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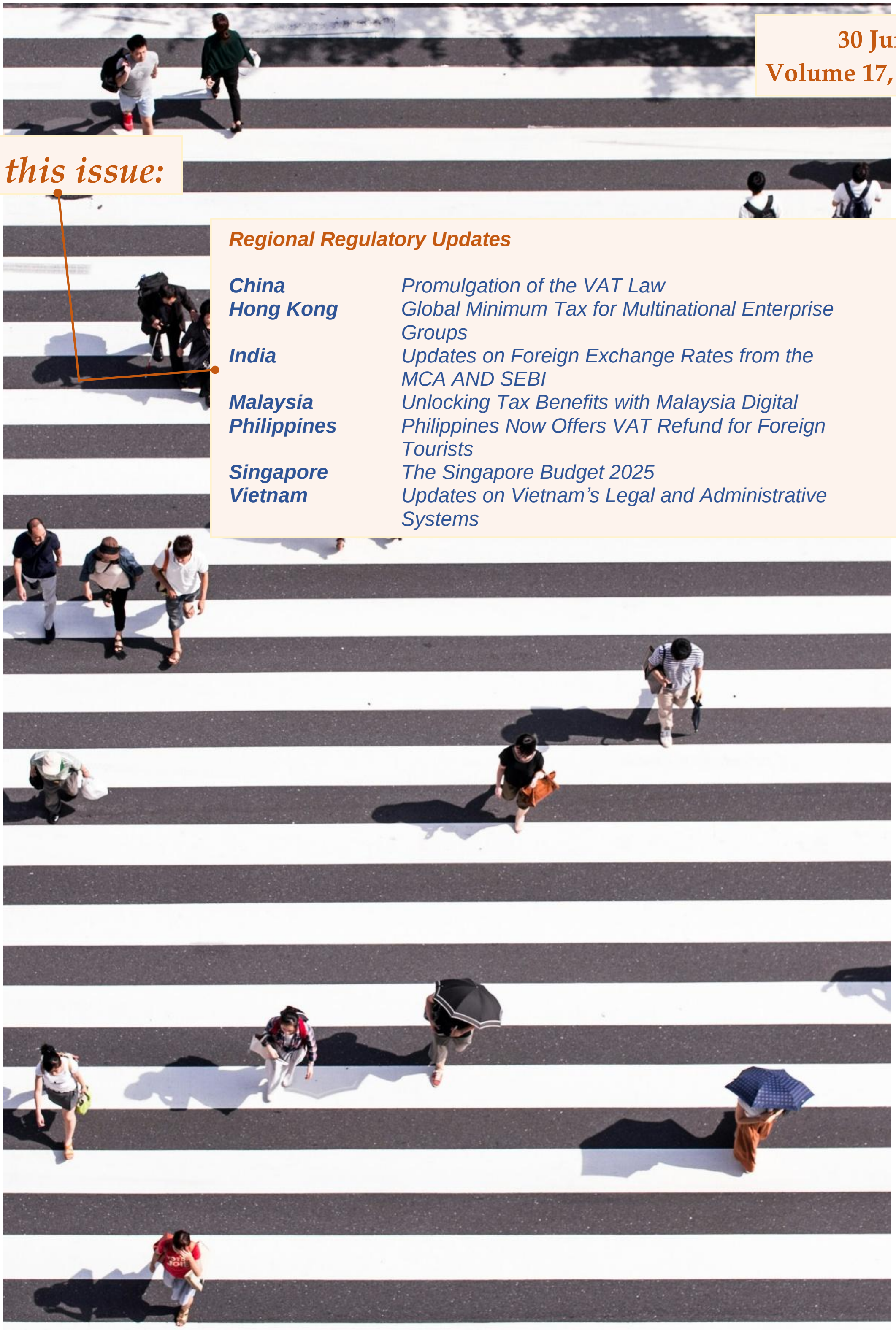

Inside this issue:

Regional Regulatory Updates

CHINA

PROMULGATION OF THE VALUE-ADDED TAX LAW

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In late 2024, the Standing Committee of the National People's Congress reviewed and passed the draft of the Value-Added Tax Law of the People's Republic of China (hereinafter referred to as the "VAT Law"). China's first VAT Law will come into effect on January 1, 2026, replacing the existing Provisional VAT Regulations which has been in effect for 31 years.

