

PRISM

Tax Newsletter

3rd Quarter 2013

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Australia

Recent changes to the Petroleum Resource Rent Tax (PRRT)

The recent legislative amendments to the Petroleum Resource Rent Tax are extremely important in providing certainty to the oil and gas industry on the ability to deduct legitimate expenditure under PRRT. The uncertainty arose from the decision of the Full Federal Court in the ESSO case. The amendments are favourable to the taxpayer and have been welcomed by the industry.

最近澳大利亚联邦立法局对于《石油资源租赁税法规》所做出的立法修改对石油和天然气行业是非常重要的，因为立法修改确定了纳税人如何能够使用《石油资源租赁税法规》去扣除合法的开支。早前，邦法院上诉庭在ESSO案件的决定造成不确定性。立法修改有利于纳税人并受业界欢迎。

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Cambodia

Cambodia tax updates: Prakas on tax service agent and amendments on Stamp Duty

The Ministry of Economy and Finance (MoEF) has issued a Prakas no. 455.MEF.Prk on 12 April 2013 on tax service agent. A licence is required in order to perform services as a tax service agent. On the other hand, under the approved 2013 Law on Financial Management, LFM, there are certain amendments of Article 40 of the Law on Financial Management 1995 in relation to Stamp Duty. We have highlighted the key changes in our article.

针对税务服务代理，经济与财政部已在2013年4月12日发出第455号.MEF.Prk声明，规定凡提供税务服务者必须申请执照。另一方面，获批的2013年财政管理法，已针对1995年财政管理法第40条款有关印花税法令，作出修改。主要的修改内容见内文。

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Cyprus

E.U. Passport – Cyprus reduces investment thresholds for granting nationality

The Council of Ministers decision dated 24th of May 2013 laid the reduced economic criteria by which Cypriot/E.U. Citizenship can be acquired.

部长理事会于2013年5月24日通过降低颁发塞浦路斯/欧盟国籍的经济标准的决定。

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Hong Kong

The information exchange amendments to the Inland Revenue Ordinance

The Inland Revenue (Amendment) Bill 2013 aims to empower the department to enter into tax information exchange agreements (TIEAs) with other countries or tax jurisdictions for exchange of information relating to various forms of tax, without first concluding a double tax agreement with that jurisdiction.

《2013年税务(修订)条例草案》刊宪后，税务局可在未与另一国家或税务管辖区签订避免双重征税协议的情况下，与该国或税务管辖区签订税务数据交换协议(TIEAs)，就各种税项进行数据交换。

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Indonesia

New tax audit guideline on the related party transactions

Effective 1 July 2013, Indonesia issues a new tax audit guideline, PER-22/PJ/2013 (PER-22), towards tax payers which have transactions with related parties. PER-22 provides directions to the tax officers on how to carry out transfer pricing audit. The significance of PER-22 for tax payers is to better assist them in preparing for tax audits in Indonesia.

印度尼西亚政府对与关联方进行交易的纳税人颁布一项新的税务审计准则 - PER-22/PJ/2013 (PER-22)，该准则于2013年7月1日正式生效。PER-22为税务人员就如何进行转让定价审计提供指示，协助他们准备税务审计。

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Japan

Highlights of 2013 tax reform

Japan's tax is rather complicated and the tax rates are higher than other countries. On March 29, Japanese parliament approved and passed the "2013 Tax reform bill". The tax reform bill is focused on the tax reduction measures under which the tax revenue is estimated to decrease by JPY 150 billion according to Japan's Ministry of Finance.

比起其它国家，日本的税制比较复杂，税率也较高。3月29日，日本政府在日本国会上通过了2013年度税制改革相关法案。法案以减税内容为主，日本财务省预计税收较上年度将会减收1500亿日元。

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Malaysia

Expectations, apprehensions and concerns on GST

The implementation of a Goods and Services Tax (GST) to replace our existing Sales and Services Tax (SST) has become stale news since the proposal made its maiden appearance during the Budget 2005 speech on Sept 10, 2004. Subsequently Budget 2006 to 2013 came and went without seeing the affirmative sight of its implementation. However, it might be able to be properly implemented after 2014, as economists have views that going slow was more realistic than a plan to expedite the new tax as some had expected.

自2004年10月9日首次在2005年财政预算案提出，政府欲实施物品及服务税以取代现有的销售与服务税，已非新鲜课题。然而在接下来几年即2006至2013年的预算案中，却一直未见政府正式实施此计划。无论如何，一般预测此项税务很大可能将于2014年后实施，相较于一些盼望从速实施此项税制者，经济学家认为延缓实施此项计划较为实际。

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Russia

Russian tax system brief review

Russian taxes are listed and regulated by the Russian Tax Code, please read the article for further details about the Russian taxes and levies.

