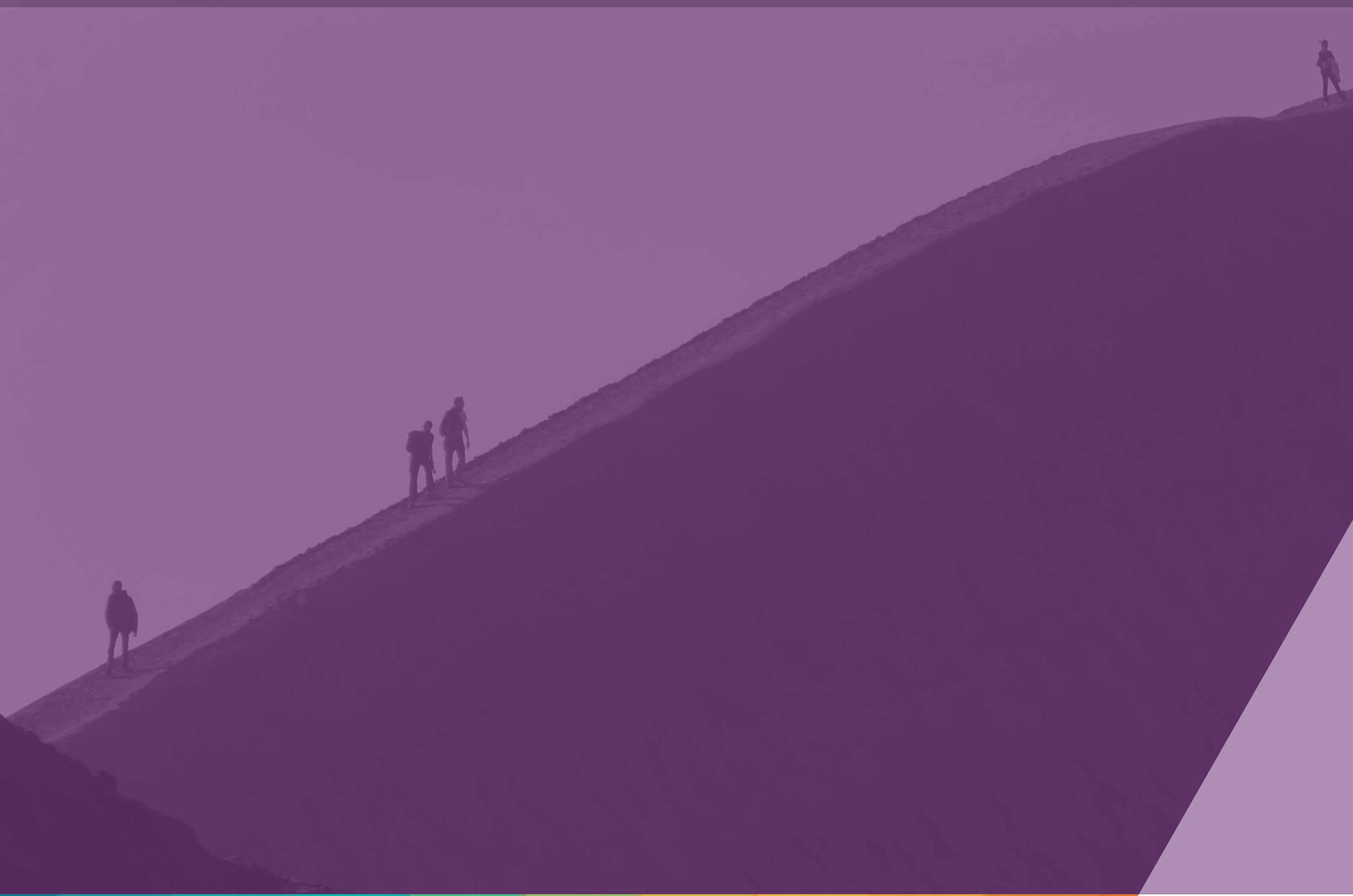
AGN TAXPRESSO

Quarterly Tax Publication
3rd issue, 2020



excellent.
connected.
individual.

