AGN TAXPRESSO

Quarterly Tax Publication
1st issue - March 2020

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MESSAGE FROM CHAIRMAN

Dear Members and Readers,

Amidst a global COVID-19 pandemic facing the world challenging its economies and financial markets adversely, we must all soldier on to face this bravely. Countries have been increasingly imposing tighter controls and restriction on global travel to stop the virus from spreading affecting the airlines, transport, logistics and tourism sectors drastically.

In our 3rd year of our AGN AP Taxpresso publication, we will have our members share on the various fiscal and government support provided in their respective countries in handling and dealing with the dire circumstances currently faced in the Asia Pacific region.

I would like to thank our 2019 contributors written by our members from Australia, China, Hong Kong, New Zealand, Malaysia, Pakistan and Singapore. Thank you for your commitment and efforts. Our Taxpresso will provide more perspectives from the Asia Pacific region so that you are updated with the latest tax changes and happenings so that you have a better understanding of doing business and trading in and from our region.

Please keep reading and let us know your feedback and comments so that we can make this publication beneficial for everyone who needs nuggets of news and information that are useful to you. Please let us know if you have any specific topics of interest that you require more information on. You can send your comments to me or our secretariat at aisa-pacific@agn.com

Last but not the least, I will pray that the COVID-19 will end soon so that we can all recover to a better and healed new world that cooperates and collaborates with each other.

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CHINA

CORONAVIRUS AND THE CORPORATE SOCIAL CREDIT SYSTEM: A TWO-WAY LINK

The Corporate Social Credit System (CSCS) is envisioned as a big-data-enabled framework to track, rate, and reward/penalise the behaviour of all businesses in China.

With its full implementation officially scheduled for the end of 2020, businesses in China are worried about its possible implications. They're also anxious about the confusion that still clouds its parameters and methodology.

The CSCS will apply to all registered commercial entities in China: large, small, domestic, and foreign-invested – an estimated 33 million businesses in total.

Designed as a self-regulating mechanism, the CSCS could theoretically create a better-functioning and more transparent market with more trustworthy players. Companies that score well can expect to enjoy several benefits, ranging from lower taxes and better credit conditions, to less frequent inspections and audits and greater access to public procurement opportunities.

A company's score is based on more than 30 criteria rated by different local authorities, including: China Customs, State Administration of Tax, Administration of Market Regulation, Ministry of Human Resources and Social Security, State Administration of Foreign Exchange.

Now, many business leaders are asking: how will the coronavirus outbreak affect our scores? Will it delay the implementation of the CSCS?

What we are seeing on the ground is that authorities are going ahead with the CSCS rollout, and even putting the rating framework into practice to decide who gets more funding to fight the epidemic.

Government authorities have issued strict epidemic prevention rules. Adhering – or not – to these guidelines can affect a company's CSCS score, e.g. via HR-related criteria.

More often, though, what we have seen is a positive linkage between virus-related guidelines and the CSCS. Companies who follow these new policies closely are eligible to enjoy certain government incentives, here are a few examples from Beijing:

- Rewards for avoiding layoffs: companies can get a 50% refund on the unemployment insurance premiums paid the previous year.
- Exemption of social security payments: SMEs that meet certain criteria can exempt pension, unemployment and work injury insurances by 5 months
- Lower rent: factories renting state-owned premises can apply for a two-month rent exemption (or a 50% rent deduction for offices).
- Deferred tax payments: SMEs facing epidemic-related difficulties can apply for a deferral of up to three-month.

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PAKISTAN

AMENDMENTS BY TAX LAWS (SECOND AMENDMENT) ORDINANCE, 2019

Tax Laws (Second Amendment) Ordinance, 2019

The Federal Government of Pakistan during the quarter ended has introduced many changes in an attempt to stream line and improve the taxation system of the Country. The majority of changes were introduced through the promulgation of the Tax Laws (Second Amendment) Ordinance, 2019 which has come in since the date of its promulgation i.e. on December 26, 2019. These amendments are geared to further strengthening the tax base with little compromise for the sectors which have enjoyed tax avoidance practices in the past. Below is a summary of the significant changes that were introduced:

Changes in the Income Tax Ordinance, 2001 (the Ordinance):

Greenfield Industrial Undertaking Defined:

There existed an Exemption which was introduced through Finance Supplementary (Second Amendment) Act, 2019 i.e. a previous amendment, exempting profits and gains of ‘greenfield industrial undertaking’ incorporated after July, 2019 from tax for a period of five years, however the term ‘greenfield industrial undertaking’ was not defined. Through this Ordinance, the definition has been introduced to remove the ambiguity, and the requirement to get such undertakings approved for the purpose of enjoying the tax benefits has been introduced as well.

