Russell Bedford

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End of year changes & proposals

At close of 2017 and commencement of 2018, we see governments rolling out new measures, some to protect local economies, and others to conform with international tax co-operation.

Our Australian network firm brings to this edition of our Newsletter articles on the newly introduced surcharge to curb foreign investment in domestic residential market; the progressive rate cut of corporation tax for SMEs; and CbC reporting for the significant global entities.

Hong Kong reports three amendment bills to the tax law covering international tax co-operational and the proposed introduced of a two-tiered tax rate regime.

Malaysia has released its 2018 Budget and we have a summary of the key proposals.

The Philippines has embarked on its tax reform. The first of a set of four packages is to shift the tax burden off lower income segment to the ultra rich, which shall become effective from 1 January 2018.

Singapore is well ahead of most of the Asia Pacific jurisdictions in introducing the corporate re-domiciliation regime. With CRS, automatic exchange of information and international tax co-operation, some corporations incorporated in grey or blacklisted countries may wish to re-domicile to a more "friendly' or "acceptable" jurisdiction. The new regime will avoid business disruption if Singapore is the chosen new home for these corporations.

News of our network firms

We end this edition with news about the 20th anniversary of our Beijing firm and the event group photo.

Inside this issue:

Foreign Investments in Australian Real Property

AUSTRALIA

SAWARD DAWSON
chartered accountants

" …tax measures to deter foreign investors from buying residential properties in Australia…"

Over the past few years, the Australian real estate market was in full steam, which saw property prices skyrocketing in major cities including Sydney, Melbourne and Brisbane. As a result, both the Federal and various State governments have enacted tax measures to deter foreign investors from buying residential properties in Australia in order to slow the overheated property market. While some of these tax measures were introduced a year or so ago, it is important to note the changes which became effective from 1 July 2017 and proposed changes now passed by the Parliament.

Surcharge Purchaser Duty:

- A foreign person who purchases a residential property (irrespective of whether it is for investment purposes or not) in New South Wales ("NSW") is liable to pay a surcharge purchaser duty in addition to stamp duty.
- Generally, foreign persons refer to individuals other than (i) Australian permanent residents and New Zealand citizens (who hold a special subclass 444 visa) who reside in Australia for at least 200 days within 12 months prior to contract date, and (ii) Australian citizens; foreign corporations; foreign trusts as well as Australian corporations / trusts in which foreign person(s) hold a substantial interest.
- From 1 July 2017, the surcharge duty rate has increased from 4% to 8% of the value of the residential property in NSW.
- For example, a residential property worth AU$1 million will trigger stamp duty of $40,490 plus surcharge purchaser duty of $80,000 in NSW for a foreign person.
- Victoria, Queensland and South Australia residential property which is not occupied or genuinely available on the rental market for at least 6 months per year will be charged an annual levy of at least $5,000. The levy will be equivalent to the relevant foreign investment application fee (which is tiered and increases with higher purchase price of property) imposed on the property when it was acquired.

The Foreign Acquisitions and Takeovers Fees Imposition Amendment (Vacancy Fees) Bill 2017 which imposed the vacant property levy received royal assent on 30 November 2017. This federal levy will apply to foreign persons who make a foreign investment application for residential property from 9 May 2017.

Foreign Resident Capital Gains Withholding:

From 1 July 2017, where a foreign resident (for tax purposes) disposes of certain taxable Australian property, the purchaser is required to withhold tax from the purchase price and pay it to the Australian Taxation Office.

For contracts entered into from 1 July 2017, where the contract price is $750,000 and above, the foreign resident capital gains withholding tax rate has increased to 12.5%. Prior to 1 July 2017, the price threshold was $2 million and withholding rate was 10%.

Corporate Tax Rate Cut

Before the end of the income year on 30 June 2017, *Treasury Laws Amendment (Enterprise Tax Plan) Act 2017* was enacted to progressively reduce the income tax rate for small to medium companies as follows:

Income Year	Aggregated turnover	Company tax rate
2016	$2 million	28.5%
2017	$10 million	27.5%
2018	$25 million	27.5%
2019 to 2024	$50 million	27.5%
2025	$50 million	27%
2026	$50 million	26%
2027	$50 million	25%

" …where a foreign resident…disposes of certain taxable Australian property, the purchaser is required to withhold tax…"

To qualify for the above reduced tax rates, the company must carry on a business and have aggregated turnover (together with its connected / affiliated entities) less than the threshold for the relevant year.

