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MONTHLY GLOBAL TAX AND AUDIT NEWS

JULY 2019 – Issue 3

THIS MONTH'S SECTOR FOCUS: CYBERSECURITY

GLOBAL PHONE NETWORKS ATTACKED

Hackers targeted mobile phone networks around the world to snoop on specific users, according to a report. The level of access they gained to the networks meant they could have shut them down had they wanted to. US-Israeli security firm Cybereason concluded "with a high level of certainty" that the hackers were based in China and probably sponsored by Beijing. Cybereason spotted the attacks in 2018 and helped one telecoms provider through four more over the next six months, and has now briefed more than a dozen other firms. According to the report, the hackers collected the call records and geo-location from a selection of countries, including in Europe, the Middle East and Asia.

Wall Street Journal ***The Times of Israel*** ***Taiwan News***

BANK OF CANADA ANNOUNCES PARTNERSHIP TO ENHANCE CYBERSECURITY

The Bank of Canada has unveiled a public-private partnership with the Canadian Financial Sector Resiliency Group (CFRG) to strengthen the cybersecurity resilience of Canada's financial sector and mitigate the risks to business operations. Stephen S. Poloz, the Bank of Canada Governor, said: "We need strong controls within each institution. And we need partnerships between public agencies and the private sector to bridge any gaps in coordination, especially when it comes to cyber-risks. The CFRG brings together many of our trusted partners to work with us making our financial system safe and resilient."

CISO Mag

EU TO USE WAR GAMES TO PREPARE FOR CYBER ATTACKS

The EU is to conduct "war games" to prepare for Russian and Chinese cyber-attacks. Pekka Haavisto, Finland's foreign minister, said the countries' recent actions required a reaction from the 28 member states. During meetings in Helsinki in July and September, EU interior and finance ministers will be asked to manage fictional scenarios. Haavisto said: "We want the union and member states to strengthen their capacities to prevent and respond."

EUObserver ***EURACTIV***

GLOBAL TAX AND AUDIT NEWS

AMERICAS

PRESIDENT TRUMP SIGNS BIPARTISAN IRS REFORM BILL

President Donald Trump has signed into law the bipartisan Taxpayer First Act, describing it as a "tremendous thing for our citizens." The law makes a host of targeted improvements to the IRS, aimed at bolstering its

customer service, modernizing its information technology, helping victims of tax-related identity theft and strengthening taxpayers' rights during the IRS enforcement process. It establishes an independent appeals office, and also includes a provision to increase the penalty for failing to file a tax return, so that the bill does not add to the deficit. House Ways and Means Committee Chairman Richard Neal (D-MA) said: "This signing is the culmination of a lengthy, bipartisan process undertaken by the Ways and Means Committee to implement pro-taxpayer reforms at the IRS for the first time in more than 20 years. Rep. Kevin Brady (R-TX), the ranking Republican on the committee, added: "Thank you to President Trump for signing this historic legislation, which is the biggest and boldest step in over 20 years to redesign and restructure the IRS into an agency with a singular mission - quality taxpayer service."
The Hill

CORPORATE TAX EXECS HAVE TROUBLE KEEPING UP WITH TAX CHANGES
The biggest tax challenge for a majority of corporate tax executives is staying up to date with all the changes associated with the 2017 Tax Cuts and Jobs Act (TCJA), according to a new survey from Bloomberg Tax & Accounting. Fifty-seven per cent of the 337 corporate tax executives polled said they had struggled to keep current with the TCJA. An 83% majority believe the tax function should support major transactions, while only six in 10 think they are contributing in that area today. Sixty-three per cent believe tax departments should support company-wide efforts to manage risk, but only 36% reported they are doing so today. "The results of our annual survey provides valuable insights into the challenges and opportunities corporate tax leaders are facing as they make strategic decisions tied to people, process and technology," said Bloomberg Tax President Lisa Fitzpatrick, adding "This provides them with a basis for how their peers are viewing the future of the tax department within their organizations and provides the pulse on current state of corporate tax departments.
Accounting Today