俄罗斯的税项受《俄罗斯税法》管制。有关俄罗斯税项及税务减免之详情，请细阅全文。

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Singapore

Singapore Budget 2013 key changes

The Singapore Government is taking further steps to build a more inclusive society where all Singaporeans can have a better life. We are going for quality growth so that Singaporeans' wages can go up. The Government will support the companies to upgrade and improve productivity to make this possible. The Budget 2013 announced by Mr. Tharman Shanmugaratam, Deputy Prime Minister and Minister for Finance will help to build a better Singapore.

政府为了确保国人的生活更美好，采取多项措施建设更具包容性的社会。要取得优质的增长，让新加坡人的收入能增长，政府将协助公司改善作业方式和提高生产力。由副总理兼财政部长尚达曼先生公布的2013年财政预算将创造更美好的新加坡。

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Recent changes to the Petroleum Resource Rent Tax (PRRT)

On 28 June 2013, the Australian Commonwealth Parliament passed the Tax Laws Amendment (2013 Measures No. 2) Bill 2013 ("the Bill") which amends the *Petroleum Resource Rent Tax Assessment Act 1987* ("the PRRT law") to address the unintended implications flowing from the decision of the Full Federal Court in *Esso Australia Resources Pty Ltd v Commissioner of Taxation* [2012] FCAFC 5 ("the Esso case"). The amendments remove a considerable degree of uncertainty which has resulted from the Esso case and have been welcomed by the oil and gas industry.

The amendments will have retrospective application and are favourable for taxpayers. The amendments seek to:

- restore the capacity for taxpayers to apportion expenditure; and
- allow taxpayers to deduct expenditure incurred under contract for project services or operations where the taxpayer is unrelated to the contractor but preserve the "look through" requirement in circumstances where the taxpayer contracts with a related entity (such as a group company) or with an operationally related entity (such as a joint venture participant or its related entities).

Apportionment of expenditure

Prior to the amendments, there was considerable uncertainty surrounding the ability of taxpayers to deduct legitimate expenditures because the Court's decision on the issue of apportionment of expenditure differed from the manner in which the Tax Commissioner had been administering the PRRT law before the Esso case. The Tax Commissioner previously applied the PRRT law on the basis that the deductible expenditure provisions were self-apportioning whilst the Court was of the opinion that payments cannot be apportioned under the PRRT and so are only deductible if they are incurred wholly in relation to the relevant project. To apply the Court's interpretation in full would have significant financial implications for the industry as it would result in many taxpayers being unable to deduct legitimate expenditure, which is inconsistent with the intent of the PRRT regime. The amendments largely re-affirm the Tax Commissioner's historic application of the PRRT law on this issue and maintain the policy intent of the PRRT.

Payments to procure project activities

Under the old law, a taxpayer must "look through" a payment made to a third party for project services to determine the extent to which that payment is deductible. This meant that the character and nature of the contractor's expenditure, rather than that of the service procured, was used to determine the extent to which the payment is deductible. Under the new law, "look-through" is not required for payments made to unrelated third parties for project services but will still be required where the payment is made to a related contractor. On this issue, the amendments re-affirm the Tax Commissioner's historic application but reflect the substance of the Court's decision in the Esso case being that a taxpayer cannot derive a tax advantage via related party arrangements.

To illustrate the difference between the new and old law, consider the following example which has been adapted from the Explanatory Memorandum to the Bill:

PetroCompany enters into a service agreement with an unrelated third party (Consult Co) to provide staff to operate a drill rig for the recovery of petroleum from the production licence area. The agreement is for a 12 month period for fixed payment of \$2 million but Consult Co only incurs \$1.9 million of expenditure in operating the drill rig.

Under the old law, PetroCompany is taken to have incurred \$1.9 million in expenditure which is deductible under the "look through requirement". Under the new law, PetroCompany can deduct the full \$2 million (despite Consult Co only incurring \$1.9 million of expenditure). However if Consult Co is a related contractor, then PetroCompany can only deduct \$1.9 million.

The amendments relating to the deductibility of contractor payments will apply as follows:

- for taxpayers who have not been required to furnish an annual PRRT return prior to 14 December 2012, the amendments apply as if the contractor was unrelated to the taxpayer for all such payments incurred prior to 1 July 2013;
- for taxpayers who have been required to furnish an annual PRRT return prior to 14 December 2012, the amendments apply for contractor payments from 1 July 2012.