Generally, the Australian Taxation Office's view in relation to investment companies is that they do not carry on a business. Due to the uncertainty as to whether an investment company would be eligible to apply the lower tax rates, in October 2017, the Federal government proposed to replace the "carrying on a business" test with an "80% passive income" test from the year ending 30 June 2018.

Broadly, the "80% passive income" test requires a corporate entity to derive no more than 80% of its assessable income from "base rate entity passive income".

Under the Treasury Laws Amendment (Enterprise Tax Plan Base Rate Entities) Bill 2017, "base rate entity passive income" refers to dividends (including franking credits), interest, royalty, rent and net capital gain including those received through trust / partnership distributions, etc.

AUSTRALIA

CbC Reporting

(Continued)

" …CbC reporting measure takes effect from….1 January 2016…"

Country-by-Country ("CbC") reporting is part of a wide range of international measures aimed at combating tax avoidance through more comprehensive exchanges of information between countries. It implements Action 13 of the OECD/G20 Base Erosion and Profit Shifting (BEPS) Action Plan.

The Australian CbC reporting measure takes effect from income years commencing on or after 1 January 2016. It requires significant global entities ("SGE") to lodge the following 3 statements:

- CbC report
- Master file
- Local file

For SGE with December year-end, they will be the first taxpayers required to lodge CGC reporting statements with the Australian Taxation Office. However, the lodgment due date has recently been extended from 31 December 2017 to 15 February 2018.

For Australian tax purposes, a SGE represents:

- A global parent entity with an annual global income of AU$1 billion or more; or
- A member of a group of entities consolidated (for accounting purposes) where the global parent entity has an annual global income of AU$1 billion or more.

As such, an Australian subsidiary (although a small operation) of a multinational group may have CbC reporting obligations in Australia.

International tax co-operation & two-tiered tax rates

HONG KONG

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The Inland Revenue (Amendment) (No. 5) Bill 2017 (Amendment Bill) was gazetted in October 2017. The amendment seeks to (i) facilitate Hong Kong's participation in the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, and (ii) align the Inland Revenue Ordinance (IRO) with the Common Reporting Standard (CRS) promulgated by the OECD.

The Multilateral Convention is an important platform to implement initiatives on international tax co-operation, including the automatic exchange of financial account information in tax matters (AEOI) and combating base erosion and profit shifting (BEPS).

Under the AEOI initiative, competent authorities of the participating jurisdictions will annually exchange financial account information of the respective tax residents. To this end, the IRO has been amended to mandate Hong Kong financial institutions to collect account information of tax residents from some 75 jurisdictions.

Whilst a bilateral approach (e.g. as provided by the taxation treaty between two jurisdictions) enables information exchange, it has become increasingly impractical to operate given the continued expansion in the scope and network of tax information exchanges in the international community. A more practical approach is for jurisdictions to adopt the Multilateral Convention as a basis to implement the initiatives.

Two other amendment bills followed heals and were gazetted in December 2017. One is to codify the transfer pricing principles into the IRO to align with the minimum standards of BEPS.

Whilst observing the international tax standards, Hong Kong also wishes to uphold its simple and low tax regime. As tax rates in the region (as well as the powerful nations such as the US0 are dropping, and in order to reduce the tax burden of the SMEs and startup, the amendment bill gazetted in December 2017 seeks to implement a two-tiered profits tax regime.

Under this new regime, the profits tax rate for the first $2 million of profits of corporations for assessment year 2017/18 will be lowered to 8.25%. Profits above this threshold will continue to be subject to tax at eh rate of 16.5%.

For unincorporated businesses such as partnerships and sole proprietorships, the two-tiered rates will correspondingly be set 7.5% and 15%.

To ensure that the benefits of the half rate will not be abused by large corporations or groups, the amendment bill contains restrictions that the half rate applies to only one enterprise nominated from among those which are connected.

" …restrictions that the half rate applies to only one enterprise.. among those…connected…"

MALAYSIA

RUSSELL BEDFORD MALAYSIA

Malaysia's 2018 Budget

The Budget 2018 tabled by the Malaysian Prime Minister, Datuk Seri Najib Tun Razak on 27 October 2017 is seen an expansionary budget. With the anticipation of an improved economic performance and revenue collection this year, aided by higher oil prices, Malaysia plans to spend RM280.25 billion in 2018, up 7.5 per cent from this year's allocated budget of RM260.8 billion.