CONGRESS CONSIDERS BLANKET TAX BREAKS FOR DISASTER VICTIMS
U.S. lawmakers are looking to create provisions for tax breaks that would apply to all major disasters, rather than by a case-by-case process as at present. A proposal advanced by the House Ways and Means Committee would cover all presidentially declared major disasters between the beginning of 2018 and 30 days after the bill becomes law, creating the basis for more permanent legislation that would automatically trigger a standard set of tax breaks when disasters occur. The proposed disaster tax breaks include penalty-free access to retirement funds, a tax credit for employers that pay their workers even while they are closed, and greater ability to deduct casualty losses. The committee also approved a bill that would sharply expand tax credits for low-income families. That measure would make the child-tax credit $3,000 instead of $2,000 for children under age 4 and make it available to families regardless of income.
Wall Street Journal

WARREN INTRODUCES BILL TO UNLOCK MILLIONS IN TAX REFUNDS DENIED TO GAY COUPLES
Sen. Elizabeth Warren (D-MA) has reintroduced the Refund Equality Act, a 2017 bill that would allow same-sex couples to amend past tax returns and receive refunds from the IRS. Taxpayers in same-sex marriages prior to the repeal of the Defense of Marriage Act in 2013 are eligible for up to $57m in refunds, according to a report by the Joint Committee on Taxation. "The federal government forced legally married same-sex couples in Massachusetts to file as individuals and pay more in taxes for almost a decade," Sen. Warren said in a statement. "We need to call out that discrimination and to make it right - Congress should pass the Refund Equality Act immediately." The Democratic presidential candidate has put forward a number of tax policy proposals, including a 2% wealth tax on fortunes greater than $50m; the *Washington Post* questions economists on her claims that the levy would raise $2.75tn over 10 years.
NBC News ***Washington Post***

IRS ADMITS TO 'WRONGLY COLLECTING MILLIONS OF DOLLARS' FROM AMERICANS IN FRANCE

The IRS has said that it had "wrongly collected millions of dollars" of U.S. tax from Americans living in France due to its "improper interpretation" of a bilateral treaty. In court filings, the agency said it should have allowed U.S. citizens resident in France to deduct Generalized Social Contribution taxes, a levy imposed on income in the country. The ruling could lead to “millions of dollars” in refunds, according to Fabien Lehagre, founder of the Association of Accidental Americans. "The fact that the IRS long refused to recognise them as such caused significant harm to Americans in France, including accidental Americans," he added, referring to the group of people who have U.S. citizenship but do not live there, with many of them having little or no connection to the country at all, who are nevertheless obliged to pay taxes.
Bloomberg ***The Local France***

IRS EXPANDS HIGH-TAX EXCLUSION UNDER GLOBAL MINIMUM TAX
The IRS has released proposed rules that expand a high-tax exclusion for multinationals that have been unintentionally hit by an international provision meant to ensure companies pay a minimum tax on offshore profits in low-tax countries. A tax on global intangible low-taxed income (GILTI) ensures that companies pay 10.5% on offshore profits that aren’t already taxed at a rate of at least 13.125%. The levy applies to income that U.S. shareholders earn from controlled foreign corporations (CFCs) - those that are more than 50% owned by U.S. shareholders who own 10% or more of the total stock in the CFC. The IRS said it determined that the high-tax exclusion under GILTI should be expanded on an elective basis “to include certain high-taxed income even if that income would not otherwise” be considered foreign base company income under Section 954 or insurance income under Section 953.
Bloomberg Tax

BILLIONAIRES CALL FOR A WEALTH TAX
Some of America's richest people have called for a wealth tax on the super-rich, saying: “America has a moral, ethical and economic responsibility to tax our wealth more.” In an open letter to U.S. presidential candidates, 18 signatories including investor George Soros and Facebook co-founder Chris Hughes said a wealth tax that would target the wealthiest 0.1% “could help address the climate crisis, improve the economy, improve health outcomes, fairly create opportunity, and strengthen our democratic freedoms.” The group, who say they are non-partisan and not endorsing any candidate, added: “Instituting a wealth tax is in the interest of our republic."
New York Times ***CNBC*** ***CBS News*** ***Financial Times***

SCOTUS TO HEAR PARENT-SUBSIDIARY TAX REFUND DISPUTE
The U.S. Supreme Court has agreed to hear a case about whether a parent corporation or its subsidiary owns a $4.1m tax refund. The case, Rodriguez v. Fed. Deposit Ins. Corp., stems from a shared tax return between a parent company and its subsidiaries, and the petition to the high court calls the issue a “multimillion-dollar question.” If the parent owns the refund, a subsidiary may be treated merely as one of the corporate parent’s creditors. This means that if the parent company declares bankruptcy, the tax refund will become part of the bankruptcy estate that all the creditors - including the subsidiary that is owed the tax refund - will compete over as they try to get repaid.
Bloomberg Tax