Practical implications

It is recognised that some taxpayers may have previously self-assessed amounts of deductible expenditure on a basis that is inconsistent with the Tax Commissioner's historic application (which has been confirmed by the amendments). The Tax Commissioner has advised that he will not seek to

disturb assessments for the 2011-12 and earlier years, provided the taxpayer's self assessment is consistent with the Tax Commissioner's general administrative practice in this area. However taxpayers should review their past treatment of legitimate expenditure for additional deductions which they may now be entitled to claim. 🇰🇲

Cambodia



Cambodia tax updates: Prakas on tax service agent and amendments on Stamp Duty

Prakas on tax service agent

The Ministry of Economy and Finance (MoEF) has issued a Prakas no. 455.MEF.Prk on 12 April 2013 on tax service agent.

Accordance to this Prakas, the tax service agent refers to a prson who receives the permission to act as a tax service agent from General Department of Taxation (GDT).

A licence is required in order to perform services as a tax service agent. A licence fee for physical person is **Riel 1,000,000** and **Riel 2,000,000** for a legal entity or pass-through, including **Riel 500,000** each for their branch office (if any). This licence is valid only for **2 years** and is required to be renewed **at least 30 days** before its expiration.

General Department of Tax, GDT will impose penalties on any person who act as tax service agents without a licence, including fines up to **Riel 10,000,000** and/or imprisonment up to 1 year. A taxpayer who received tax services from a person who is not a licenced tax service agent, GDT will impose **Riel 5,000,000** penalty.

New amendments on Stamp Duty

Under the approved 2013 Law on Financial Management, LFM, there are certain amendments of Article 40 of the Law on Financial Management 1995.

The key changes are as below:

- New duties imposed on:
 - a. Transfer of any or all part of shares or rights to procession of shares in Cambodian company will be subjected to 0.1% of Stamp Duty on the transfer value.
 - b. A stamp duty of 0.1% will also apply on the government contract related to the supply of goods/ services that are used under the state budget.
- Stamp Duty on certain legal documents such as for the establishment, dissolution or merger

of a company increased from Riel 100,000 (approximately USD25) to **Riel 1million** (approximately USD250).

- Exemption - acquisition of ownership or tenancy right over concession land granted by the Royal Government of Cambodia is fully exempted.
- Acquisition of ownership or right of possession over immovable property from relative is allowed for deduction from the base for calculation of Stamp Duty:
 - a. Riel 200,000,000 (approximately USD50,000) if the property is acquired in the form of succession; and
 - b. Riel 100,000,000 (approximately USD25,000) if the transfer in the form of gift or donation.

The Stamp Duty is due for payment within three (3) months from the date of transaction. The 1995 LFM defined the person who obtains ownership or right possession has the obligation to pay the Stamp Duty to the tax authority. 🇰🇲

Cyprus



E.U. Passport – Cyprus reduces investment thresholds for granting nationality

The Council of Ministers decision dated 24th of May 2013 laid the reduced economic criteria by which Cypriot/E.U. Citizenship can be acquired.

Obtaining a Cyprus (E.U.) passport/nationality by investing in Cyprus

Non Cypriot citizens are allowed to apply for Cypriot citizenship, provided they satisfy **one** of the following criteria:

A. Criteria

A1. Diverse investments and donation to a state fund

The candidate must proceed to the following:

- (a) An investment of at least €2,000,000 for shares and/or bonds of the Cyprus Republic Investment Fund; and
- (b) A donation of at least €500,000 to the Cyprus Research and Technology Fund.

OR

A2. Direct investments

The applicant must have direct investments in Cyprus of at least €5,000,000. The direct investments may be in respect of:

- (a) Purchase of buildings (houses, offices, shops, hotels or investments of similar nature with the exception of undeveloped land/plots)
- (b) Acquisition of Enterprises or Companies that are based and operating in Cyprus
- (c) Purchase of shares of Companies registered in Cyprus
- (d) Purchase of financial assets (bonds / securities / debentures registered and issued in the Republic of Cyprus including the ones to be issued by the Cyprus Solidarity Fund)
- (e) Participation in a company/consortium of companies responsible for the execution of a public sector project

Note: It is required that for (a), (b), (c) and (d) the applicant must have in his/her possession the above mentioned assets for a time period of at least three years. For investments in financial assets (shares and bonds) the value of the portfolio must not fall under the required amount for a three year period.

OR

A3. Bank deposits

The applicant must have fixed term bank deposits in a Cyprus Financial Institution of at least €5,000,000 for a period of three years. The deposits can be personal and/or of privately owned companies and/or of trusts of which the applicant is the beneficial owner.

