MONTHLY GLOBAL TAX AND AUDIT NEWS

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THIS MONTH'S SECTOR FOCUS: CONSTRUCTION

DUBAI RULER HOPES TO REIN IN PROPERTY MARKET

Dubai has announced plans to curb the pace of new real estate construction projects to tackle falling property prices and the volume of developments, which threatens to outstrip demand. Local developers have completed around 21,000 residential units in the first half of the year, according to Property Finder, and the likes of Meraas, Emaar, Damac and Nakheel have plans for new cities, neighbourhoods, malls, and skyscrapers. Dubai's ruler Sheikh Mohammed bin Rashid Al Maktoum has ordered the creation of a committee to study the needs of the real estate market, evaluate all future projects and control the pace of projects. "It will also direct real estate entities to develop new innovative projects focused on quality rather than quantity," a statement said.

Gulf News ***Gulf Business*** ***Financial Times***

TRUMP CONSTRUCTION FIRM USES UNDOCUMENTED WORKERS

The Trump Organization has used undocumented workers through its Mobile Construction Payroll business unit to perform construction work at its winery and East Coast golf resorts for the last 20 years, according to the Washington Post. The workers are from Latin American countries and the Post spoke with 43 undocumented individuals who have performed service work for the Trump Organization at eight properties over the years. The company said it now uses the federal E-Verify system to make sure all new hires have the necessary paperwork but the Post said that as of July 1st, Mobile Construction Payroll was not registered with E-Verify. President Trump maintains ownership of the Trump Organization, although operations are in the hands of his two sons while he serves as the U.S. commander in chief.

Washington Post

U.K. BUILDERS WIN ONE-YEAR DELAY TO REVERSE CHARGE VAT

The U.K. government has agreed to delay the implementation of domestic reverse charge VAT for construction services by a year, until October 2020. Industry bodies had warned that introducing planned changes to VAT before Brexit could be detrimental to builders. In a joint letter to Chancellor Sajid Javid, a dozen construction sector trade groups warned that reverse charge VAT could lead to "a loss of productivity, reduced cash flow and, in the worst cases, lead to a hit on jobs, tipping some companies over the edge." In a briefing note, HM Revenue & Customs said: "To help these businesses and give them more time to prepare, the introduction of the reverse charge has been delayed for a period of 12 months until 1st October 2020. This will also avoid the changes coinciding with Brexit. HMRC added: "HMRC remains committed to the introduction of the reverse charge and has already increased compliance resource."

Construction Index ***The Times***

GLOBAL TAX AND AUDIT NEWS

AMERICAS

COMPANIES CLAIM THEY CAN IGNORE COST OF U.S. TAX RULES

A number of large U.S. firms argue that elements of the Tax Cuts and Jobs Act are not “valid,” putting them on course for court clashes with the Treasury Department and the IRS. One such company, Newell Brands, has chosen not to recognize $180m-$220m in taxes – a cost that would have pushed it from a profit to loss in the second quarter. Maxim Integrated Products made a similar claim, according to the *Wall Street Journal*. The corporations’ complaints are the leading edge of a legal challenge to the temporary, retroactive regulations, which the Treasury released in June to stop and overturn what it saw as abusive transactions made during gaps created by the 2017 tax law. The 2017 law created a territorial tax system, so that U.S. corporations can send foreign profits to their domestic parents without paying U.S. corporate taxes – but also created a minimum tax on foreign income, to prevent companies from avoiding U.S. taxes on profits. The territorial system started January 1st, 2018, while the minimum tax took effect based on the fiscal year of companies’ foreign subsidiaries, starting with the first tax year beginning after December 31st, 2017 – giving firms almost a year to repatriate earnings without paying U.S. taxes. “Once you saw that mismatch, that was the main ingredient and environment you needed for the planning,” said David Sites, an international tax partner at Grant Thornton.

Wall Street Journal

U.S. TAXES LOWER THAN IN MOST DEVELOPED COUNTRIES

Taxes are lower in the U.S. than in most developed nations, according to a chart released by the Tax Policy Center. Using data from the Organisation for Economic Co-operation and Development (OECD), the document reveals that total tax revenues in the U.S. in 2017 represented around 27% of gross domestic product, which is nearly 10 points lower than the OECD average of 36%. This ranks the U.S. 31st out of 36 OECD nations. The Washington Post’s Jeff Stein comments: “Another way of thinking about this is the U.S. could raise an additional $18trn/decade if it had average levels of taxation of an advanced economy . . . And that’s just the average, not Norway/Sweden.” Bobby Kogan of the Senate Budget Committee speculated that tax policies like those in the European Union would raise around $26trn over 10 years, while adopting the tax policies of France would generate some $50trn extra.

