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APAC News

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Warm Welcome to Nepal and Singapore

We extend warm welcome to two recent new appointments in Nepal and Singapore.

Nepal: In April, we were pleased to have B & B Associates joining Russell Bedford International as member firm for Nepal.

B & B Associates is a full-service firm of Chartered Accountants, established in 2003, and registered with the Institute of Chartered Accountants of Nepal.

Based in a suburb of the Nepali capital, Kathmandu, the firm provides audit, consulting, tax and accounting services to clients in various sectors, including national and international charitable foundations, UN Agencies and multinational companies operating in Nepal.

Founding and managing partner, BM Dhungana, heads the firm's assurance division. Specialising in internal and external audit, due diligence, business valuation and taxation, he has extensive experience in providing auditing and consulting services to large corporations and not-for-profit organisations. The second partner, Gorkarna Kattel, also has many years' experience in the audit of corporate and non-profit entities, and has specialist expertise in information systems audits, forensic accounting and IFRS.

Inside this issue:

Singapore: Singapore member firm, Steven Tan Russell Bedford PAC (STRB) is pleased to announce the admission of a new Partner, Mr. Xu Gui Feng.

Gui Feng has over 10 years of experience in audit and assurance, gaining majority of his experience with a Big-4 firm. Gui Feng has been involved in the statutory and non-statutory audit of various international and local corporations since 2009. His experience spans over a wide range of industries, including manufacturing, construction, shipping and logistics, trading, jet aviation, retail, education, fund management, and oil and gas. Gui Feng has also performed non-audit work in relation to financial due diligence reviews.

Andrew Lim, managing partner of STRB, said: "We are delighted to welcome Gui Feng to the team. Recruiting bright and energetic young talent is a vital component to the development and strengthening of the service excellence and offerings of our practice. His entrepreneurial and forward-looking traits are exactly what Steven Tan Russell Bedford needs to take the business to the next level."

Technical updates /news in the region: The last few months have been relatively quiet in changes in technical matters. This edition of newsletter is therefore lighter than usual, and we have articles covering: Survey of ITs affecting accountants (China section), G7 agreement on minimum tax (Hong Kong section), and tax incentives for company relocation (Malaysia section).

CHINA

TOP TEN INFORMATION TECHNOLOGIES AFFECTING CHINESE ACCOUNTANTS IN 2021: A SURVEY

The survey results of Top Ten ITs Affecting Chinese Accountants in 2021 were announced recently by Shanghai National Accounting Institute (SNAI), which has organised the similar surveys for six times since 2002.

After expert selection of candidate technologies and public and expert voting, 5772 public votes and 188 expert votes were finally combined to form the following result of "Top ten information technologies affecting Chinese accounting practitioners in 2021":

CHINA

(Continued)

188 experts also voted to form the following "five major potential information technologies affecting Chinese accounting practitioners in 2021" (potential technology refers to the existing information technology that has not yet mature accounting products and is expected to have mature accounting application scenarios within three years):

The survey results also show that for information technology, the best practices (77.04%), related products (54.06%), technology development trends (48.17%) and theoretical knowledge (29.89%) are the most wanted by voters.

HONG KONG

G7 – BEPS (BASE EROSION PROFITS SHIFTING) ACTION PLAN - MINIMUM GLOBAL TAX

As continuous action plans to counter BEPS and tackle tax on digital economy, the G7 announced, after the Financial Ministers meeting on 5 June 2021, that its members have agreed on a proposal providing for:

- taxing right for market jurisdictions on at least 20% of the profit exceeding a 10% margin of large multinational enterprises (MNE) under Pillar One; and
- global minimum tax of at least 15% under Pillar Two.

To recap, the OECD has since 2015 identified a number of tax challenges raised by digitalization concerned with “nexus, data and characterization” that leads to the question of how taxing rights on income generated from cross-border activities in the digital age should be allocated among countries. This has eventually led to the delivery of an interim report in 2018, under Pillar One of BEPS, analyzing the impact of digitalization on business models and the relevance in international tax.

The latest progress by the OECD is to consider proposals that seek to revise contemporaneously the existing profit allocation and nexus rules. The approach is to allocate more taxing rights to the country where the customers and/ or users are located (so-called “market jurisdiction”). In summary, Pillar One intends to address the re-allocation of taxing rights which deals with:

- the question of business presence and activities without physical presence;
- where tax should be paid and on what basis;
- what portion of profits could or should be taxed in the jurisdictions where customers and / or users are located.

The G7 proposal will impact MNC with gross margin over 10%, so that

“…so that taxing right will no longer be contained by physical presence or be bounded by the arm’s length principle in respect of intra-group activities. “

"…may expose the MNE to paying a top-up tax in the ultimate holding jurisdiction on the profit of the Hong Kong businesses. "

taxing right will no longer be contained by physical presence or be bounded by the arm's length principle in respect of intra-group activities.