OR

A4. Combination of investments and donations (A1), direct investments (A2) and bank deposits (A3)

The applicant must arrange for a combination of the abovementioned criteria the sum of which must reach the amount of €5,000,000.

OR

A5. Entrepreneurial activities

The criteria for the entrepreneurial activities option must be met for three (3) consecutive years prior to the application for citizenship.

- (a) €500,000 annually: the applicant must be a shareholder or the ultimate beneficiary of a company (or companies) operating in the Republic of Cyprus, which has duly paid to the State (Income Tax, V.A.T., or other obligations) and to local service providers (legal, accounting, audit services) at least €500,000 per year.
- (b) €350,000 annually: if the applicant is a shareholder or the ultimate beneficiary of a

company (or companies) operating and have their headquarters in the Republic of Cyprus and employ at least five (5) Cypriot citizens then the minimum amount paid for the aforementioned authorities (income tax, V.A.T., purchase of services, legal, accounting, audit etc.) is reduced to €350,000 per year.

- (c) €200,000 annually: In case the requirements of (b) are met and the company employs ten (10) Cypriot citizens, then the required amount for the aforementioned expenses is reduced to €200,000 annually.

A maximum of two (2) shareholders (preferably hold the majority of share capital) of each such company may apply for Cypriot citizenship.

Note: in the event that the applicant has contributed to the Cypriot economy directly or via remunerations (as described above) with a smaller amount than the minimum required amounts, he/she can combine criteria A1 (Investments and Donation to a state fund) or A2 (Direct Investments) or A3 (Bank Deposits) in order to meet the requirements for a citizenship application. The sum of the payments made through Entrepreneurial activities (A5) will be deducted from the required investment for the fulfilment of criteria A1 or A2 or A3.

OR

A6. Persons whose deposits at the Popular Bank of Cyprus or at the Bank of Cyprus have been impaired as a result of the measures enforced on the two banks after 15th March 2013

- (a) The applicant's deposits in one or both of the aforementioned banks must have been impaired by at least €3,000,000 aggregately.
- (b) In case the applicant's deposits in the aforementioned banks have been impaired at a smaller amount than €3,000,000, he/she can still apply for citizenship provided that he/she either makes a Direct Investment (A2) or Investments and Donation to a State Fund (A1) for the remaining amount in order to reach the €3,000,000.

B. TERMS AND CONDITIONS


1. **Clean Criminal Record:**
The applicant must have a clean criminal record. Also, his name shall not be included in the list of persons whose assets are frozen within the European Union.
2. **Residence in Cyprus**
The applicant must be the owner of a residence in Cyprus the market value of which is at least €500,000 plus V.A.T.

***Regular inspections will be made and in the event that any requirement is not duly met the Cypriot citizenship might be revoked.**

Services provided by Reanda Cyprus

Reanda Cyprus has extensive experience in immigration related services and can provide the following services:

- Assistance and guidance during the application preparation and submission
- Liaising with the relevant authorities during the examination process
- Planning and cash flow management to limit the amount of actual investment required for passports (e.g. back to back loans arrangements)

For further information please contact Mr. Alexis Hadjigeorgiou at ahadjigeorgiou@httaudit.com. cy or our Immigration Services Department at immigration@httaudit.com 

Hong Kong

The information exchange amendments to the Inland Revenue Ordinance

A bill is before the Legislative Council (the lawmaking body for Hong Kong) amending the Inland Revenue Ordinance to empower the department to enter into information exchange agreements with other countries or tax jurisdiction for exchange of information relating to various forms of tax, without first concluding a double tax agreement with that jurisdiction. The information to be gathered will not be confined to taxes administered in Hong Kong; it will also cover taxes that are not levied in Hong Kong, for example capital gains tax, value added tax, etc. The exact scope of the legislation is yet to be debated, but for sure the scope will be considerably widened.

One of the most important aspects is probably capital gains tax and dividend withholding tax. Dividends are not taxable in Hong Kong and therefore the Inland Revenue Department has no information on details of dividends paid, likewise with capital gains, although in some instances a seemingly capital asset can be subject to profits tax in Hong Kong because the transaction is regarded as a trading transaction. The Inland Revenue will be empowered to request information on these.


The reach of the amendment is still being debated; at the moment it is not confined to the geographical location of Hong Kong. There is some attempt to limit

the power to the geographical location of Hong Kong. The widened scope will most likely also be applied to countries that Hong Kong already has double tax agreements.

