

## In brief

**Canada** – The Canadian authorities have filed an application to appeal the 17 May 2010 decision of the Federal Court of Appeal (FCA), in which the FCA overturned a decision of the Tax Court that the general anti-avoidance rule (GAAR) was applicable to a financing arrangement. This arrangement involved the stripping of the right to receive interest from a debt owed by a Canadian subsidiary to a nonresident related company followed by the sale of the stripped interest coupons to a third-party foreign bank in circumstances where a specific withholding tax exemption under the Canadian Income Tax Act applied. The FCA held that the transaction was not abusive even though the withholding tax exemption was obtained without funds having been borrowed from an arm's length foreign lender.

**European Union** – The European Commission has published a consultation paper on possible amendments to the Interest and Royalties Directive. In brief, the paper discusses the following:

- Expanding the list of entities covered by the Directive;
- Extending the definition of associated companies;
- Lowering the shareholding thresholds to be considered an associated company;
- Extending the benefits of the Directive to include payments between unrelated parties; and
- Resolving an issue relating to the tax deductibility requirement for payments made by permanent establishments.

The consultation period will run until 31 October 2010.

**Taiwan** – Foreign entities having no fixed place of business in Taiwan that purchase goods or services on which VAT is levied in Taiwan for the purpose of engaging in exhibitions or temporary business activities may recover the VAT incurred on such goods or services. Foreign entities may qualify for a VAT refund provided reciprocal treatment, or an exemption from similar taxes, is given to Taiwan businesses by the foreign country in which the applicant is established.

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