed for sale by a developer, temporarily let for exempt residential use while the developer continues to pursue a taxable intention of selling the units.
- **Sweden:**[cxxii] On December 5, 2024, the Swedish tax authority published Statement No. 8-319228, clarifying the VAT treatment of transactions between partners and partnerships. According to the Statement, for a partnership to exist, partners must agree to conduct a joint business operation. Therefore, it is presumed that the economic activity to be conducted in a partnership is indeed carried out jointly. This can include selling goods or services to external customers or providing services to the partners' businesses. However, if the actual operation differs from the partnership agreement, it may be considered that the business is conducted independently by one or more partners. If a partner provides services to the partnership for a fee, this is subject to VAT if the partner independently provides the services as a taxable person. The Statement also outlines conditions under which services provided by a partner to a partnership are considered taxable.
- **Togo:**[cxxiii] Togo recently published the draft Finance Bill for 2025, which, among other things, proposes changes to the VAT system, including an increase in the threshold for VAT registration from XOF 60 million to XOF 100 million for taxpayers engaged in sales or services. The bill further proposes to update the VAT exemptions table to exclude luxury rice. In addition, the bill proposes a new 10 percent duty on non-alcoholic sweetened

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beverages (excluding water) and a 15 percent duty on precious stones and metals. These new measures are expected to come into effect on January 1, 2025.

- **Tunisia:**[cxxiv] Tunisia recently published Law No. 2024-48 on the 2025 Finance Law, which, among other things, introduces a customs amnesty, including waivers or reductions of customs fines for penalty notices or judgments issued before December 1, 2024. The law further provides for the regularization of tax debts, offering a waiver of late payment, collection, and prosecution penalties if a payment schedule is subscribed to by June 30, 2025. Additionally, the law includes a 50 percent waiver on penalties and fines for penalties, pecuniary condemnations, and administrative tax fines established before June 20, 2025. Finally, the law provides for the regularization of corrective tax returns and tax returns in default, including a waiver of late tax penalties and fixed penalties for exempt profits or income. These provisions apply to tax declarations, deeds, or contracts subject to registration duty that expired on October 31, 2024, are not time-barred, and are declared and paid between January 1, 2025, and April 30, 2025.
- **Uganda:**[cxxv] On November 4, 2024, the Tax Appeals Tribunal (TAT) in Uganda issued a ruling in Sharad Karia (No. 57 of 2023), clarifying the VAT treatment of the letting or leasing of serviced apartments. The case arose after the Uganda Revenue Authority (URA) issued an additional VAT assessment to the taxpayer, a real estate business owner in Kampala, who had not declared VAT on rental income earned from his property. The taxpayer appealed, arguing that the income was derived from letting the property for residential purposes and was therefore VAT exempt. However, the TAT found that the property in question was a serviced apartment, providing amenities such as separate living areas, kitchen facilities, utilities, and other amenities like laundry facilities, 24-hour security, and recreational amenities. Therefore, the TAT ruled that the property was not VAT exempt and upheld the URA's assessment.
- **United Arab Emirates:**[cxxvi] On December 11, 2024, the UAE announced amendments to the Executive Regulations of Federal Decree-Law on VAT. The amendments introduce VAT exemptions for investment fund management services and certain services related to virtual assets. Additionally, the amendments exempt in-kind donations between charitable and government entities, valued at up to AED 5 million over a 12-month period, from the provisions of legal sale, thereby allowing donors to recover the VAT incurred on the in-kind donations. Furthermore, the amendments enhance tax compliance by granting the Tax Agency the authority to deregister taxpayers in specific cases.
- **Zimbabwe:**[cxxvii] On November 28, 2024, the Zimbabwean Ministry of Finance and Economic Development presented the 2025 National Budget. Among the notable measures is the introduction of a fast-food tax at 0.5 percent of the sale value of listed fast-food items. Other proposed tax measures include expanding the VAT exempt list to include liquefied petroleum gas, requiring any person who sells, through a tender, taxable goods and services with a minimum value of USD 25,000 to provide proof of registration for VAT, and introducing a plastic carrier bag tax of 20 percent on the sale value, effective from January 1, 2025.