It is expected that the enactment of the amendments will enable the Hong Kong government to enter into tax information exchange agreements with countries that it still have not yet had a double tax agreement in place.

By enacting tax information exchange legislation, the international reputation of Hong Kong will be enhanced and it is likely that more companies from more countries will be willing to set up companies in Hong Kong, especially those who have previously been reluctant because of the impression that Hong Kong is a tax haven.

However, that power needs to have proper balance, and checks need to be put in place to ensure fair and equitable administration. Progresses will be reported in subsequent articles in PRISM.

In the meantime, clients and business associates who have any questions should contact their engagement partner within our firm. 

Indonesia

New tax audit guideline on the related party transactions

Effective 1 July 2013, Indonesia issues a new tax audit guideline, PER-22/PJ/2013 (PER-22), towards tax payers which have transactions with related parties. This regulation superseded the former regulation KEP-01//PJ.07/1993.

PER-22 provides directions to the tax officers on how to carry out an audit of related party transactions, commonly called a transfer pricing audit. In principle, this audit examines the arm's length principles on transactions with affiliated parties, including but not limited to sale, purchase and/or transfer of tangible assets, intra-group services, transfer and/or use of intangible assets, interest payments and sale and/or purchase of shares. The significance of PER-22 for tax payers is to better assist them in preparing for tax audits in Indonesia. Tax audits will be more likely to be conducted in Indonesia as Directorate General of Taxation (DGT) has increased its tax collection target through audit or examination in 2013 by 40% or approximately USD1.8 billion.

Some key issues that are relevant to the tax payers are as follows:

1. More detailed information is required in a form template to be provided during a transfer pricing audit. Such forms are as follows:

| | Form | Required information |
|---|--------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Transactions with related parties | Similar to appendix 1771-3A CITR. |
| 2 | Segment information | Financial information by segments. |
| 3 | Supply chain management analysis | Identification of companies within the tax payer's group that perform a determined function in the overall value chain of the group and the net operating income of those companies. |
| 4 | Functions, assets and risks analysis | A detailed check list on functions, assets and risks. |
| 5 | Business characteristics | Statement of business characteristics, similar to business sector the tax payer is in, based on functions, assets and risks. |
| 6 | Comparability analysis | Details on the comparability of the selected comparable companies. |

2. Supply chain analysis is now required as described in 1). A tax payer is required to provide information on the value chain relevant to the tax payer's business and its group as a whole, including the foreign entities. Additionally, it is also required to provide information on net operating income for each entity involved in the value chain.
3. The use of multiple year data to avoid distortion.
4. Methods used in transfer pricing audit are Comparable Uncontrolled Price (CUP), Resale Price, Cost Plus, Transactional Net Margin, and Profit Split. The Profit Split method is being discussed in more details in the guidance. Therefore, given more vivid guidance in applying this method, it is likely that the government tax auditors will apply this method during the tax audits.
5. Continuously focus on segment data. 🇯🇵

Japan



Highlights of 2013 tax reform

Overview

On March 29, Japanese parliament approved and passed the "2013 Tax reform bill". The tax reform bill is focused on the tax reduction measures under which the tax revenue is estimated to decrease by JPY 150 billion according to Japan's Ministry of Finance.

Below are the highlights of some of the essential tax incentives available for domestic companies (the

incentives are also applicable to foreign companies if they satisfy certain requirements):

Tax incentive for increased salary payment

This tax incentive is introduced in order to stimulate economic growth through higher employment and consumption. According to the tax measure, a 10% increase in salary payment to domestic employees other than directors and related persons, compared to the previous year's salary, will be allowed to enjoy the tax credit (with a limitation of 10% of the tax liability before the credit) within the tax period starting from 04/01/2013 through 03/31/2016.

Tax incentive for SMEs – widened deduction limitation bracket for entertainment expense

Currently, the deductible amount for entertainment expense is capped to JPY 5,400,000, aiming to restrain the deductible amount of lavish or extravagant expenses such as business-related entertainment expense in order to maintain internal reserves as well as healthy cash flow. However, the deductible limitation bracket will be widened (increased from the current JPY 5,400,000 to JPY 8,000,000) in view of consumption enhancement. This incentive is only applicable to small and medium-sized enterprises (SMEs). Companies with year-end capital of JPY 100 million or above are not allowed to enjoy this incentive.