KOREA

KOREA'S TAX REFORM PROPOSALS TO SUPPORT ECONOMIC RESILIENCE DURING COVID CRISIS AND POST-PANDEMIC ECONOMIC RECOVERY

The Korean government has announced a package of tax reform proposals for 2020 to support the Korean economy and individuals to cope with hardships during the COVID19 pandemic.

The government focused on overhauling the existing investment tax incentive schemes to encourage corporate investment and reinvigorating consumer spending. In addition to proposals to facilitate innovative growth and develop new growth engines, the reform package includes measures to facilitate collaborative cooperation between large-sized companies and small- and medium-sized enterprises (SMEs) and strengthen fair taxation. The reform proposals are also aimed to rationalize existing tax systems and enhance taxpayer-friendly environment.

This article discusses the following issues relatin g to COVID19 supporting measures:

Introduction of Integrated Investment Tax Incent ive System

Under the existing investment tax incentive schemes, tax credits are available for qualified investments in nine specified categories of facilities for research and testing, vocational training, productivity enhancement, safety and protection, energy saving, new growth-engine technology commercialization, etc. as well as qualified investments in certain business assets acquired by SMEs, etc. It is proposed to simplify and integrate these investment tax credit schemes into a single investment tax incentive scheme. Under the proposed integrated tax credit scheme, the existing positive list of qualified investments would be replaced with a negative list system whereby the investment tax credit would be generally available for all types of business-purpose tangible assets, generally excluding land, building, vehicles, etc.(with exception for those assets used in relevant industries, for example, vehicles used by a transportation business) unless specifically prohibited under tax laws or subordinate rules. However, the integrated investment tax credit would not be eligible for investments in prescribed metropolitan regions to restrict population growth(with some exceptions such as replacement investment by SMEs and expansion investment in an industrial complex, etc.)

The new investment tax credit scheme would allow companies to claim a tax credit at a basic rate (*) of qualified investment during a year (*10% for SME, 3% for medium-scale company and 1% for large company) from corporate income tax payable for the year. In addition to the basic tax credit, it would provide for an additional tax credit at 3% (regardless of corporate size) of the qualified investment amount for a current year exceeding the average investment amount during the preceding three years. The additional tax credit would be capped at 200% of the amount of a basic tax credit claimed.

In line with the government's commitment to implement the 'New Deal' project, investment in facilities to commercialize new growth-engine technology would be subject to higher basic credit rate of 12% for SMEs, 5% for medium-scale company and 3% for large company. In addition, it is proposed that new kinds of technology underlying the government's digital·green new deal project would be added to the existing list of 223 kinds of technology in 12 different categories eligible for the

CONTINUED

investment tax credit under the Presidential Decree of the Special Tax Treatment Control Law (STTCL).

Extension of Carryforward of Unused Tax Credits

Currently, unused tax credits can be generally carried forward to the next five years except certain cases (i.e., 10 years for unused R&D tax credit for SMEs within 5 years from incorporation, 10 years for unused new-growth engine and core technology R&D tax credit, and 7 years for unused investment tax credits for SMEs within 5 years from incorporation). A proposal would extend the carryforward period to 10 years for all types of unused tax credits under the STTCL.

Extension of Tax Loss Carryforward Period

Currently, tax losses incurred in a current year can be carried forward for the next 10 years under the Corporate Income Tax Law (CITL). Under the proposal, the tax loss carryforward period would be extended to 15 years to relieve a tax burden of taxpayers suffering from the COVID 19 crisis.

Higher Threshold for Advertising Expenses that Are not Deemed as Entertainment Expenses

Generally, the expenditures incurred to purchase goods to be gratuitously distributed to the unspecified number of people for promotional and advertising purposes are not treated as entertainment expenses and are deductible for tax purpose. Meanwhile, such expenditures incurred for a specified or selected person are generally treated as entertainment expenses subject to a tax deduction limit. As an exception, currently, a small amount of such expenditure incurred which is below the threshold at KRW30,000 per year (excluding the expenditure of KRW10,000 or less per item) is deductible as sales promotion or advertising expenses for tax purpose. Under the proposal, the threshold would increase to KRW50,000 per year (excluding the expenditure of KRW30,000 or less per item), effective for expenditures incurred from January 1, 2021.