Yahoo Finance ***The Fiscal Times***

WALMART USED ‘FICTITIOUS’ CHINESE ENTITY TO AVOID $2.6BN IN TAXES

Walmart reportedly “improperly” avoided up to $2.6bn in U.S. taxes through an elaborate tax scheme involving a “fictitious” Chinese entity, according to documents authored by a former Walmart executive. Project Flex, as it was known, revolved around the company’s payments to its Chinese subsidiary in Shenzhen, from which it sources many of the billions of dollars of Chinese goods it imports every year. To avoid paying tax in either the U.S. or China, Walmart created a “tax nowhere” entity that neither country would claim jurisdiction over, according to the former executive. “The goal of Project Flex was to create something from nothing, that China would say is nothing, but which the U.S. tax rules would be required to embrace,” the former executive wrote. Tax law experts confirmed the executive’s thesis that the structure does not exist in Chinese law and said the IRS would have grounds to challenge Walmart.

Yahoo Finance

PROMINENT ECONOMISTS MAKE CASE FOR WEALTH TAX

A pair of economists from the University of California, Berkeley, have published a paper making the case for a wealth tax. Professors Emmanuel Saez and Gabriel Zucman claim that, if a wealth tax along the lines of Sen.

Elizabeth Warren's (D-MA) proposal - a tax of 2% on household net worth above $50m and 3% on those over $1bn - had been in place since 1982, the share of total wealth owned by *Forbes* magazine's 400 richest Americans would have been around 2% in 2018, instead of 3.5%. However, the authors also warn: "The left could undermine its political support by lowering the exemption threshold too much and creating hardship for the illiquid merely rich. The right could then undermine its effectiveness by providing exemptions (and hence loopholes) for certain asset classes, or by imposing tax limitations based on income."
The Hill

IRS FUNDING CUTS LOSE BILLIONS IN CORPORATE TAX REVENUE - STUDY
Casey Schwab, a professor at Indiana University's Kelley School of Business, has said “You may save a little by cutting the IRS budget, but you are losing more in tax revenues,” as a new study shows that the service could have brought in billions of dollars more in corporate tax revenue if it had a bigger budget. Examining confidential data about audits of large, publicly traded corporations' returns, the study found that if the IRS had been given an extra $13.7bn in resources, collections from large corporations could have been increased by $34.3bn. The team behind the report wrote: "Our findings are particularly relevant given that any resource constraints the IRS currently faces will be magnified by the increased responsibilities it will have as a result of recent tax reform."
The Hill ***Accounting Today***

ENERGY FIRM SUES IRS OVER UNPAID TAX CREDITS
Houston-based energy firm Kinder Morgan is suing the IRS and the Office of Management and Budget over nearly $20m in refundable tax credits that it claims were not paid because of sequestration. The company claimed credits on the alternative minimum tax on its 2016 and 2017 tax returns, but says the government only gave back some of the money it had previously prepaid. It argued that sequestration can’t apply to tax code Section 168(k)(4) refundable alternative minimum tax credits, which aren’t discretionary appropriations or direct spending. “There are certainly a lot of companies out there that had their AMT credits sequestered in the same way,” said Dustin Stamper, managing director in Grant Thornton’s Washington National Tax Office. He noted, however, that the IRS will not sequester them in the future. “Going forward it’s not an issue, but going back to those years before the credit recovery mechanism was enacted, it’s certainly going to be an issue for other companies,” Mr Stamper said.
Bloomberg Tax

EXPLORING THE BOUNDARIES OF AUDITOR INDEPENDENCE
The Securities and Exchange Commission’s recent clarification of its guidance on auditor independence rules “make it clear the nature and frequency of the gifts and entertainment will be considered when determining whether independence is impaired,” according to Margaret Gembala Nelson, auditor liability counsel with Foley & Lardner. The guidance details two enforcement actions from 2016, involving close personal relationships between audit partners and audit clients. “If you read those cases, they are not grey. They are very extreme,” Ms Nelson writes. The regulator expects accountants to apply professional judgment, based on their specific circumstances, to determine whether they are complying with the rules, said Cathy Allen, who advises accounting firms nationwide on auditor independence and ethics issues.
Bloomberg Tax

JUNIPER NETWORKS FINED OVER INTERNAL CONTROL VIOLATIONS
The SEC has reached an $11.7m settlement with California-based Juniper Networks, to resolve charges that it violated internal accounting controls and record-keeping provisions of the Foreign Corrupt Practices Act. Juniper Networks did not admit or deny the agency's claims, but has agreed to "cease and desist from committing or causing any violations" and to pay $4,000,000 in disgorgement, $1,245,018 in prejudgment interest, and a $6,500,000 civil penalty.