Tax incentive for investment in new production facilities and equipment

As an economy growth strategy to reinforce Japan's industrial competitiveness, the tax rule is introduced to allow company to claim a special accelerated depreciation or a tax credit for its investment in new production facilities and equipment. If a company meets certain conditions, then it can claim for either a special accelerated depreciation of up to 30% of the newly acquired machinery and equipment's cost or a tax credit of 3% of the acquiring cost (with a limitation of 20% of the corporate tax liability before credit). The incentive will be effective for tax period commencing from 04/01/2013 through 03/31/2015. For newly established company, the incentive will not be applicable in the first fiscal year. 🇯🇵



Expectations, apprehensions and concerns on GST

The implementation of a Goods and Services Tax (GST) to replace our existing Sales and Services Tax (SST) has become stale news since the proposal made its maiden appearance during the Budget 2005 speech on Sept 10, 2004. Subsequently Budget 2006 to 2013 came and went without seeing the affirmative sight of its implementation. However, it might be able to be properly implemented after 2014, as economists have views that going slow was more realistic than a plan to expedite the new tax as some had expected.

The matter was initially raised by Performance Management & Delivery Unit (Pemandu) head, who drew some brickbats when he said at a post-GE13 forum that Malaysia would be able to rake in an additional income of up to RM27 billion if the proposed GST is implemented at 7%, similar to what has been done in neighbouring Singapore.

However, Malaysia's Second Finance Minister Ahmad Husni Hanadzlah saying that the government will not implement the GST in the near term as it is still studying its implications and rate to be imposed.

In view of the national importance of the proposed GST, the Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM) has conducted a taxation survey which includes a "pre-GST" survey to seek views from the small and medium enterprises (SMEs) and gauge their reactions relating to the proposed GST model. The survey aims to understand their expectations in order to communicate them to the Government and the policymakers for their consideration.

Some 2,000 questionnaires contained multiple questions covering various taxation aspects from "general" to "pre-GST" and "tax audit" topics were sent to the selected members of the ACCCIM.

Since the survey was administered through various business entities such as sole proprietorships, and partnerships across multiple industries, covering east and Peninsular Malaysia, establishments of different ages and/of various sizes in terms of the number of employees and annual turnover, the survey results are truly representative of the opinions of the Malaysian business community and comprehensively cover the views of the SMEs by large.

Only less than half of the respondents (45%) agree that the introduction of a GST will help the Government raise more tax revenue. This comes as a

surprise since the Government has been propagating that there will be an additional RM1bil revenue that it expects to earn annually from the GST. Hence it must find out the root of this apprehensive psychology of the SME community and address it, failing which they will not support a replacement tax which they think will be futile.

Although the Government has emphasised time and again that essential goods such as rice, cooking oil, sugar, eggs and poultry will be zero-rated supplies, it is indeed disturbing to discover that 82% of the entities surveyed still believe that the proposed GST will certainly burden the poor since it is inflationary.

This means that the Government's campaign in this aspect has not achieved what they desired. This may be referred as differ in "GST expectation gap" between the Government and the public! The good news is that the Price Control and Anti-Profiteering Bill 2010 is being enacted to reform the law on price control and to make provisions relating to the prohibition on profiteering. This will prevent consumers from being potentially exploited by some unscrupulous businessmen arising from the imposition of a GST.

Further, the proposed GST rate of 4% by the Government is only supported by a mere 3% of the respondents. Most of them opine that 2% to 3% is the most suitable rate. Approximately one-third (32%) think that the most suitable threshold for the GST is RM1mil and above instead of the proposed prescribed threshold of RM500,000 and above. This is food for thought and maybe the policymakers should seriously rethink to start at a lower rate and scale up slowly to avoid resistances from the business community.

Some 35% of the respondents reveal that they are most stressful of learning about existing and/or new tax law. Hence, the Government and the policymakers must make sure that the mechanism and administration of the GST is as simple as possible so that the public is receptive of it.

The Government should make full use of the media to educate the public as the SMEs have voiced that their proactive approach to the GST is to read about them in the media. Further, one-third of them have voiced their dissatisfaction over the lack of GST public information. Training is also vital because 31% are willing to send their staff for external training on the GST by professionals whilst 25% will wait for the Government to provide training.

What concerns the most is as high as 80% of the respondents have indicated that their computer systems are not ready to cater to the administration of GST. This is most obvious in the Eastern Region since as high as 92% and 86% of the entities from Sabah

and Sarawak respectively have voiced that their computers are not yet ready for GST implementation. In this connection, the Government should consider giving free GST software in order to kick-start such programmes.

Overall, the survey results clearly point towards the lack of preparedness on the part of the business entities as some 38% of the respondents say that their businesses have not yet prepared for the GST implementation at all. On the other hand, 33% say their degree of preparation is between 1% and 25%.

