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— Pillar 2

WORLD TAX LAWYERS

THE SUNDAY TAX TIMES

Sunday Tax Times

Expert Insights in
Pillar 2 & International
Tax from WTL

At WTL we believe in knowledge. Our in-house knowledge hub, founded by leading academics, serves as the intellectual backbone of WTL. It ensures that our members and clients stay ahead—benefiting from the latest research, regulatory trends, and strategic approaches in international tax law.

Welcome to this week's edition of Sunday Tax Times, your trusted source for accessing global tax news in just a few minutes. We've designed this magazine specifically for C-level executives who have limited time but still want to stay informed about global tax changes that may impact their business strategies. Our goal is to provide you with the most important global tax news in just 5 minutes of easy reading every Sunday.

Global Reach. Local Expertise

WTL Global was created to meet an urgent new need. Global tax developments, such as Pillar Two, require a truly specialized firm—one that focuses exclusively on OECD-driven tax work within a global law firm. Until now, such a firm did not exist.

At WTL Global, we are committed to these principles. We are all tax lawyers. We are present in major cities worldwide. Our Knowledge Centre, led by professors and top experts in international tax law, enables us to solve

complex cross-border tax challenges by leveraging deep expertise.

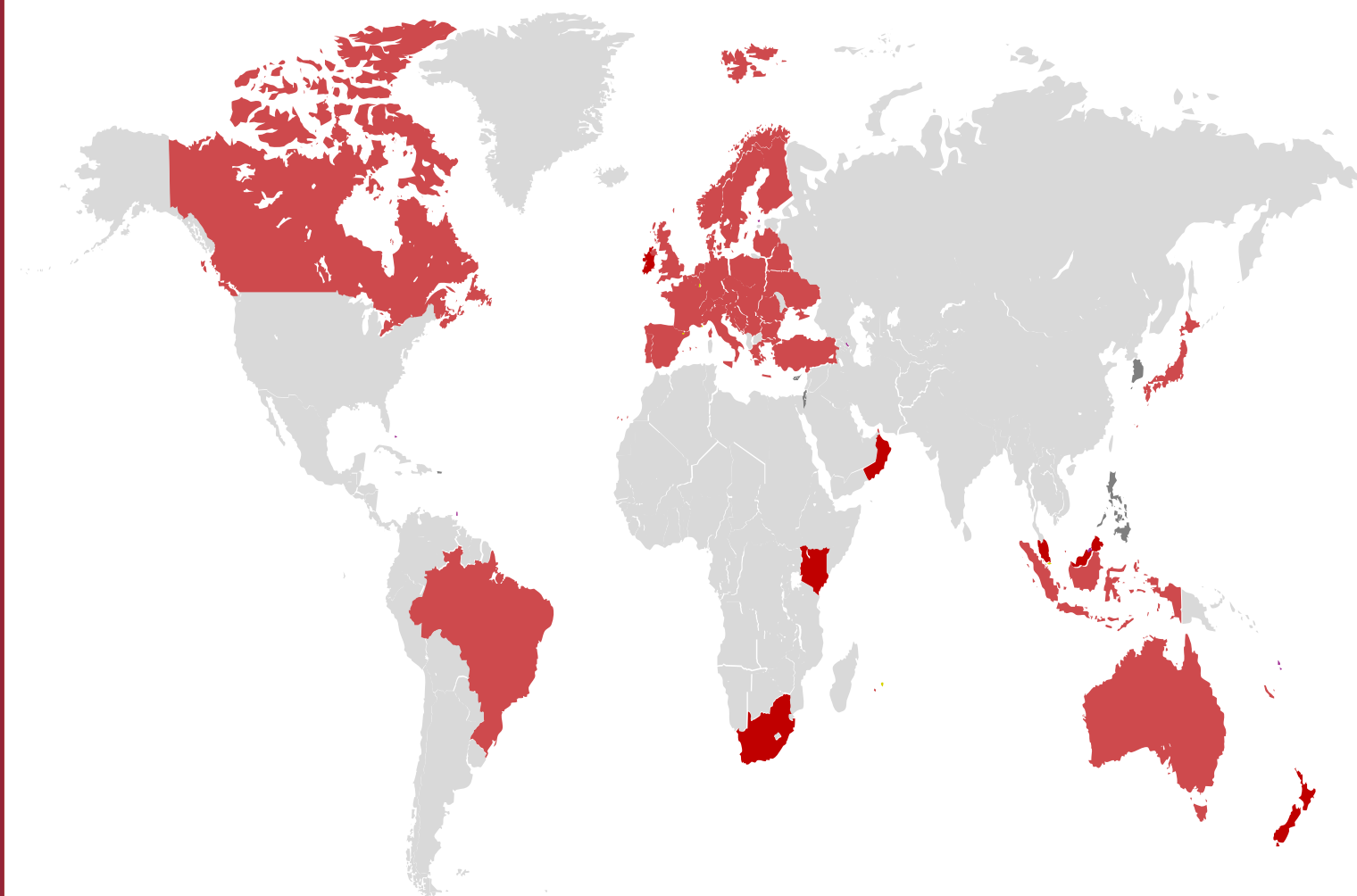
Our unique structure enables us to deliver solutions that are aligned with the latest international tax developments in an efficient and effective manner.