The salient tax related proposals made during the budget 2018 are summarised below.

"…incentive for transformation to Industry 4.0… accelerated capital allowance…"

1. Corporate Tax

Proposal	Details	Effective date
Withholding tax exemption on income from offshore services	Income of a non-resident person derived from Malaysia for providing technical services outside Malaysia is exempted from withholding tax	6 September 2017
Capital allowance for ICT equipment and software	Capital allowance of 20% (initial allowance) and 20% (annual allowance) given on: 1) ICT equipment and computer software packages; and 2) Development of customised software comprising consultation fee, licensing fee and incidental fee related to software development.	Proposal 1: YA 2017 onwards Proposal 2: YA 2018 onwards
Tax incentive for transformation to Industry 4.0 (adoption of advanced technology drivers by manufacturers)	Accelerated capital allowance and automation equipment allowance given on the first RM10 million qualifying capital expenditure incurred from YA 2018 to YA 2020 and is fully claimable within 2 years	For applications received by Malaysian Investment Development Authority from 1.1.2018 to 31.12.2020
Implementation of Earning Stripping Rules ("ESR") to replace Thin Capitalisation Rules ("TCR")	With a similar objective to control excessive deduction on interest expenses between associated persons, it is proposed that the ESR will be implemented to replace the TCR (proposed in 2009).	1 January 2019

MALAYSIA

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2. Individual Tax

Proposal	Details			Effective date
Reduction of individual income tax rates	Chargeable Income RM	Tax rate %		YA 2018 onwards
		Current	Proposed	
	20,001 – 35,000	5	3	
	35,001 – 50,000	10	8	
	50,001 – 70,000	16	14	
Tax exemption on rental income from residential homes received by resident individuals	Tax exemption of 50% on rental income received by Malaysian resident individuals not exceeding RM2,000 a month (per residential property) for 3 consecutive YAs			YAs 2018 to 2020

3. Tax Incentives

Proposal	Details	Effective date
Extension of tax incentives for automation equipment for labour intensive industries (rubber, plastic, wood and textile products)	100% accelerate capital allowance and 100% automation equipment allowance on first RM4 million capital expenditure incurred	Applications received by Malaysian Investment Development Authority by 31.12.2020
Extension of other tax incentives	1. Principal hub 2. Hotel operators 3. Tour operating companies 4. Medical tourism	Applications received by Malaysian Investment Development Authority by 31.12.2020

" …extension of tax incentives for automation equipment…"

MALAYSIA

(Continued)

" …de-minimis value for import duty and GST…via air courier…"

4. Goods and Services Tax ("GST")

Proposal	Details	Effective date
Extended scope of reading materials subject to GST at zero rate	Zero rating of reading materials i.e. magazines, journals, periodicals and comics	1.1.2018
Exemption of duty and relief of GST for air courier parcel	The de-minimis value for import duty and GST of goods (excluding cigarette, tobacco and liquor) through international airports via air courier services be increased from RM500 to RM800	To be determined by the Ministry of Finance

5. Real Property Gains Tax

Proposal	Details	Effective date
Increase in retention sum by acquirer for disposal of chargeable assets	The retention sum for acquisition of chargeable assets by a person who is not a citizen and not a permanent resident be increased to a sum not exceeding 7% of the purchase consideration	1.1.2018

PHILIPPINES

Congress Ratifies First Package of Tax Reform Bill

The Senate and the House of Representatives on December 13, 2017 ratified the bicameral conference report on the Tax Reform for Acceleration and Inclusion (TRAIN) bill, seeking to cut income taxes but adding levy on fuel, cars, mining, coal and tobacco. With the ratification of the two chambers, the measure would now be transmitted to President Rodrigo Duterte for signature. Once signed, the measure is set to be implemented on January 1, 2018.

TRAIN is the first of four packages the Duterte administration is proposing to generate revenues for its massive infrastructure program. Under the bill, personal income tax rates will be adjusted to shift the burden off lower-income segments towards the "ultra-rich". Projected revenues to be foregone from lower personal income tax will be offset, among others, by higher excise levies on petroleum and automobiles.

PHILIPPINES

(Continued)

Small businesses with total annual sales of P3 million and below will be exempted from paying value-added-taxes (VAT). VAT exemptions were retained for raw food/agricultural products, health and education, senior citizens, persons with disabilities and cooperatives, among others.