Tax deductions on individual spending

As one of the ways to increase the economy due to COVID 19, the government decided to temporarily increase the limit of deductions for income such as credit cards to induce consumption. In addition to the increase in the temporary deduction rate applied in the middle of this year, the deduction limit in this proposal is also raised by an additional KRW 300,000.

Compiled by Eun-jung Yim on 24 September 2020
SEOU Accounting Corporation
Contact No: +82.2.6427.0852
Email: ejyim@scpa.co.kr

PAKISTAN

PAKISTAN'S ECONOMY OVERVIEW, 2020

A year which started off with several plans and coupled with many hopes and expectations, however, the Almighty once again showed mankind that indeed He is the best planner! The fiscal year 2020 started off with expectations of our key economic indicators as illustrated below but due to the outbreak of COVID-19, the forecasts were far from met. We have summarized overview of major sectors including our comments on the Economic Survey for the Fiscal Year 2020, presented by Government of Pakistan.

S.No.	Particulars	2020 (Current)	2020 (forecast)	2019
1.	Population	220,892,340	208,362,334	204,596,442
2.	GDP Growth Rate (%)	(0.4)	4.5	3.9
3.	Inflation (%)	11.2	6.5	8.8
4.	Current Account Balance (% of GDP)	(1.1)	(3.0)	(3.7)
5.	Current Account Balance (USD Billion)	(2.8)	(1.2)	(10.3)
6.	Interest Rate (%)	7.94	8.5	12.25
7.	Dollar Parity (PKR:$)	164	146	149
8.	Unemployment rate (%)	5.8	5.9	6
9.	Government Debt (Rs. In billion)	31,452	28,000	29,520

Source: *International Monetary Fund, Trading Economics, State Bank of Pakistan and Ministry of Finance*

From the above illustration, it is apparent that the forecasted targets for the fiscal year 2020, although were realistic but due to unforeseen circumstances were not achieved. As the fiscal year 2020 began, the incumbent government took stringent measures for the stabilization of the economy which was plunging. These efforts were mainly focused at shrinking the current account and fiscal deficit of our economy which indeed paid dividends as Pakistan experienced for the first time in many years a current account surplus in October 2019. In addition improved ranking in World Bank's ease of doing business index, and 'Stable'' credit outlook to B3 from 'Negative' by Moody's, reaffirmed the successful policies of Government in stabilizing the economy and laying a foundation for robust growth.

However, as the first case of COVID-19 was confirmed during February, 2020 which started multiplying exponentially, a nation-wide lockdown was imposed which brought the economy of Pakistan to a near halt. This resulted in a deterioration of the economic indicators of Pakistan as GDP growth rate fell from 3.9% (2020 forecast: 4.5%) to a negative growth of 0.4%. Furthermore, the brunt of the lockdown was borne by the common man as inflation rose from 8.8% in 2019 (2020 forecast: 6.5%) to 11.2% in the current fiscal year. In addition to this, Pakistan saw a steep depreciation in its dollar parity as it fell to Rs. 164. Considering the fact that Pakistan is an import based economy, this steep depreciation of the currency was a major contributor to the rise in inflation.

AGRICULTURE AND LIVESTOCK

The Agriculture sector of Pakistan is still one of

CONTINUED

the largest sectors of the Economy of Pakistan in terms of labor participation and the fact that majority of the population directly or indirectly depends on it for their livelihood. However, during the past years the contribution of Pakistan's agriculture sector to its GDP has witnessed a decrease of 19.3 percent. This is mainly due to water shortage, pest attacks, unpredictable climate changes and lack of fair market price for growers/farmers in the market. Overall, this year the country witnessed a slight increase of growth of important crops by 2.90%.

Livestock having share of 60.56 percent in agriculture and 11.69 percent in GDP achieved the growth at 2.58 percent. The Fishing sector having share of 2.06 percent in agriculture value addition (and 0.40 percent in GDP), grew by 0.60 percent, while Forestry sector having share of 2.13 percent in agriculture (and 0.41 percent in GDP) grew by 2.29 percent.