Pillar Two explores the design of a system to ensure that MNE in the digital economy will pay a minimum level of tax. The approach would leave each jurisdiction free to determine its own corporate tax rate, including whether it has a corporate income tax at all or "zero" rate for specific types of businesses. However, other jurisdictions shall be allowed to tax income that is subject to low levels of taxation under the first mentioned jurisdiction. Effectively, this would ensure all internationally operating businesses pay a minimum level of tax.

Without multilateral action, this approach would be at risk of uncoordinated unilateral action with each country trying to attract more tax base and to protect its existing tax base. OECD is therefore seeking to advance a multilateral framework to achieve a balanced outcome – to limit the distortive impact of direct tax on investment and business location decision, and to provide a backstop / workable system to Pillar One for situations where profit is booked in a low tax jurisdiction.

In summary, Pillar Two focuses on global anti-erosion mechanism to provide:

- measures to stop the shifting of profits to low or no tax jurisdiction facilitated by new technologies;
- measures to ensure a minimum level of tax is paid by MNE;
- level playing field between traditional and digital companies.

The G7 members are Canada, France, Germany, Italy, Japan, UK and US. They do not have power to bind the G20 /OECD on their decision. The next G20 Finance Ministers meeting is in July 2021 and OECD itself has indicated a framework would be released in October 2021. Whilst the direction is cleared and certain key aspects will likely to be confirmed at the global level soon, the detailed technical elements of the two pillars will still need to be worked out.

Insofar as Hong Kong is concerned, the Financial Secretary has indicated that:

- Hong Kong will implement the OECD's proposals according to international consensus;
- We will minimize the impact on local SME and will continue to maintain the simplicity, certainty and fairness of Hong Kong's tax regime;
- We will minimize the compliance burden on affected businesses whilst safeguarding our taxing rights; and
- We will keep up the efforts to improve Hong Kong's business environment.

For foreign-headquartered MNE with business operations in Hong Kong, the major concern under Pillar Two will be whether their effective tax rate in Hong Kong will be below the minimum 15%. Although the "standard" corporation tax rate is currently 16.5%, Hong Kong businesses may enjoy concessions such as concessionary tax rate on aircraft leasing and ship leasing business, group treasury centre business, fund management business, or enhanced R&D expense deduction against their operating profit etc., not to mention that offshore income is not taxable under the Hong Kong territorial taxation regime. This may expose the MNE to paying a top-up tax in the ultimate holding jurisdiction on the profit of the Hong Kong businesses. The Hong Kong government will need to address this aspect to protect our own tax base / reduce the risk of re-location of Hong Kong businesses to elsewhere.

SPECIAL TAX INCENTIVE FOR COMPANIES RELOCATING OPERATIONS TO MALAYSIA AND UNDERTAKING NEW INVESTMENTS

One notable tax incentive introduced by the Government in the Covid-19 stimulus packages is on attracting foreign manufacturers to relocate their businesses to Malaysia. This special tax incentive is aimed at encouraging quality investments that will contribute to the country's investment agenda i.e., Vendor Development Programme, employment, utilisation of local auxiliary services, internships to Malaysian graduates and cooperation with local universities in relevant fields.

The guidelines for this special tax incentive as unveiled by the authority recently are summarized below:

"…non-citizens employed by these companies are also given preferential tax treatment at a flat rate of 15% for a period of 5 consecutive years."

Capital investment	New companies: Tax incentive	New companies: Period
New investment of RM300 million to RM500 million	Income tax rate of 0%	10 years
Above RM500 million		15 years

Capital investment	Existing companies: Tax incentive	Existing companies: Period
At least RM300 million	Investment Tax Allowance of 100% and to be set off against 100% statutory income	5 years

Definition

(i) New company
- Company relocating manufacturing facility for eligible activity from any country to Malaysia; <u>or</u>
- Company establishing new operation in Malaysia; <u>and</u>
- Does not have existing manufacturing operation in Malaysia

(ii) Existing company
- Foreign or locally owned company that has existing manufacturing operation in Malaysia and relocate its manufacturing operation from outside Malaysia for new business segment.
- The products from the new business segment are not of expansion project for existing products.

Conditions

- Company must meet the definition of "new company" or "existing company"
- First capital expenditure must be incurred within one year from the approval date
- Minimum capital expenditure (not including land) to be incurred within 3 years from the date of the first capital expenditure
- Undertake selected manufacturing activities
- Employ at least 80% Malaysians by the third year of the company's production.
- Paid up capital of more than RM2.5 million

MALAYSIA

(Continued)

In addition to the corporate tax incentive, non-citizens employed by these companies are also given preferential tax treatment at **a flat rate of 15%** for a period of 5 consecutive years.

Conditions	
Limited to 5 non-citizen individuals employed by the company	• Non-citizen must be tax resident in Malaysia for each year of assessment throughout the 5 consecutive years • Holding key position (C-suite) • Receiving basic monthly salary of not less than RM25,000

Applications for this special tax incentive must be made to the Malaysian Investment Development Authority from 1 July 2020 to 31 December 2022.

Disclaimer

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Business consultants with a global perspective

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