New York Times

EUROPE

JOHNSON TO ORDER REVIEW OF LOAN CHARGE

U.K. Prime Minister Boris Johnson has promised to launch a review into the controversial "loan charge." The loan charge penalises individuals who entered into "disguised remuneration schemes" designed to avoid income tax and national insurance contribution payments by payment of a salary in the form of loans that were never intended to be repaid. The schemes were considered legal at the time, advertised by respected firms and sold to tens of thousands of people. The All-Party Parliamentary Group on the Loan Charge (APPG) argues that the charge is retrospective and overrides taxpayer protections. Ross Thomson, the Vice Chairman of the APPG, raised the issue during Prime Minister's Question Time in Parliament last week, noting that over 8k people have signed a petition relating to the controversial charge and asking Boris Johnson "what urgent action his Government will be taking to address this." Mr Johnson said the loan charge is "a very, very difficult issue," adding: "What I have undertaken to do is to have a thorough-going review of the matter." Campaigners at the Loan Charge Action Group welcomed the review but added that it needs to be independent of HM Revenue & Customs and include a suspension of the policy.

Yorkshire Post *Financial Times*

GERMANY AGREES TO END REUNIFICATION TAX FOR MOST TAXPAYERS

German Chancellor Angela Merkel's government has agreed to exempt most taxpayers from the 5.5% solidarity tax that was introduced after the country's reunification. Under a draft law drawn up by Finance Minister Olaf Scholz, some 90% of taxpayers will from 2021 no longer be subject to the levy, which has been used primarily to support economic development in the poorer eastern states that made up the Communist German Democratic Republic until the fall of the Berlin Wall in November 1989. Only top earners will still have to pay the tax in full. "Today is a significant day on the road to the completion of German unity. The costs of reunification have in large part come to an end," Mr Scholz said in a statement.

Euronews

DELIVEROO TO CHALLENGE TECH TAX

Deliveroo is preparing for a campaign against Britain's forthcoming digital services tax, hiring a number of political specialists and appointing Giles Derrington from lobby group techUK as the head of its public affairs operations across the U.K. and Ireland. The takeaway app firm is one of the British businesses considered to be most at risk of the planned digital services tax in the long term. The new levy will see a 2% tax on the fees delivery companies charge. Deliveroo currently loses money and so is exempt, with firms having to have total revenues of more than £500m and make profits to be liable.

The Sunday Telegraph

CHARITIES WATCHDOG ACCUSES AUDITORS OF POOR STANDARDS

The UK's Charity Commission has accused some auditors of letting down their profession after the watchdog found only half of a sample of charity accounts met the required standards. A study of 296 charities' accounts found auditors and independent examiners are failing to identify "significant failings" and a quarter of charities with incomes of more than £1m failed to meet external scrutiny standards. At least half the charities in its two lower income samples failed to meet the standard, which the watchdog said was "particularly concerning," given it covers only basic requirements. Nigel Davies, head of accountancy services at the Charity Commission, said: "The public care deeply about transparency. It is therefore vital that charities are able to provide an accurate and clear picture of their finances."

Financial Times *The Times* ***Daily Mail***

STARBUCKS, FIAT PREPARE FOR EU COURT RULING ON TAX BILL

European Union judges will rule this month on an appeals by Starbucks and Fiat against decisions ordering them to pay allegedly illegal tax subsidies. September 24th has been set as the date for the rulings; the cases are being watched closely for hints as to the fate of far larger tax bills meted out by the European Commission since 2015, including a record order for Ireland to recoup billions of euros in back taxes, plus interest, from Apple.

Yahoo Finance

DEUTSCHE BÖRSE OFFICES RAIDED AS AUTHORITIES INVESTIGATE ALLEGED TAX EVASION

German police have searched the premises of Deutsche Börse subsidiary Clearstream as part of an investigation into trades that were allegedly used to falsely claim tax rebates. The investigation centres on so-called cum-ex dividend trades. With cum-ex transactions, investors were able to obtain refunds for capital gains tax multiple times, even if the tax was only paid once.