However, the outbreak of the COVID-19 pandemic as well as the locusts swarm attacks have not allowed our agriculture to thrive to its true potential and pose a high risk situation for the future. Due to economies going under lockdown, our country's exports for agriculture and livestock produce have experienced a decline which the Government of Pakistan hopes to curb through efforts for continued market access with the relevant authorities in China, South Africa, Jordan and Indonesia using diplomatic channels.

MANUFACTURING

The manufacturing and mining sector of Pakistan contributes to approximately 14 percent of the GDP of the country while providing employment opportunities to 16.1 percent of the total labor force. However, the financial year 2019 has been rough for the manufacturing sector with a negative growth experienced by large scale manufacturers of 2.28%. This may be blamed on the outbreak of COVID-19 but a major contributor for this was the depreciation in the dollar parity by approximately 12%. Since Pakistan is an economy heavily relying on imports for even the raw material, parts and machinery to be used in the manufacturing processes.

The Government of Pakistan has taken measures to support the manufacturing sector with a package of around Rs. 100 billion to support export oriented industries and various subsidies, however, the manufacturing sector of Pakistan will not thrive until we are no longer dependent on our imports for raw material.

EDUCATION

Pakistan is ranked 152 out of 189 countries in the United Nations Development Programme's (UNDP) Human Development Index (HDI) ranking, according to the Human Development Report, 2019. Unfortunately, Pakistan has not exhibited improvement in key educational indicators, such as literacy rate, gross enrolment ratio, and expenditure on education, as compared to regional countries.

Any country who fails to educate the nation with quality education and which is affordable/available to the masses will not prosper. The future of any economy is made in the classroom and we are unfortunate that the children of the poor and needy are made to hold tools to work rather than a book and pencil.

In the Economic Survey, 2020 the Government of Pakistan has stated the following agenda items in an attempt to improve the education sector:

- Decrease Out of School Children (OOSC) and Increase School Completion;
- Achieve Uniformity in Education Standards;
- Improve the Quality of Education and
- Enhance Access to and Relevance of Skills Training.

CONTINUED

However, no concrete plan of action has been defined, rather high level vision and statements have been provided. Furthermore, no significant improvement has been seen in the education sector since last year which clearly shows that we need to pay attention to this sector before it's too late. The public expenditure on education during the fiscal year 2019 was 868 Billion Rs. Reflecting a mere increase of 4.7% as compared to the year before.

ENERGY

During the past few years Pakistan has adopted a more sustainable and forward looking approach to solving its energy crises. From taking a shift from its famous rental energy approach to a more robust renewable energy projects developed by Independent Power Producers. This not only created jobs in the energy sector but grew the inflow of capital by private investors exponentially. Currently there are several new wind and solar power projects in the pipeline being developed by private investors, also known as the "super six". During the fiscal year till April, 2020, the installed electricity capacity increased to 35,972 megawatts as compared to 33,452 megawatts in the previous year showing a growth of an impressive 7.5%.

Apart from large scale renewable energy producers, Pakistan has seen an increased shift towards small renewable energy plants at homes and villages with the help of net-metering so that the excess electricity being produced by such small scale facilities is utilized in the national power grid.

However, as opposed to the above, Pakistan produces around four (4) Billion Cubic Feet per Day (BCFD) of indigenous natural gas against an unconstrained demand of over six (6) BCFD. To meet the shortfall, the Government has initiated the import of LNG. Our reliance on future import of LNG is expected to increase further as new projects for LNG are being set up which would contribute to our current account deficit.

EMPLOYMENT

Pakistan is a country having the 9th largest labor force in the world, however, it has an unemployment rate of 5.8% which is expected to experience a steep rise during the current financial year due to the economic impacts of the outbreak of COVID-19; it is estimated that approximately 18 million people would be unemployed.

Pakistan is the 2nd largest manpower/labor exporting country of South Asia. Bureau of Emigration and Overseas Employment (BE&OE) has registered more than 11.11 million emigrants for employment abroad. Especially during the past year as the persons who registered for oversees employment saw a sharp rise by 63% as the numbers rose from 373,366 to 611,159. This brain drain coupled with our failing education system and unemployment is taking a toll on our economy as skilled workers whether labor or white collar are preferring to work abroad.

WHAT IS THE WAY FORWARD WITH COVID-19 AND OUR ECONOMY?