Appointment of Appellate Tribunal:

The Ordinance has substituted the previous procedure for appointment of Appellate Tribunal, with certain changes in the conditions for appointment of certain members in the Appellate Tribunal in an attempt to improve transparency.

Relief to Non-Resident Companies:

The Ordinance has introduced many provisions to attract non-resident companies having no permanent establishment in Pakistan for making investment in debt instruments/Government Securities through Special Convertible Rupee Account (SCRA). The relief made available through the Ordinance are as follows:

1. Such companies earning only capital gain or profit on debt from the said investment will not be required to obtain National Tax Number and consequently file Statement of Final Taxation solely due to capital gain/profit on debt from above investments.

2. No tax shall be deducted on remittance made through banking channel for non-resident companies described above and not being on the active tax payer list in Pakistan.

3. No advance tax will be collected from such companies against the capital gain on such investments.

4. Capital Gain arising from such investments shall be subject to final tax @ 10% to be deducted by the banking company/financial institution irrespective of the Active Taxpayers’ Status of such companies.

Sharing of Information with Financial Monitoring Unit:

Pakistan has faced with a lot of challenges to get its name out of the grey list of Financial Action

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Tax Force (FATF), for which various efforts are being made to comply with FATF regulations and implement Anti Money Laundering Act, 2010. Therefore, in order to achieve better compliance level, though this ordinance an amendment has been introduced to enable sharing of information with Financial Monitoring Unit i.e. the Unit responsible to analyze Suspicious Transactions Reports and disseminate the same to relevant authorities.

Transfer Pricing Audit Procedure:

The concept of Directorate General of International Tax has been existent in law to deal specially with transfer pricing issues and conduct transfer pricing audits. However, procedure was not defined to conduct such audits. Now, through this ordinance amendment has been made whereby such audits will be conducted in accordance with the new procedure laid down which would cater the need to examine potential tax avoidance through transfer pricing.

Dividend Income Exemption under Group Relief:

The companies that were availing the benefits of group relief under the Ordinance were allowed proportionate exemption on dividend income based on the shareholding of the parent in the subsidy company. Through the amendments, the Federal Government has now allowed 100% exemption to such companies under group relief irrespective of the extent of shareholding.

Relief for Traders:

Since the recent Federal Government was elected, one of the major challenges faced by them was how to bring the small scale traders within the tax net. After many deliberations held between traders and the Federal Board of Revenue it seems that certain consensus is reached. The minimum tax to be paid by traders on turnover has been reduced to 0.5%. Furthermore, traders which fall below a certain threshold of turnover i.e. Rs. 100 million are now not required to act as withholding agents in deducting income tax on supply of goods and services.

Relief to Suppliers of Export Oriented Sectors:

The well-known export oriented sectors (i.e. Textile and articles, Carpets, Leather and articles including artificial leather footwear, Surgical goods and Sports goods) and related businesses have faced a lot of issues after the withdrawal of a special notification governing the taxation of these sectors. Therefore, through the recent amendments, the Federal Government has introduced certain concessions to yarn traders and their suppliers along with removal of certain ambiguities in the tax laws in order to stream line the operations of such sectors.

Changes in the Sales Tax Act, 1990 (the Act):

Specifying a "Greenfield Industry" for the purpose of sales tax exemptions:

As discussed above, a similar amendment has been made in the Act specifying clearly what a *"Greenfield Industry"* is in order to remove ambiguity and prevent taxpayers from exploiting this relief and claiming exemption from sales tax on import of plant and machinery.

Broadening of the criteria of a Tier-1 Retailer:

Through the recent amendments, the Federal Government has also broadened the criteria for a person to be classified as a Tier-1 Retailer. This broadening of criteria is an attempt to increase the tax net as one might call it and resultantly increase the number of retailers paying sales tax/VAT.