City AM ***Bloomberg***

DANISH PENSION FUNDS WANT PRINCIPLED EXTERNAL MANAGERS

A set of common principles on responsible tax behaviour by external managers has been agreed upon by four Danish pension funds who combined manage DKK1.8trn (€236bn) of assets. ATP, Industriens Pension, PensionDanmark and PFA said the principles seek to influence tax behaviour in Denmark and internationally.

IPE

TAX THREAT CONTRIBUTES TO EUROPE TECH DEAL SLOWDOWN

A slowdown in technology mergers and acquisitions across Europe has been blamed on the threat of digital taxes and increased regulatory scrutiny. Data released by PitchBook shows Europe is on track for its quietest year since 2009 with IT M&A slipping 18% to a five-year-low of 655 in the first six months of 2019.

The Daily Telegraph

BERTELSMANN WARNS FRENCH DIGITAL TAX A 'BUREAUCRATIC NIGHTMARE'

Bertelsmann chief executive Thomas Rabe has said France's digital tax would hit European businesses much harder than US tech giants and risks becoming a "bureaucratic nightmare."

Financial Times

ASIA-PACIFIC

JAPANESE RETAILERS PREPARE FOR CONSUMPTION TAX RISE

Ahead of a rise in the consumption tax to 10%, Japanese retailers are hastening their preparations for a more complicated tax scheme that incentivizes cashless payments, keeps the 8% rate on daily necessities and introduces a reward points system for small and midsize retailers. Since it may also be difficult to distinguish whether goods on the same shelf will be taxed at 10% or 8%, Inageya Co., which operates about 140 supermarkets in the Tokyo metropolitan area, planned to distribute handbills that clarify the tax rate of its main goods. Meanwhile, major convenience store chain Lawson will include "kei," a kanji character meaning "reduced" tax rate, on its price tags and receipts.

SF Gate

GLENCORE WINS TRANSFER TAX DISPUTE

Miner and trader Glencore has won a dispute with Australia's tax office after a court ruled it had paid the correct amount of tax on purchases of copper concentrate from a mine that it owns in New South Wales state. The Australian Tax Office claimed that the company's head office did not pay market rates for the

copper purchased from its CSA mine in New South Wales from 2007 to 2009 - but a judge at the Federal Court has now ruled that prices paid were "within an arm's length" and Glencore therefore did not breach any transfer pricing rules.
Australian Mining

A LOOK AT CHINA'S INCOME TAX REFORM
China Briefing takes a look at reform to China's individual income tax (IIT) system. The IIT Law was passed in June 2018 and the new system of individual taxation came into effect on January 1st, 2019. The changes affect the take-home pay of every employee and payroll processing for every employer in China. The new law adopts a 183-day test to determine the China tax residency that is more consistent with international practices than the previous one-year test. Foreign employees are nevertheless concerned that the new test has shorter time requirements for triggering tax residency in China.
China Briefing

NEW ZEALAND LEGALISES SALARIES PAID IN CRYPTOCURRENCIES
New Zealand will become the first country to allow salaries and wages to be paid in cryptocurrencies, from September 1st, as long as the payments are in regular, fixed amounts. Last month's bulletin from the Inland Revenue Department (IRD), New Zealand's tax office, includes a new ruling under the Income Tax Act that states that an employee can be paid salaries in crypto-assets as long as the payments are for services performed under an employment contract, are for a fixed amount and form a regular part of the employee's remuneration.
Financial Times ***CoinDesk***

THAILAND SET TO INTRODUCE AN E-COMMERCE TAX
Thailand is planning to introduce a value-added tax on electronic businesses next year, tapping an online retail boom in the country with the aim of collecting between 3bn-4bn baht ($98m-$131m) annually. Driven by upgrades to mobile banking apps, sales via social media in Thailand more than doubled to 334.2bn baht in 2017, according to the latest report from the country's Electronic Transaction Development Agency.
Reuters ***Tech In Asia***

PROTOCOL AMENDING JAPAN-U.S. TAX TREATY FINALLY GOES INTO EFFECT
The U.S. and Japanese governments have put into effect a protocol amending a bilateral tax treaty to avoid double taxation and prevent tax evasion. The protocol exempts interest payments to Japanese companies in the United States from U.S. withholding taxes, from November 1st,. and also relaxes conditions for tax exemption for dividend payments from U.S. subsidiaries to Japanese parents.
Japan Times