The outbreak of COVID-19 has without a doubt dragged even the most stable of global economies to recession of a magnitude unmatched in the last 150 years and the exact impact of this global issue can only be measured once the duration and spread of this virus can be determined. At this point in time, it seems very premature to exactly measure how long this virus will last as the world has set all its hopes on the researchers busy in preparing a vaccine for it. Therefore, the light to the end of the tunnel cannot be seen yet and although the some measures such has social protection cash distribution, reduction in cost of borrowing and electricity bills waiver for commercial consumers

CONTINUED

has been introduced, unfortunately the economic overview, 2020 presented fails to outline detailed strategy for future plan of action which the government would adopt to curb the impact of the economic recession caused by this virus.

Hence, while hoping a plan of action is available, following are a few suggestions which we believe would help uplift the economy in this crucial time:

IMMEDIATE FINANCIAL HELP TO SMALL AND MEDIUM ENTERPRISES

Small and medium enterprises including especially the agriculture sector form a major contributor to the GDP of a developing country like Pakistan. However, the backlash of this virus has been borne the most by small and medium enterprises as loss in revenues, bad debts and deficit in cash flows has resulted in a many businesses to close down or lay off staff members. Immediate intervention of the Government of Pakistan with financial aid plans and minimal cost of borrowing could be a few measures adopted to support the small and medium enterprises of Pakistan before the situation worsens. As per the Economic Survey, 2020, the Pakistan Institute of Development Economics (PIDE) estimates approximately 18.53 million people to be laid off due to the economic impacts of COVID-19. This astonishing estimate paints a very grim outlook for the days to come if corrective measures are not taken quickly.

INCREASING THE INFLOW OF FOREIGN DIRECT INVESTMENTS

As per the Economic Survey, 2020 Foreign direct investment increased by 137.3 percent and reached $ 2.1 billion as compared to $ 0.9 billion last year due to the efforts of the Government of Pakistan to improve its rating in the ease of doing business ranking of the World Bank, we believe that a more action oriented approach is needed in order to attract foreign direct investments. One window operations, simplifying the process of approvals from the State Bank of Pakistan and the Pakistan Investment Board as well as providing tax concessions to foreign direct investors would help bring in foreign direct investments. The increase in foreign direct investments would help create more jobs in the economy as well as relieve the pressure on inflation as the dollar parity would appreciate.

ENCOURAGE INVESTMENT IN THE PHARMACEUTICAL/HEALTH SECTOR

Since going through a global pandemic requires a hefty amount of investment in the health and well-being of a country's population, the Government of Pakistan should develop policies encouraging the growth of the pharmaceutical/health sector of Pakistan. Certain measures could be viz.; increased expenditure, tax concessions, low cost financing and one-window operations for necessary approvals from the ministry of health. These measures would help create jobs as new pharmaceutical industries are established as well as ensure the supply of locally manufactured medical equipment and medicines as compared to the expense incurred on imports in addition to increase in the number of hospitals.

FURTHER DECREASE IN COST OF BORROWING

Although the Government of Pakistan has decreased the cost of borrowing from 12.25% to 7.94%, the brunt of the economic impacts of COVID-19 requires a further decrease in cost of borrowing so in an attempt to support every sector in Pakistan which requires more reliance on borrowing. Furthermore, the credit risk policies enforced in the banking sector of Pakistan should also be eased out so that loans can be easily provided to those in need.

CONTINUED

SUPPORTING THE TRANSPORTATION

Due to the global measures of enforcing lockdowns and social distancing, the transportation sectors of world economies have taken a huge hit as Emirates laid off approximately 650 pilots and 6,500 members of its cabin crew. If such a profitable organization has come to this point then we can only imagine what the local airlines of Pakistan would be going through. Not only that but the railway sector as well as the road transport sector of Pakistan has been at a standstill since the lockdown. These two sectors are a means of earning daily wages for a major chunk of our population.

CONCLUSIVE REMARKS

Indeed, these are "The Pressing Times"! Nobody can predict what is still to come economically. How the demand and supply factors will react. Due to high forecast of unemployment rate the consumers' purchasing power will be under pressure and eventually will affect demand. The growth target set by the government will remain dependent upon the effective control of pandemic. We strongly recommend that the government should revisit its strategies for revival of the economy with frequent intervals.