Other highlights of the consolidated bill are as follows:

- Exempt from tax individuals with P250,000 annual income and below starting in 2018.
- Raise the tax exemption for the 13th month pay and other bonuses to P90,000 from the current P82,000.
- Exempt from VAT the sale of drugs and medicines prescribed for diabetes, high cholesterol and hypertension starting in 2019.
- Exempt all milk from tax "given its nutritional value".
- For fuel petroleum products, impose new taxes on: (a) LPG – P1 in 2018, P2 in 2019 and P3 in 2020; and (b) diesel fuel – P2.50 in 2018, P4.50 in 2019 and P6 in 2020. Raise tax on regular and unleaded premium gasoline – P7 in 2018, P9 in 2019 and P10 in 2020 from the current P4.35.
- Impose a P6 tax per liter for beverages using caloric and non-caloric sweeteners and P12 per liter for beverages using high fructose corn syrup.
- Raise the excise tax on automobiles. Those valued up to P600,000 would be imposed a 4% tax; 10% on over P600,000 up to P1.1 million; 20% on over P1.1 million up to P2.1 million and 50% on over P2.1 million.
- Impose a 5% tax on cosmetic procedures, surgeries and body enhancements.
- Double the prevailing documentary stamp tax rates from P1.50 to P3.
- Increase the coal excise tax from P10 per metric ton to P50 per metric ton in the first year of implementation; P100 in the second year, and P150 in the third and succeeding years.
- Double the excise tax rates on all non-metallic minerals and quarry resources, and all metallic minerals including copper, gold and chromites from the current 2% to 4%, and on indigenous petroleum from the current 3% to 6%.
- Raise the excise tax on tobacco products from the current P30 per current P30 per pack to P32.50 from January to June 2018, P35 from July 2018 to December 2019, P37.50 from 2020 to 2021, P40 from 2022 to 2023 and a 4% annual indexation in 2023 onwards.
- Reduce and simplify estate tax to a flat rate of 6% based on the net value of the estate.

" …exempt from VAT the sale of drugs and medicines…"

SINGAPORE

New Re-domiciliation Regime

STEVEN TAN RUSSELL BEDFORD PAC
PUBLIC ACCOUNTING CORPORATION

" re-domiciliation minimizes operational disruptions…"

With effect from 11 October 2017, foreign corporate entities setting up operations in Singapore has another option instead of winding up its business activities in its home country and setting up a new company in Singapore. Foreign corporate entities can now transfer their registration from their original jurisdiction to Singapore through a process called re-domiciliation.

There are several benefits of re-domiciliation over setting up a new company. Re-domiciliation minimizes operational disruptions as it does not affect the property, rights and obligations of the foreign corporate entity. As a result, the foreign corporate entity does not need to re-sign all its contracts with its counterparties. It also does not have to transfer its assets to the new company. Re-domiciliation also enables the foreign corporate entity to retain its corporate branding and identify.

To qualify for re-domiciliation, the foreign corporate entity must meet the following minimum criteria:~

a) Size criteria – The foreign corporate entity must meet any 2 of the below:
   i) the value of the foreign corporate entity's total assets exceeds S$10 million;
   ii) the annual revenue of the foreign corporate entity exceeds S$10 million;
   iii) the foreign corporate entity has more than 50 employees;

b) Solvency criteria:
   i) there is no ground on which the foreign corporate entity could be found to be unable to pay its debts;
   ii) the foreign corporate entity is able to pay its debts as they fall due during the period of 12 months after the date of the application for transfer of registration;
   iii) the foreign corporate entity is able to pay its debts in full within the period of 12 months after the date of winding up (if it intends to wind up within 12 months after applying for transfer of registration);
   iv) the value of the foreign corporate entity's assets is not less than the value of its liabilities (including

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contingent liabilities);

v) The foreign corporate entity is authorised to transfer its incorporation under the law of its place of incorporation;

vi) The foreign corporate entity has complied with the requirements of the law of its place of incorporation in relation to the transfer of its incorporation;

c) The application for transfer of registration is —

i) not intended to defraud existing creditors of the foreign corporate entity; and

ii) made in good faith; and

d) There are other minimum requirements such as the foreign corporate entity is not under judicial management, not in liquidation or being wound up etc.

CHINA

Russell Bedford Hua-Ander Celebrates the 20th Anniversary

Russell Bedford 华安德会计师事务所 RUSSELL BEDFORD HUA-ANDER

CHINA

(Continued)

In the evening of 27 October 2017, Russell Bedford Hua-Ander in Beijing held a grand celebration at the Orient MGM International Hotel to celebrate the 20th anniversary.