SHELL IN TAX SPAT WITH AUSTRALIA
Royal Dutch Shell is in talks with the Australian government after being hit with a A$755m tax bill by the Australian Taxation Office, which claims the Anglo-Dutch oil major avoided paying tax on its 27% stake in the £16.5bn Browse gas project in seas off the coast of Western Australia.
Bloomberg ***Australian Financial Review***

LATIN AMERICA

INTERJET DENIES REPORT OF 'TECHNICAL BANKRUPTCY'
Mexican airline Interjet has denied claims by Bloomberg that it is in "technical bankruptcy" and risks collapse after reportedly being ordered to pay almost $30m in back taxes. "Interjet categorically denies that it is bankrupt as published by the Bloomberg news site. The news agency made a misinterpretation of the

constitutional claim filed by the airline in the dispute that it holds with the Internal Revenue Service of Mexico," the carrier said in a statement issued on the same day as the Bloomberg report.
Aerotime News Hub ***ch-aviation*** ***Bloomberg***

CHALLENGE TO COLOMBIAN TAX HIKES
Tax hikes in Colombia which took effect at the start of the year are being challenged in the Constitutional Court in a motion that poses a threat to government revenue, reports Bloomberg. The suit filed by former Vice President German Vargas claims that procedural errors during the passage of the financing bill violate the constitution.
Bloomberg

BRAZIL MUST SIMPLIFY ITS TAX SYSTEM, ECONOMY MINISTER SAYS
Brazil's economy minister says the country must simply its tax system, noting that he would like to the local tax burden fall to 20% of gross domestic product in 15 years' time from around 33% at the moment.
Reuters

MIDDLE EAST

ISRAELIS EARNED $1.08BN ON U.S. ASSETS IN 2016
A new system for sharing information between the IRS and the Israel Tax Authority shows that Israelis with accounts at U.S. lenders and other financial institutions earned $1.08bn in income from interest, divided and capital gains in 2016. The official exchange of information is on the basis of the U.S. Foreign Account Tax Compliance Act, or FATCA, which aims to crack down on international tax evasion.
Haaretz

EGYPT LAUNCHES VAT-AVOIDANCE CAMPAIGN
The Egyptian Tax Authority (ETA) is targeting North Coast resorts that have been avoiding paying value-added tax. ETA head Abdel Azim Hussein said the authority's new campaign had identified tax avoidance in 40 such resorts. He has urged eligible taxpayers to register their businesses with the tax system and to legalise their activities.
Ahram Online

AFRICA

TAX CREDITS TO BOOST INFRASTRUCTURE IN NIGERIA
A system of tax credits is being introduced by the Nigerian government to encourage private firms to share infrastructure costs as the African nation diversifies from oil, the country's tax chief has said. Tunde Fowler, executive chairman of the Federal Inland Revenue Service (FIRS), said more than 10 local companies had applied for the scheme to receive 50% of expenditure in tax credits.
Reuters Africa

DRONES 'HUNT DOWN TRUCKERS EVADING TAX' IN ZAMBIA
Tax authorities in Zambia are using drones to track lorries smuggling in goods to avoid customs duty. "The drones go out on patrol on risky routes or complicated routes where our ground patrols or checkpoints have failed," Topsy Sikalinda, corporate communications manager at Zambia Revenue Authority (ZRA), said.
BBC News

GLOBAL

U.S., FRANCE TO LEAD TALKS ON GLOBAL DIGITAL TAX

France and the United States have agreed to take leading roles in talks aimed at reaching a deal on a global digital tax by mid-2020, working in a task force with the Organization for Economic Cooperation and Development (OECD). The pact comes on top of an earlier agreement over a French tax on online giants like Google, Amazon and Facebook. France would reimburse companies any excess taxes once an international deal is in place. OECD secretary general Angel Gurria and French Finance Minister Bruno Le Maire said they hope to have draft agreement on the table by the end of the year so that a deal on the global tax can be reached in the first semester of 2020.

Washington Post

THIRD OF FOREIGN INVESTMENT IS MULTINATIONALS DODGING TAX

A study into global FDI by the IMF and the University of Copenhagen has found 40% of flows are used as a vehicle for financial engineering, "often to minimise multinationals' global tax bill," rather than for financing productive activity.

Financial Times

To find out how UHY can assist your business, contact any of our UHY member firms. You can visit us online at www.uhy.com to find contact details for all of our offices, or email us at info@uhy.com for further information.

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