Only 4% think that their readiness for GST is above 75%. This can be interpreted that a longer grace period is required before the GST comes into force. About 86% of the respondents actually feel that a 12 month grace period to get the entities ready for the GST is too short.

The majority of the businesses (67%) feel that they should be given at least 24 months. According to Prime Minister Datuk Seri Najib Tun Razak, it will cost RM222mil to ensure an effective GST implementation. The total figure will cover the GST computerized system (RM139mil) and operational cost (RM83mil). After successfully implemented, the Government will also need to pay an annual maintenance cost of RM8.5mil. Since the GST is such a mammoth project which involves huge public funds, the Government may learn a tip or two from the Hong Kong government's failed attempt to deploy GST as a single option for roadening their tax base after conducting a public consultation on the proposed tax reform.

The above survey results reveal the expectations, apprehensions and concerns of the SMEs and provide an insight to the policymakers to address the same for a successful implementation of the GST. Clearly there is a message to the Government where the implementation efforts should be aimed at. 🇲🇾

Russia



Russian tax system brief review

Russian taxes are listed and regulated by the Russian Tax Code. The list of Russian taxes includes the following taxes (table below) and levies:

| Tax | Tax payers | Tax rates | Deductions |
|-----------------------|--------------------------------------|--------------|----------------------------------------------------|
| VAT (Value added tax) | Organizations, private entrepreneurs | 0%, 10%, 18% | There are some deductions and exceptions available |

| | | | |
|------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|---------------------------------------------------------------------------------|------------------------------------------------------------------|
| Excise duty (tax) on alcohol, beer, tobacco, cars, motorcycles, petrol, diesel fuel, motor oil and straight-run petrol etc.) | Organizations, private entrepreneurs | Flexible rate depending on type of goods | There are some deductions and exceptions available |
| Personal income tax | Any individual working in Russia | 13 % (some special rates can be used for gambling income, dividend income etc.) | |
| Payroll taxes | Organizations, private entrepreneurs | Max. 26% (regressive, depending of salary amount) | There are some deductions available |
| Corporate income tax | Organizations, private entrepreneurs | 20% | There are some deductions available |
| United simplified tax (income) | Small and medium enterprises | 6% | Taxpayers don't pay VAT, income tax, property tax, payroll taxes |
| United simplified tax (profits) | Small and medium enterprises | 15% | Taxpayers don't pay VAT, income tax, property tax, payroll taxes |
| Imputed earnings tax | Small and medium enterprises of special type of activity | Fixed amount depending of business activity | Taxpayers don't pay VAT, income tax, property tax, payroll taxes |
| Unified agricultural tax | Agricultural companies | 6% | Taxpayers don't pay VAT, income tax, property tax, payroll taxes |
| Property tax | Organizations, private entrepreneurs | 2.2% | Some deductions available |

Corporate income tax

The profits tax rate is 20%. This rate is split into two components payable to different budgets: Federal budget 2%; Regional budget 18%. The regional authorities may reduce their component of the tax rate down to 13.5%, making the lowest possible total tax rate of 15.5%. Some regions have effectively adopted a reduced tax rate for certain categories of taxpayers under certain conditions (e.g., Leningrad region, Vologda Region, Kaluga Region, Krasnoyarsk Territory, Khanty-Mansisk region, etc.). Different rates apply for specific types of income such as dividends.

Taxable profit of Russian companies is determined as gross income earned less tax-deductible expenses incurred. Taxable profit of foreign organizations is defined as income received through a permanent establishment reduced by expenses incurred by the



foreign organization in relation to the permanent establishment's activities and certain types of income received from other sources in Russia.

Taxable profit is normally determined on an accrual basis.

Value-added tax (VAT)

VAT is levied at a general rate of 18% on taxable supplies, which include the majority of domestic sales of goods and services. Certain basic food products and medical products, children goods, medicines, drugs, newspapers, and magazines are subject to a reduced rate of 10%. Exported goods and some other specified supplies (e.g., sales to diplomatic missions) are subject to VAT at a zero rate.

The following operations are subjected to VAT: sales of goods (work, services) in the territory of Russia, transfers of goods (work, services) in the territory of Russia for own consumptions if the expenses incurred are not deductible for profits tax purposes, performance of construction and installation work for own use, and importation of goods into the customs territory of Russia.

The transfer of ownership of goods (or the results of work or services) without consideration is regarded as a sale for VAT purposes.

Property tax


The tax base is the average annual value of the assets, calculated on the basis of the net book value of the fixed assets period by period (three months, six months, nine months, and calendar year).