Written by Mohammed Kamil Gohar on 17 September 2020
Riaz Ahmad, Saqib, Gohar & Co. Chartered Accountants
Contact No: +92 21 34946112 (Ext. 29)
Email: kamil@rasgco.com

VIETNAM

ROYAL VIETNAM UPDATES SOME POLICIES OF TAX WHICH CHANGE IN VIETNAM FROM 2020

TRANSFER PRICING

June 24th 2020, The Government of Vietnam has issued Decree No. 68/2020 / NĐ-CP to amend and supplement for Paragraph 3, Article 8 of Decree No. 20/2017 / NĐ-CP about the regulation of tax administration for enterprises that have the transfer pricing.

According to that regulation, the government will amend the provision on total interest expenses that can be deducted when determining taxable income of corporate income tax (CIT) for transfer pricing as follows:

Total loan interest cost (excluding deposit interests and lending interests) arising within a specific tax period qualified as a deduction from income subject to corporate income tax shall not exceed 30% of total net profit generated from business activities plus loan interest costs (excluding deposit interests and lending interests) and amortization costs arising within that period.

The subjects that do not need to apply this regulation that control interest expenses include: Credit institutions under the Law on Credit Institutions; Insurance business organization under the Law on Insurance Business; the loans of official development assistance (ODA) ; Preferential loans from the government (the government borrows from foreign countries and lends to enterprises); Loans for the implementation of the national target program (new rural areas and sustainable poverty reduction program); Loans for investment in programs and projects that implement the social welfare policies of government.

Decree No. 68/2020 / NĐ-CP shall enter into force from June 24, 2020 and applied from the corporate income tax period in 2019. At the same time, Taxpayers shall make additional statements to their CIT statements in 2017 and/or 2018 for determining loan interest costs and CIT amounts payable (if any) and submit them to their supervisory tax authorities before January 01, 2021.

CORPORATE INCOME TAX

June 19th 2020, The National Assembly of Vietnam has passed Resolution No. 116/2020 / QH14 about the reduction in corporate income tax payable in 2020 by enterprises, cooperatives, public service providers and other organizations.

Specifically, Corporate income tax payable in 2020 by an enterprise whose total revenue in 2020 does not exceed 200 billion VND shall be reduced by 30%.

This policy applies to corporate income tax payers that are organizations that earn taxable income from manufacture and/or sale goods and/or services as prescribed by the Law on Corporate Income Tax (hereinafter referred to as “enterprises”, including: Enterprises established in accordance with Vietnam’s law; Organizations established in accordance with the Law on Cooperatives; Public service providers established in accordance with Vietnam’s law; Other organizations established in accordance with Vietnam’s law and earning income from business operation.

The National Assembly of Vietnam requires enterprises to base themselves on the above provisions to self-determine the reduced tax amount when temporarily paying quarterly corporate income tax and the finalization of corporate income tax in 2020.

This Resolution shall enter into force from August 3rd , 2020 and applied to the tax period of 2020.

CONTINUED

PERSONAL INCOME TAX

June 2nd 2020, the Standing Committee of the National Assembly of Vietnam has issued Resolution No 954/2020/UBTVQH14 to changes to personal income tax exemptions

The exemptions specified in Clause 1 Article 19 of the Law on Personal Income Tax No. 04/2007/QH12, amended by Law No. 26/2012/QH13, are changed as follows:

- Personal exemption: 11 million VND/month (132 million VND/year)
- Dependent exemption: 4,4 million VND/dependent/month
- This Resolution comes into force from July 01, 2020 and is applied from the tax period of 2020

LICENSE TAX

On July 9th , 2020, the Ministry of Finance issued Circular No. 65/2020 / TT-BTC about the amendments to the circular no. 302/2016/tt-btc dated November 15, 2016 of the minister of finance on guidelines for license tax

Circular 65 adds 05 cases that are exempt from license tax, specifically:

Firstly, cooperatives, cooperative unions (including their branches, representative offices and business locations) operating in the field of agriculture in accordance with regulations of law on agricultural cooperatives.