Our expertise in Pillar Two regulations reinforces our position as the leading global tax law firm in this position. With a specialized approach and deep technical expertise, we help businesses navigate the evolving global tax landscape with confidence and precision.

Current Implementation Status of Pillar 2

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Weekly Tracker



Ca. 50 countries with (draft) legislation
6 announcements

Not all Pillar 2 countries adopted IIR, (Q)DMTT and UTPR

1 Tariff Wars

1.1. CANADA / US

President Trump signed five proclamations under section 338 of the Tariff Act prohibiting the importation of certain

Canadian-origin alcoholic beverages, dairy and related products, and motor vehicle products currently subject to the additional 50% section 338 tariffs. The prohibitions apply to covered products imported on or after 29 September 2026.

2 Other global developments

2.1. OECD
2.1.1. Model reporting rules for digital platforms

The OECD published the comments received in response to its June 2026 public consultation on pro-

posed revisions to the model reporting rules for digital platforms.

2.1.2. Tax Policy Reforms 2026 report

The OECD released its Tax Policy Reforms 2026 report, which reviews tax reforms introduced or announced



during 2025. The report observes, among other developments, that many countries participating in the Inclusive Framework have introduced temporary tax increases or surtaxes targeting specific corporate sectors.

3 Asia Pacific

3.1. AUSTRALIA
3.1.1. Final guidance on outbound payments for software

The Australian tax authorities released final guidance on the characterisation of outbound payments made in respect of software. The guidance represents a departure from the earlier drafts published in 2021 and 2024 and considers when an outbound payment under a software intermediation arrangement constitutes a royalty, as defined under Australian domestic law, and is therefore subject to withholding tax. A software intermediation arrangement is described as an agreement, arrangement or scheme under which a software intermediary makes payments, directly or indirectly, to the owner or licensee of the copyright or other intellectual property in software, enabling the intermediary to earn income relating to the use of, or right to use, that software. The first example concerns an Australian company appointed as the Australian distributor of software and cloud services under a licence agreement with a related Irish company that retains all intellectual property rights. The Australian company receives rights to market, promote and distribute the programs, as well as limited copying and licensing rights, and pays fees determined by reference to a target operating margin. End users access the software through electronic downloads, cloud services or physical copies and enter into an end-user licence or cloud services agreement with the Irish company.

The final guidance concludes that, based on an objective assessment of the entire arrangement and its commercial context, performance of the contract requires the Australian company to use copyright rights. Those rights are neither separate nor severable from the other rights and benefits granted under the arrangement. As the Australian company does not acquire copies of the software that it subsequently licenses or makes available to customers, its payments are not characterised as payments for copies of software. Instead, they constitute royalties under both Australian domestic law and the Australia-Ireland tax treaty and are subject to Australian royalty withholding tax at a rate of 10%. The second example concerns an Australian company with a non-exclusive right to resell a foreign company's software products in Australia. Although the Australian company is not expressly granted ownership of, or a licence over, the intellectual property, the foreign company provides order-fulfilment services and promotional information. The Australian company pays the foreign company an amount based on its net profit, less an arm's-length distribution margin. The guidance concludes that the payment constitutes a royalty because the Australian company cannot provide customers with the relevant software rights without having the authority to permit them to reproduce the software through downloading or, in the case of cloud services, to access the software online. Under the indivisible arrangement, the Australian



company also obtains rights to use the foreign company's trademarks, brand and designs; receives technical or commercial information and know-how; obtains ancillary services facilitating the use of that information and intellectual property; and provides access to software protected by technological access-control measures with the foreign company's permission. Deloitte observed that the release of the final guidance is significant and that the Commissioner's interpretation may be controversial. The Commissioner appears determined to test this position before the Australian courts, although the judiciary has previously questioned whether all or most software intermediation arrangements share substantially the same facts and circumstances.