AICPA PROPOSES OVERHAUL OF EVIDENCE STANDARDS IN PRIVATE-COMPANY AUDITS
AICPA’s auditing standards board has proposed revamping the rules governing audit evidence for private companies to better define the role of new technologies in audits. Current standards focus on the accuracy and completeness of that information; under the new rules, auditors should assess the risk of bias associated with the information they use to substantiate their audit opinion and consider the authenticity of the information being gathered, AICPA said. “The use of emerging technology - we can access information on social media, we can use big data and all of that - was not reflected in the old standard,” said Robert Dohrer,

AICPA’s chief auditor, adding “The objective of the standard is to recognize the attributes of those expanded sources of information.”
Wall Street Journal

FASB CHAIR: TECHNOLOGY COULD SLOW IMPLEMENTATION OF ACCOUNTING RULES
Technology is improving the way companies report and audit their financials, but it could increase the time it takes them to implement new standards such as the new lease-accounting rules that went into effect this year. Speaking at the *Wall Street Journal’s* CFO Network Annual Meeting, FASB Chairman Michael Golden said: “Technology will allow, I believe, more information to be provided to the marketplace. But the spread between the day in which we issue the requirement and the effective date, I think, will be stretched out longer and longer.” The FASB has devoted a substantial amount of resources to monitoring the implementation of new rules, Mr. Golden said. “Too many.”
Wall Street Journal

EUROPE

BORIS JOHNSON PLANS TAX-FREE ZONES AROUND UK
British prime ministerial hopeful Boris Johnson says he would like to see half a dozen “free ports” around the UK to help boost the economy after the country leaves the EU. Freeports are tax-free zones that can be used by manufacturers to import parts and export goods without tariffs. “They have delivered around the world, there are about 130 countries who have them. We don't because of our membership of the EU,” he said. The *Telegraph* notes that one study found that seven such zones in northern England would boost trade by £12bn and create 150,000 jobs. However, the UK in a Changing Europe think tank warned that such zones "provide a soil for misuse of competitive advantages and attract money laundering and tax avoidance activities.”
The Daily Telegraph ***The Daily Telegraph*** ***The Times***

ISLANDS TO REVEAL WHO OWNS OFFSHORE FIRMS
Jersey, Guernsey and the Isle of Man are to adopt public registers of the true owners of offshore companies incorporated in their jurisdictions, with fully public registers to be introduced by 2023. Labour MP Margaret Hodge and Conservative MP Andrew Mitchell, who have suggested legislation should be used to force the dependencies to introduce the registers, welcomed the new announcement as "an important first step towards our goal of ensuring greater transparency in the fight against tax avoidance, tax evasion and money laundering." However, they have called for clarification over some elements of the proposals, saying the 2023 timetable for implementing the new registers was "unacceptably long," that current proposals would grant banks and accountants access to the information before the public and the media, and that it was unclear if the data would be free of charge.
The Guardian

DUTCH LAWMAKERS INCREASE TAX DEMANDS ON FIRMS
Lawmakers in the Netherlands have launched an inquiry into how multinational companies should be made to pay their fair share of tax. This comes in response to public criticism that government reforms do not go far enough, with Dutch taxpayers increasingly hostile to minimizing company tax, a practice which is legal and has been unchallenged for decades. Pieter Omtzigt, the Dutch Christian Democrat parliamentarian who instigated a recent vote on the issue, told Reuters that “The Dutch people take note that one pays income tax when earning a minimum wage but some multinationals make (a) profit and pay no taxes”.
Reuters ***Euronews***

EU LOOKS TO REVIVE FINANCIAL TRANSACTION TAX PLANS

European Union finance ministers have discussed the potential introduction of a 0.2% financial transaction tax on shares. Under a plan favoured by Germany, the tax would be charged on companies with a market capitalization above €1bn ($1.1bn) to avoid hurting smaller businesses. Initial public offerings, market making and intraday trading would also be exempt. Discussions continue on how to share the revenue of the tax among those countries considering it. One option is to fund the EU budget, which is used to finance research projects, investments and other economic activities in member states.
Reuters