Cooperatives, cooperative unions (including their branches, representative offices and business locations) must be established and operate in accordance with the Law on Cooperatives; agricultural operations involved shall be determined as prescribed in Article 3 of the Circular No. 09/2017/TT-BNNPTNT dated April 17, 2017 of the Minister of Agriculture and Rural Development, consisting of cooperatives and cooperative unions engaged in business operations in multiple fields, including agricultural field.

Secondly, People's credit funds; branches, representative offices and business locations of cooperatives, cooperative unions and of sole proprietorships operating in mountainous regions. Mountainous regions are determined according to regulations of the Committee for Ethnic Affairs.

Thirdly, the exemption of license tax for the first year from the date of establishment or official commencement of production/business (from January 01 to December 31) shall be granted to: new organizations (issued with new TINs/enterprise ID numbers); Household, individuals or groups of individuals that have commenced their production/business for the first time.

During the exemption period, if an organization, household, individual or group of individuals establishes a new branch, representative office or business location, the new branch, representative office or business location shall be also exempted from the license tax for the same exemption period granted to that organization, household, individual or group of individuals.

If the new organization, household, individual or group of individuals commenced their production/business for the first time before February 25, 2020 and establishes a branch, representative office or business location on February 25, 2020 onwards (if any), such organization, household, individual, group of individual, branch, representative office or business location shall pay license tax as prescribed in the Government's Decree No. 139/2016/ND-CP dated October 04, 2016.

In addition, Small- and medium-sized enterprises (SMEs) converted from household businesses (as

CONTINUED

prescribed in Article 16 of the Law on Assistance for Small- and Medium-Sized Enterprises) shall be exempted from the license tax within 03 years from the date of issuance of the first enterprise registration certificate.

During the exemption period, if a SME establishes a branch, representative office or business location, such branch, representative office or business location shall be also exempted from the license tax for the same exemption period granted to that SME. If the SME's branch, representative office or business location (issued with the branch, representative office or business location registration certificate) is established on February 25, 2020 onwards (the effective date of the Government's Decree No. 22/2020/ND-CP), the period of exemption granted to the branch, representative office or business location begins from the date such branch, representative office or business location is issued with the certificate of branch, representative office or business location registration to the end of the period for which the SME is exempted from the license tax.

The branch, representative office or business location of a SME (that is eligible to be exempted from the license tax as prescribed in Article 16 of the Law on Assistance for Small- And Medium-Sized Enterprises) established before the effective date of the Government's Decree No. 22/2020/ND-CP shall be exempted from the license tax for the period commencing from the effective date of the Government's Decree No. 22/2020/ND-CP to the end of the period for which that SME is exempted from the license tax.

SMEs converted from household businesses before the effective date of the Government's Decree No. 22/2020/ND-CP shall be exempted from the license tax according to Article 16 and Article 35 of the Law on Assistance for Small- and Medium-Sized Enterprises.

Finally, Public general education schools and public pre-schools

THE REDUCTION IN LAND RENTS

On August 10th , 2020, the Prime Minister issued Decision No. 22/2020 / QD-TTg on reduction in land rents of 2020 for those influenced by covid-19 pandemic in accordance with the government's resolution no. 84/nq-cp dated May 29, 2020.

Enterprises, organizations, households and individuals that are directly leased land by the State under decisions or contracts of competent regulatory agencies in the form of annual land rent payment and have shut down business for 15 days or longer due to the impact of Covid-19 that will be reduced 15% of payable land rents of 2020

This regulation will not be made on the land rent debts of the years prior to 2020 and late payment interest (if any).

This provision also applies to the case where the land lessee runs varied lines of business but only stops one line of business in the land parcel which has been directly leased by the State.

Decision No. 22/2020 / QD-TTg comes into force August 10 , 2020.

Compiled on 18 September 2020
Royal Vietnam Consulting - Auditing Co., Ltd
Contact No: +84 909 091 191
Email: info@royalaudit.vn

excellent.
connected.
individual.

For further information, or become involved, please contact:

AGN International
E-mail: info@agn.org | Office: . +44 (0) 20 7971 7373 | Web: www.agn.org