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

- **KPMG in Indonesia** published a report discussing Regulation No. 79 of 2024 (PMK 79) of October 28, 2024, which outlines the tax treatment of joint operations. The regulation divides joint operations into two categories based on their tax obligations: those requiring a taxpayer identification number (NPWP) and VAT registration (PKP), and those that do not. It provides detailed guidance on the criteria and administrative requirements for joint operations with an NPWP and PKP, including summaries of VAT, luxury goods sales tax, corporate income tax, and withholding tax treatments. Additionally, the regulation addresses the taxation of joint operations without an NPWP or PKP and the income tax treatment of those involved in land and building transfers, along with transitional provisions.
- **KPMG in Japan** published a report providing an overview of the Japanese tax system.
- **KPMG in Japan** published a report outlining the 2025 tax reform proposals. With respect to consumption tax, the reform will impact the tax treatment of lease transactions in response to the new lease accounting standards issued by the Accounting Standards Board of Japan (ASBJ Statement No.34 and Guidance No.33). These standards, effective from April 1, 2027, with early adoption allowed from April 1, 2025, require lessees to recognize all leases as right-of-use assets with associated depreciation and interest expenses. Traditionally, lease transactions are treated as asset transfers for consumption tax purposes, obligating lessors to pay consumption tax on the transfer of the lease asset, unless the taxpayer opts to recognize the revenue based on deferred payments. The tax reform will abolish this option and implement transitional rules.
- **KPMG in Malaysia** published a report discussing the Service Tax (Amendment) (No. 2) Regulations 2024. Key changes include the expansion of intra-group relief to cover maintenance or repair services provided within the same group of companies, effective retrospectively from May 1, 2024. This amendment applies to both local and imported taxable services, with potential implications for refunds on service taxes paid since the effective date. The amendments further exclude practitioners of traditional and complementary medicine from the definition of taxpayer and redefine taxable services to include the sale of alcoholic and non-alcoholic beverages, effective November 27, 2024. Additionally, maintenance or repair services for residential houses are considered non-taxable only when provided directly to the owner or occupant from the same date.
- **KPMG in Malaysia** published a report discussing recent tax updates, including clarifications on the service tax rules applicable to food and beverage services provided by golf clubs; clarifications to the exemption for maintenance or repair services in maintenance, repair, and overhaul activities; the expansion of the intra-group service tax relief to cover maintenance or repair services; and amendments to the indirect tax legislation to reclassify Pulau 1 Forest City as a "designated area" for sales and service tax purposes.
- **KPMG in Pakistan** published a report discussing the proposed amendments in the Tax Laws (Amendment) Act, 2024, which was presented to the National Assembly. With respect to the proposed amendments to the Sales Tax Act, key amendments include the implementation of an automated risk management system to limit input tax adjustments and the empowerment of the Commissioner to restrict operations of bank accounts and transfer of immovable property for non-registered persons. Additionally, the Bill introduces coercive measures such as sealing business premises, seizing movable property, and appointing a

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receiver for non-compliant businesses, with provisions for public notice and hearings. The report also notes the proposal to appoint experts and auditors to assist in tax-related duties and to restrict input tax credits for transactions involving unregistered persons.

China: VAT Reform Implemented in 2026

On December 25, 2024, the Chinese National People's Congress adopted Value Added Tax (VAT) Law, which will replace effective January 1, 2026, the current VAT framework. China introduced VAT in 1994, initially applying it mainly to goods and not services. Over the years, significant reforms have been implemented to enhance the system's efficiency and align it with international standards.

The VAT Law introduces several key changes.

1. Taxable transactions: The VAT Law clarifies the scope of taxable transactions, which now uniformly includes goods, services, intangible assets, immovable property, and imports. Notably, financial products are treated distinctly, aligning with previous regulations but under a clearer framework.

2. Sourcing rules: The new law adopts a place of consumption approach to determine VAT applicability, enhancing alignment with OECD guidelines. This change aims to reduce ambiguities in determining where services and intangible assets are taxed.

3. Deemed taxable transactions: The scope of deemed taxable transactions has been narrowed, removing several categories such as consignment sales and inter-province transfers among branches.

4. Non-taxable items: The law continues to exclude certain activities from VAT but removes the fallback clause that allowed for exemptions under unspecified conditions, thereby narrowing the scope of non-taxable items.

5. Simplified taxation method: The VAT Law suggests a uniform simplified tax rate of 3 percent, potentially phasing out the 5 percent rate applicable under specific conditions in the current system.

6. Withholding agents: Clarifications in the role of withholding agents aim to improve compliance and enforcement, particularly for transactions involving foreign entities.

7. VAT deduction: The law makes significant adjustments to the rules on non-creditable VAT, particularly excluding certain services used for personal consumption and allowing credits for others that were previously blocked.

8. Refund of excess VAT credits: The law formalizes the conditions under which businesses can claim refunds for excess VAT, aiming for a more streamlined and equitable system.

9. Tax periods: The VAT Law simplifies the filing periods, reducing the frequency options and aiming to decrease administrative burdens for businesses.

Further regulations are expected to be released in the second half of 2025. These regulations will provide additional clarity on the VAT Law's application and address practical and administrative aspects of its implementation. To read a report prepared by KPMG in China, please click here.

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Miscellaneous Developments in APAC

- **India:**[cxxviii] On December 21, 2024, the GST Council published its recommendations from its 55th meeting, which will be enacted through upcoming circulars and notifications. The Council clarified that vouchers are neither a sale of goods nor a provision of services, and their distribution on a principal-to-principal basis is exempt from tax, except for taxable agent commissions. Additionally, any supplementary services related to vouchers, such as marketing, customization, and support, will be subject to GST. The Council further clarified that income from unredeemed vouchers is not taxable, and goods stored in special economic zones or free trade warehousing zones before clearance are neither good nor service. Moreover, sponsorship services will now be subject to the forward charge mechanism, and GST will not apply to penal charges imposed by financial institutions for loan non-compliance.
- **Papua New Guinea:** On November 29, 2024, the Department of the Treasury of Papua New Guinea presented the 2025 Budget, which, among other things, proposes zero-rating GST on 13 basic household items for 12 months starting July 1, 2025. Additionally, the period for requesting a GST refund will be halved from eight years to four years by 2029. Small businesses making annual taxable sales below PKG 1.5 million will have the option to file GST returns less frequently, though the specific extended period was not defined. In terms of excise duties, the Budget harmonizes the excise duty on electric vehicles, setting it at 10 percent for hybrid vehicles and zero for fully electric vehicles. Moreover, a new excise duty will be introduced on e-cigarettes.

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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.

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