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Provisions relating to goods supplied from tax-exempt areas:

Through recent amendments, the Government of Pakistan has introduced certain regulatory controls/provisions with respect to goods supplied from "tax-exempt areas" i.e. Azad Jammu and Kashmir, Gilgit-Baltistan, Tribal Areas. These controls include, setting up of check posts on entry and exists from such areas, power of tax officers to carry out spot checks of goods and prescribed documentation to be accompanied with. This would ensure a strict control over the goods being transported and help strengthen the economy of the country.

Limitations on supplies made to un-registered persons by a registered manufacturer:

Through the Ordinance, the Government of Pakistan has introduced limitations to the amount of taxable supplies which can be made to a person who is not registered for the purpose of sales tax/VAT. These limitations are taxable supplies not exceeding Rs. 10 Million per month and Rs. 100 Million in a financial year with penalizing measures for manufacturers who do not comply with these limitations in an attempt to bring more businesses to register themselves for the purpose of sales tax/VAT.

Other General Amendments:

Apart from the above significant amendments, The Federal Government has made certain changes in an attempt to levy sales tax/VAT on the supply of edible oils/cooking oils, frozen meat sold in a retail packing under a brand name or trademark. Furthermore, the rate of sales tax chargeable on cotton being a large produce of Pakistan has also been doubled. In contrast to this, the Federal Government has reduced the sales tax chargeable on import of plant and machinery to be used for production and manufacturing.

These measures although stringent are what is needed to bring the economy of the country back on track. However, one may argue that the increase in indirect taxes would affect the middle/lower class more. The Federal Government has attempted to attract more foreign investors by providing tax relief and placed measures to bring more people into the tax net, however, it still remains to see whether the Country would reap the benefits of these amendments, especially with the looming threat of the COVID-19 effecting the entire world.

Written by Mohammed Kamil Gohar on 18 March 2020
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SINGAPORE

SINGAPORE 2020 BUDGET

Amidst the COVID-19 outbreak from China, the Singapore Budget on 18 Feb 2020 was announced. As expected, the Minister of Finance gave a comprehensive supportive budget that aimed at helping adversely affected businesses and households.

It was an expansionary budget providing a $4 billion stabilization and support package to retain local workers including offsetting 8% of their wages up to a monthly cap of $3,600 for three months.

The Digital Economy and the Internet of Things are greatly impacting and changing consumption, employment and market demands for different and new skills. In the future, there will be requirements for jobs that have not yet been invented. Hence, in this era of technological disruption, new approaches to education, training and competencies must be adhered to and embraced. It was announced that another $8.3 billion would be spent on growing and transforming the economy over three years. The aims are to mitigate rising global trade protectionism, embracing technological advances as well as provide the necessary skills and training for the ageing population.

Further, the Minister has enhanced the Enterprise Financing Schemes to help SMEs for easier access to working capital loans. Also, due to the fallout from a substantial decline in tourist arrivals to grant a 30% property tax rebate to affected sectors including hotels, meetings, incentives, conferences and exhibitions venues in 2020.

Singapore remains competitive by maintaining its corporate tax rate at 17% to attract global businesses and multinationals to set up their operations and headquarters in Singapore. A 25% corporate income tax rebate capped at $15,000 for the year of assessment 2020 has been granted to companies to alleviate their cash flow.

Recently, the reverse charge at 7% on the importation of services as well as overseas vendor registration for providers of digital services was introduced with effect from 1 Jan 2020 to level the playing field for local service providers.

The anticipated GST hike to 9% will be deferred between 2022 and 2025. Consequently, another $6 billion will be set aside for the anticipated 2% future increase in the goods and services tax. Under this Assurance Package for GST, every adult Singaporean will get a cash payout of between S$700 and S$1,600 over five years. This should ensure that lower-income Singaporeans will get offsets for a period of 5 to 10 years hence not be adversely impacted by the proposed GST hike.

In conclusion, the Minister has introduced a myriad of support and measures that will go towards building a strong and resilient Singapore ready to face challenges that are coming fast and furious in this ever-changing world. We all hope and pray that the COVID-19 will end soon.

Compiled by N Vimala Devi on 10 March 2020
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