BBC SETS ASIDE £12M FOR TAX BILLS
The BBC has set aside £12m to help settle the historical tax bills of presenters being pursued by HMRC, which says some staff were wrongly paid as freelance contractors for years when they were employees. The National Audit Office, the BBC's auditor, said the £12m was "irregular" as the Corporation was not liable for the money but added that the settlement option “is in the best interests of the BBC, the licence fee payer, and the individuals involved.” Glyn Isherwood, the BBC's chief financial officer, said: "We have been working closely with presenters as well as HMRC to resolve these issues."
The Times

FRANCE APPROVES 3% TAX ON TECH GIANTS
France's lower house of parliament has approved a small tax on large digital companies like Google, Amazon and Facebook. The bill, which anticipates a 3% tax on the French revenues of digital companies with global revenue of more than €750m and French revenue over €25m now goes to the Senate, where it is expected to win final approval. Separately, the French government is planning to scrap €1bn of tax breaks for companies to help fund a pledged €5bn reduction in personal income taxes. The remaining €4bn will be financed through lower spending. Budget minister Gerald Darmanin said 95% of taxpayers would see a reduction in their income taxes from January next year
Associated Press ***Bloomberg***

GERMAN COURT SAYS CATHOLIC CHURCH CAN KEEP BILLIONS SECRET
A court in the western city of Cologne has ruled that Germany's richest Catholic archdiocese doesn't have to reveal what it does with the billions it receives from taxpayers each year. The court ruled that the way the archdiocese invests its annual income of almost €3bn ($3.4bn) is protected by the church's constitutionally guaranteed autonomy.The Archdiocese of Cologne welcomed the ruling, saying it already provides "full transparency and regular reports" on its long-term investments, which it said follow ethical principles.
Associated Press

SALVINI TRIES TO TAX HIDDEN CASH
Italy’s joint deputy prime minister Matteo Salvini has proposed an amnesty for Italians hiding billions of undeclared euros in bank deposit boxes - if they pay 15% tax on the cash. He described the move as a "fiscal peace” deal for Italians who have hidden the cash, often the fruits of undeclared earnings. Mr Salvini is seeking liquid assets to implement a promised 15% flat tax.
The Times

DEUTSCHE BANK EXECUTIVE EMBROILED IN TAX SCANDAL
Prosecutors in Germany are investigating former Deutsche Bank co-CEO Anshu Jain and 78 other current and former bank officials as part of a probe into a dividend tax-stripping scheme, German daily *Handelsblatt* has reported. Managers at Deutsche and other banks are suspected of aiding the exploitation of a loophole enabling two parties to claim ownership of the same shares, so making it possible to claim billions of euros of dividend tax rebates.
Nasdaq ***Bloomberg***

CREDIT SUISSE IS SLAMMED OVER TAX CLAIM

UK opposition finance minister John McDonnell has accused Credit Suisse of "outrageous" behaviour after the Swiss bank kicked off a legal battle to claw back £239m (€266m) of bonus taxes it paid during the financial crisis. Credit Suisse is suing the UK's tax authority to recover taxes it paid on bonuses for 2009, which were subject to a one-off levy introduced by then Labour chancellor Alistair Darling at a time of widespread anger over bankers' pay. Mr McDonnell told the *FT*: "This is outrageous and Credit Suisse should pay these taxes. People in this country want the rich to shoulder their fair share of responsibilities."

Financial Times ***The Times***

ICAEW WARNS NO-DEAL BREXIT COULD LEAD TO A NUMBER OF PROFIT WARNINGS

The ICAEW's regional director for Europe has told UK lawmakers on the Exiting the European Union Committee that the prospect of a no-deal Brexit raises "significant concerns" about the regulatory environment businesses and auditors would face. Martin Manuzi suggested that the lack of a decision on Brexit had left a "kind of legal void" regarding audit regulation, and that although the Financial Reporting Council had been clear on some of the actions it would take, there were still unanswered questions. Manuzi added that the audit profession believes it likely that the UK could see - with companies facing "unprecedented circumstances" after November 1st - a flurry of profit warnings" which could lead to a "systemic loss of confidence."

economia

ASIA-PACIFIC

INDIA RATIFIES CONVENTION TO COMBAT TAX EVASION

India has ratified the multilateral convention to implement the OECD's project on checking tax evasion. The finance ministry said the provisions in the framework will take effect from fiscal 2020-21 for bilateral tax treaties. The convention modifies India's treaties in order to curb revenue loss through treaty abuse and base erosion and profit shifting strategies by ensuring that profits are taxed where substantive economic activities generating the profits are carried out and where value is created, reports *Economic Times*.