3.1.2. Draft practical compliance guidance on software arrangements

The Australian tax authorities also released updated draft practical compliance guidance for public consultation on identifying royalty withholding tax risks in cross-border software arrangements. The draft applies the ATO's usual white, green, yellow, amber and red risk zones. Public comments are requested by 2 October 2026.

3 Asia Pacific

3.2. CHINA

The Chinese government announced that domestic entities will be subject to VAT withholding obligations when making payments for certain services provided by domestic individuals. The obligations will take effect on 1 November 2026 and will apply to research and development, software, design, consulting, radio and television production, and cultural and educational services.



4 Europe

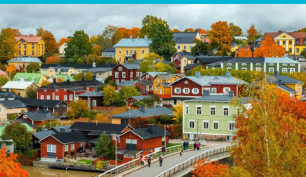
4.1. EUROPEAN GENERAL COURT

The European General Court decided a case concerning the application of the EU VAT Directive to the transfer of a business and a related leasing arrangement. Article 19 of the VAT Directive permits Member States to treat a transfer of all or part of a totality of assets as involving no supply of goods, with the transferee treated as the successor to the transferor. The taxpayer sold a garden-centre business and simultaneously entered into a new commercial lease with the purchaser for the building from which the business operated. During the years preceding the sale, the taxpayer had renovated and customised the building and deducted the input VAT incurred on those improvements. The taxpayer argued that the VAT-exempt lease should not result in an adjustment of those deductions because the purchaser had effectively stepped into its position and continued operating the same business from the same premises. The Court rejected this argument. Although the transfer of a going concern may remain

possible where the relevant premises are leased instead of sold, the lease itself is not necessarily disregarded as part of the transfer. Allowing the taxpayer to retain the full input VAT deductions for expenditure incurred on an asset subsequently used to make exempt supplies would breach the principle of fiscal neutrality. The Court explained that an intangible asset such as a lease right may form part of a transfer of a totality of assets only where that right existed before the transfer and was transferred as an element of the business. Where the transferor, as the owner of the property, enters into a new commercial lease with the transferee at the time of the transfer, the transferor creates a new right of limited duration rather than transferring a pre-existing asset. Consequently, the new lease cannot be regarded as forming part of the transfer of a totality of assets.

4.2. FINLAND

The Finnish government introduced a bill before Parliament implementing tax measures announced in the recent budget. The bill proposes re-



ducing the corporate income tax rate from 20% to 18% and similarly reducing the general withholding tax rate on outbound dividends, interest and royalties from 20% to 18%. It would also extend the period for carrying forward tax losses from 10 years to 25 years.

4.3. HUNGARY



The Hungarian tax authorities issued guidance concerning the 2025 amendments to the OECD Model Tax Convention and its Commentary. Most of those amendments related to the Commentary, particularly the interpretation of the permanent establishment definition under Article 5. The guidance states that Hungary follows a dynamic interpretative approach, under which

the most recent version of the Commentary is regarded as authoritative when interpreting its existing bilateral tax treaties.

4.4. POLAND

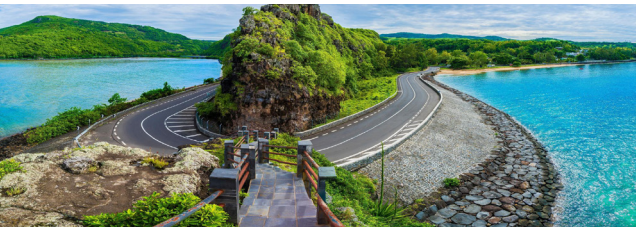


The Polish government launched a second initiative aimed at imposing a higher tax burden on the energy sector. Parliament had previously approved a bill introducing a 60% windfall tax, but the President declined to sign it without approval from the Constitutional Court, where the bill remains under consideration. The government has now published a separate draft bill providing for a temporary increase in the corporate income tax rate applicable to energy-sector companies with revenue exceeding EUR 50 million. For qualifying companies, the current 19% rate would increase to 30% in 2027, before decreasing to 26% in 2028 and 23% in 2029.

5 Africa

5.1. MAURITIUS

The Mauritian government issued regulations setting out the detailed rules for applying the Qualified Domestic Minimum Top-up Tax. The regulations have retroactive effect from 1 July 2025.