Other specific taxes

1. Transport tax

Transport tax applies to both legal entities and physical persons who owns registered vehicles. Tax rates vary from RUB 5 to RUB 50 (US\$0.16 to US\$1.65) per horsepower of the engine capacity of the vehicle. Regional authorities are entitled to increase or decrease the tax rates, but not more than fivefold.

2. Mineral extraction tax

Tax rates for oil and gas represent fixed duty rates based on physical volume or quantity, but are subject to variation in line with changes in world prices. Other minerals are subject to tax based on the value of extracted commercial minerals. 

Singapore Budget 2013 key changes

Here are some of the key tax changes in the Budget 2013. To help businesses through this period of restructuring, significant government support with a 3-Year Transition Support Package are as follows:

- a) Wage Credit Scheme ("WCS");
- b) Productivity Innovation Credit ("PIC") Bonus;
- c) Corporate Income Tax ("CIT") Rebate;

Wage Credit Scheme ("WCS")

Businesses will have to restructure in a tight labour market in the coming years, and wages will have to rise. Government will provide support to help businesses raise their employees' wages. This will incentivize employers to share productivity gains with their employees.

The Government will co-fund 40% of wage increases for Singaporean employees given in year 2013 to year 2015. This co-funding will apply to wage increases for Singaporean employees earning up to a gross monthly wage of \$4,000. The Wage Credits will be automatically paid out to eligible employers annually. The WCS will cost the government about S\$3.6 billion over 3 years.

Productivity Innovation Credit ("PIC") Bonus

There are six qualifying activities covered under PIC Scheme:

- a) Acquisition or leasing of PIC Information Technology (IT) and Automation Equipment ("qualifying equipment");
- b) Acquisition and In-licensing of intellectual property rights ("IPRs");
- c) Registration of patents, trademarks, designs and plant varieties;
- d) Research and development ("R & D") activities;
- e) Training of employees and;
- f) Design projects;

The PIC Bonus encourages more companies to take advantage of the PIC Scheme to invest in productivity. Businesses that invest a minimum of \$5,000 per financial year in PIC qualifying expenditure or activities will receive a **dollar-for-dollar matching cash bonus**. The bonus will be up to \$15,000 over three years, financial year 2012 to 2014. This PIC Bonus cost the Government about S\$450 million over 3 years.

This is in addition to existing PIC Benefits of

- i) 400% PIC tax deductions up to \$400,000 in expenditure for each PIC qualifying activity; or
- ii) Cash Payout at 60% on up to \$100,000 of the qualifying expenditure;

Corporate Income Tax ("CIT") Rebate

Besides higher manpower costs, businesses face other cost pressures such as higher rentals. To help companies cope during this period of transition, the government has announced a special Corporate Income Tax rebate from the financial year 2012 to year 2014. A rebate of 30% of tax payable up to \$30,000 will be granted per financial year. The rebate will help the companies to relieve business costs. This is expected to cost the Government \$1.3 billion over three years.

Other Budget Highlights

i) Personal Income Tax Rebate

A personal Income Tax Rebate will be granted to all resident individual taxpayers for income earned in calendar year 2012:

- a) Resident-individual taxpayers below 60 years old as at 31 December 2012 will be granted a rebate of 30% of tax payable up to S\$1,500 per taxpayer;
- b) Resident-individual taxpayers aged 60 years old and above as at 31 December 2012 will be granted a rebate of 50% of tax payable up to S\$1,500 per taxpayer;

The personal Income Tax Rebate will benefit 1.3 million resident taxpayers.

ii) Financial Sector Incentive ("FSI") Scheme

To continue growing high value financial sector activities, the FSI scheme will be extended for 5 years to 31 December 2018.

iii) Maritime Sector ("MS") Scheme


To support the growth for Singapore maritime sector, the MS Scheme for international shipping enterprises will be extended from 30 years to 40 years.

iv) Start-Up Tax Exemption ("SUTE") Scheme

The SUTE Scheme will no longer be applicable to property developers and investment holding companies incorporated after 25 February 2013.

v) Taxation of Employment Perquisites – Housing, Hotel and Furniture and Fittings Benefits

Basis period for the year ending 2014, housing and hotel accommodation provided to employees will be taxed based on the Annual Value of the

premises, less rent paid by the employee and the actual cost of the hotel accommodation incurred by employers respectively. The taxable value of furniture and fittings provided to employees will be based on a percentage of the Annual Value of housing accommodation. 

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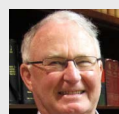
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