Economic Times

BHP TO PAY $175M IN AUSTRALIAN TAX DISPUTE

Mining giant BHP is to pay the state of Western Australia A$250m to end a dispute over royalties paid on iron ore shipments sold through its Singapore marketing hub. The State government found earlier this year that BHP had underpaid royalties on iron ore shipments sold via Singapore for more than a decade.

The Australian ***Sky News Australia*** ***Sydney Morning Herald***

INDONESIA DELAYS PURCHASE OF NEW TAX SYSTEM

Indonesia's tax office is delaying the purchase of new $200m software to upgrade its outdated tax technology as it looks to analyse compliance and boost revenues. Reuters notes that less than a sixth of Indonesia's 260m people are registered taxpayers and most "have little concept of the need to pay taxes."

The Straits Times ***Reuters***

REGULATORS AGREE DEAL ON AUDIT PAPERS

Hong Kong's securities regulator, the Securities and Futures Commission (SFC), has signed an agreement with Chinese authorities that will enable the SFC to see audit working papers when investigating mainland China-based companies. The Memorandum of Understanding was signed by China's Ministry of Finance, the China Securities Regulatory Commission and the SFC.

Reuters ***Caixin*** ***Regulation Asia***

AFRICA

ZAMBIA DELAYS IMPLEMENTATION OF NEW SALES TAX

Zambia is delaying the implementation of a new sales tax in place of VAT to allow it to undergo parliamentary procedures. The tax has been criticised by copper producers. It seeks to ensure a greater share of mineral resource profit is kept for the country, which is Africa's second-biggest copper producer.

Lusaka Times ***Zambia Reports*** ***Reuters***

TANZANIANS DON'T LIKE HAIR EXTENSIONS TAX

Tanzania's government has announced a 25% "dry hair" import tax on weaves, hair extensions and wigs. In Africa, the market for such products is worth billions of dollars. Wig importer Annasatasia Sigera said: "People love artificial hair. Why of all the things that could be taxed did they opt for wigs?"

Reuters ***BBC Africa*** ***Daily Nation***

LATIN AMERICA

ARGENTINA REDUCES FUEL TAX HIKE

Argentina's tax hike on liquid fuels, which has been postponed since early June, will be 3.9%, the country’s energy secretariat has said. The figure is below the expected 11.8%, based on the usual formula that takes into account inflation in the previous three months. Inflation in Argentina has been at around 57.3% over the last year.

Reuters

MIDDLE EAST

OMAN OFFERS TAX BREAKS ON TOURISM INVESTMENTS

Oman is to offer tax breaks to investors in tourism projects in its northern Musandam peninsula - a popular spot for diving and snorkelling - as it seeks to attract investment and diversify the local economy from a dependence on crude oil exports. Investors in the peninsula region won't have to pay tourism and municipal taxes, and will be exempt from a 15% company income tax for the first 10 years of the project.

The Peninsula (Qatar)

SAUDI ARABIA WILL HAVE A 'SIN TAX' FROM DECEMBER

Saudi Arabia is introducing an excise tax on drinks containing added sugar before the end of this year. The new levy on sweetened beverages is part of the kingdom's push to diversify away from oil. Excise duties on cigarettes and other tobacco products and also energy and soft drinks have been in place for two years.

The National

GLOBAL

G20 TARGET TECH FIRMS WITH TAX

Proposals set out by G20 finance ministers will see an overhaul of corporate tax rules that will result in large technology firms paying more. The crackdown on corporate tax loopholes, due to be rolled out in 2020, will see firms pay more in countries despite a lack of a physical presence and profit in those regions, with companies that book profits in offshore tax havens subject to a global minimum tax rate. A communique issued at a meeting between ministers at the G20 Summit in Fukuoka, Japan, says: “We welcome the recent progress on addressing the tax challenges arising from digitisation and endorse the ambitious program that consists of a two-pillar approach.”

[CNBC]()

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