6 Middle East & Central Asia

6.1. SAUDI ARABIA

The Saudi Arabian government issued a procedural guide covering tax and customs operations in four special economic zones. The guide provides detailed information on the administration of SEZ incentives, including a 5% corporate income tax rate for qualifying activities for a period of 20 years, withholding tax exemptions for certain payments to non-resi-

dents, VAT zero-rating and out-of-scope treatments, and customs-duty suspension mechanisms.

The guide also outlines the tax and customs treatment of transactions involving goods and services supplied to, from or within an SEZ, as well as transactions between SEZs. In addition, it addresses the relevant compliance requirements for licensed entities.

7 Americas

7.1. URUGUAY



The Uruguayan government issued a decree introducing a compensation mechanism for taxpayers covered by stability clauses. The compensation is equal to the amount of the Uruguayan Qualified Domestic Minimum Top-up Tax, less any reduction in foreign taxes resulting from the payment of that tax.

7.2. UNITED STATES

7.2.1. *Brueya and Christensen cases*



The US Court of Appeals for the Federal Circuit decided two cases concerning whether foreign tax credits available under double tax treaties may offset the US net investment income tax imposed under section 1411 of the Internal Revenue Code, where the Code itself does not permit foreign tax credits against that tax. In both *Brueya* and *Christensen*, the Court concluded that the credits were unavailable. In *Brueya*, the relevant treaty was the Canada–US tax treaty. Article 24 requires the United States to provide relief from double taxation by allowing a credit against US income tax for the appropriate amount of Canadian tax. However, this obligation is subject to the provisions and limitations of US law, as amended from time to time, provided that such amendments do not change the treaty’s general principle. The Court referred to this qualification as the “US law limitation.” The Court first concluded that the Internal Revenue Code does not per-

mit foreign tax credits against the net investment income tax. Sections 27 and 901 generally authorise foreign tax credits only against taxes imposed under Chapter 1 of the Code, whereas the net investment income tax is imposed under Chapter 2A. Although the reason for placing the tax in Chapter 2A was unclear, the Court presumed that Congress had acted intentionally and with knowledge of the existing foreign tax credit regime. The Court also held that the Canada–US treaty does not establish an independent foreign tax credit. In its view, the US law limitation incorporates domestic restrictions both when calculating the amount of a treaty-based credit and when determining whether a credit is available at all. Domestic law therefore governs unless the treaty expressly provides otherwise. The Court referred to the treaty’s resourcing provisions as an example of an express departure from domestic foreign tax credit rules. The Court rejected the argument that the treaty’s broad coverage of US taxes on income was sufficient to permit a credit against the net investment income tax. While that tax fell within the relevant definition, the US law limitation continued to determine whether a treaty-based credit was available. It also rejected the argument that the treaty’s general objective of avoiding double taxation guarantees the elimination of every instance of double taxation. Finally, the Court found the treaty language unambiguous and therefore declined to rely on extrinsic materials supporting the taxpayer’s interpretation.

In *Christensen*, the relevant treaty was the France–US tax treaty, which contains a similar obligation to provide a

foreign tax credit and a comparable US law limitation. The principal dispute was whether that limitation applied to the provision granting relief to US citizens resident in France, even though it was not expressly repeated in the relevant subparagraph. Applying reasoning similar to that in *Brueya*, the Court held that the US law limitation applies throughout the relevant provisions of Article 24. PwC observed that the decisions are also relevant to the traditional analysis of the interaction between subsequently enacted statutes and existing treaty obligations. The Federal Circuit did not find that Congress expressly overrode the Canada–US treaty when enacting the net investment income tax, nor did it consider the government’s alternative argument that the later-enacted tax would prevail over an inconsistent treaty provision. Instead, it found no conflict between the Code and the treaty because the treaty itself incorporated the relevant domestic-law restrictions through the US law limitation. This reasoning could have broader significance, as subsequent changes to domestic foreign tax credit rules may affect treaty-based relief without requiring a court first to identify a conflict between the treaty and later legislation.

7.2.2. *Proposed regulations*

The US Treasury and Internal Revenue Service released proposed regulations concerning the allocation and apportionment of deductions to foreign-source section 951A category income. The allocation and apportionment rules are relevant for foreign tax credit limitation purposes and for calculating deductible eligible income.

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8 Treaty news

TREATIES SIGNED:
OMAN / RWANDA
HONG KONG / SLOVENIA

**Competent authority agreement
enters into force:**
AUSTRALIA / FRANCE

**Exchange of letters enters into
force:**
KOREA / TAIWAN