In addition to Russell Bedford Hua-Ander's partners and Beijing employees, invited guests including James Ngai from Russell Bedford Hong Kong and Charles Wang from Shanghai Jialiang CPAs, attended the celebration party.

The celebration began with walking the red carpet and signing in on a big board bearing the celebration logo. After the opening performance of cheerful water drums, attendees watched an 18-minute theme video. In the video, 20 years history of RB Hua-Ander was reviewed using old photos and videos. The video also included blessing video clips from clients and former employees; aerial footage of firm's tour and group activities, and the main partners' speeches summarising the firm's core value and expectations for the future.

After the theme video, Guoqi Wang, the Managing Partner, made a speech. In his speech, Guoqi first of all thanked other three founders, Judy Ren, Romona Zhao and Theresa Liu for their 20 years mutual support and mutual tolerance. RB Hua-Ander has been witnessing steady growth during the past 20 years mainly due to a team of like-minded founders' persistence and sharing weal and woe with each other. He then thanked the other two partners James Chang and Frank Zheng for their outstanding contributions in the firm's course of development. Guoqi also thanked clients for their years of support to the firm. He said, "clients' support has made today's RB Hua-Ander". In the end, he thanked all the staff, including those who had left the firm, for their contributions to the firm. He said that, with a solid clientele base and stable workforce, a good management team and maturing technology and experience, and a suitable firm culture and enterprising spirit, Russell Bedford Hua-Ander will surely be better tomorrow.

James made some very complimentary remarks about the RB Hua-Ander's 20 years of achievements, and read a congratulatory letter from Bill Rucci, Russell Bedford International Chairman. Charles said in his speech, as both are China members of Russell Bedford, Jialiang and RB Hua-Ander work together like brothers. He wished a more and more brilliant future for RB Hua-Ander.

After that, the employees performed wonderful lion dance and song and dance programmes. After the dinner, everyone enjoyed the band's performance and danced together. The celebration party ended with "A Better Tomorrow" chorus.

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Business consultants with a global perspective

Russell Bedford Asia Pacific Offices & Contacts

Australia - *Melbourne*
Bruce Saward
bruce@sawarddawson.com.au
www.sawarddawson.com.au

Australia - *Perth*
Martin Michalik
mmichalik@stantons.com.au
www.stantons.com.au

Australia - *Sydney*
Mark Edwards
mark.edwards@cambos.com.au
www.camphinboston.com.au

Australia - *Adelaide*
Thomas Green
Tom@leegreen.com.au
www.leegreen.com.au

China - *Beijing / Shanghai*
Guoqi Wang
guoqi_wang@huaander.com
www.huaander.com

China - *Hong Kong / Guangzhou / Shanghai*
Jimmy Chung
jimmychung@russellbedford.com.hk
www.russellbedford.com.hk

China - *Shanghai*
Charles Wang
charles.w@jialiangcpa.cn
www.jialiangcpa.cn

India
Shreedhar T. Kunte
stk@sharpandtannan.com
www.sharp-tannan.com

Indonesia
Syarief Basir
sbasir@russellbedford.co.id
www.russellbedford.co.id

Korea (South)
Kiwun Suh
kws@cjac.kr
www.cjac.kr

Malaysia
Loh Kok Leong
lohkl@russellbedford.com.my
www.russellbedford.com.my

Pakistan
Rashid Rahman Mir
rsrirlhr@brain.net.pk

Philippines
Ma. Milagros F. Padernal
mfpadernal@usacpas.com.ph
www.usacpas.com.ph

Singapore
Andrew Lim
andrew@russellbedford.com.sg
www.russellbedford.com.sg

Taiwan
Arthur Lin
jsgcpa@russellbedford.com.tw
www.russellbedford.com.tw

Thailand
Mr. Chaiyath Angsuwithaya
mailboxs@amt-asso.com

Vietnam - *Hanoi*
Linh Thuy Do
Linh.thuy.do@russellbedford.vn
www.russellbedford.vn

Vietnam - *Ho Chi Minh City*
Van Anh Thai
van.anh.thai@russellbedford.vn
www.russellbedford.vn

MEMBER OF THE
FORUM OF FIRMS

Russell Bedford International
3rd Floor, Paternoster House
65 St Paul's Churchyard
London EC4M 8AB
United Kingdom

marketing@russellbedford.com

www.russellbedford.com

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