The enactment of the VAT Law is of great significance, marking another landmark progress in China's tax legalization. VAT is the largest tax revenue contributor in China. Elevating VAT to the level of law has consolidated the achievements of VAT reforms since 1994, especially in recent years. It enhances the certainty and stability of VAT policies, providing a more solid legal foundation for the VAT system.

" VAT is the largest tax revenue contributor in China."

The main differences between the VAT Law and the existing Provisional VAT Regulations are summarized as follows:

1. New Legislative Purpose: The legislative purpose of the VAT Law is clarified as establishing a VAT system conducive to high-quality development, standardizing levy and payment, and protecting the legitimate rights and interests of taxpayers, establishing the guiding ideology for subsequent implementation of the VAT Law.

2. Clearer Definition of Taxable Transactions: Four specific circumstances of taxable transactions occurring within the territory are detailed in the VAT Law, such as the place of dispatch or location of goods sold being within the territory.

3. Adjustment of Deemed Sales Situations: Only four situations are retained, such as units and self-employed individuals using self-produced or entrusted processed goods for collective welfare or personal consumption. Consignment sales, transfers, etc., are no longer deemed sales.

4. New Non-Taxable Items: It is clarified that compensation received due to expropriation and services provided by employees to their employing units or employers for obtaining wages and salaries are not subject to VAT.

5. Changes in Provisions on Collection Rate: The basic collection rate is clarified as 3%, while it is not specified whether the current 5% collection rate (for simple tax calculation in real estate sales and leasing) will continue.

6. Adjustments to Provisions on Non-Deductible Input Tax: More specific and stringent regulations are made.

7. Clear Definition of Mixed Sales: It is specified that if a taxpayer conducts a taxable transaction involving two or more tax rates or collection rates, the tax rate or collection rate applicable to the main business of the taxable transaction shall apply.

Key issues worth noting or pending clarification in the upcoming Detailed Implementation Regulations of the VAT Law (hereinafter referred to as the "DIR"):

1. Interpretation of VAT items and their classification

   The VAT Law divides tax items into four major categories: sales of goods, services, intangible assets, and real estate. Given that there are three tiers of VAT rates and many preferential policies, the DlR needs to specify the meaning of each category and provide clear classifications to facilitate the application of different tax rates and tax policies to various transactions.

2. Definition of consumption of services and intangible assets within the territory of Chinese mainland

   The VAT Law stipulates that taxable transactions occurring within the territory of Chinese mainland refer to "the services and intangible assets are consumed within the territory of Chinese mainland, or the seller being a domestic entity or individual (unless the second and third items of this article otherwise apply)." This is in line with the internationally accepted "Destination Principle" where VAT should be imposed in the country of consumption. For transactions where the seller is an overseas entity or individual, attention should be paid to the criteria for determining "consumption within the territory of Chinese mainland" in the DIR to further determine whether domestic entities have the obligation to withhold VAT.

“…if a taxpayer conducts a taxable transaction involving two or more tax rates or collection rates, the rate applicable to the main business of this transaction shall apply."

3. Scope of Cross-Border Services and Intangible Assets applicable to Zero Tax Rate Policy

   The VAT Law stipulates that "the tax rate for domestic entities and individuals selling cross-border services and intangible assets within the scope specified by the State Council is zero." The scope of services and intangible assets applicable to the zero VAT rate may be clarified in the DlR. Attention should be paid to whether it is consistent with the current scope and whether the criteria for determining "consumption entirely outside the territory of Chinese mainland" will be further clarified.

4. How to Determine the "Main Business" in Mixed Sales

   The VAT Law stipulates that "if a taxpayer conducts a taxable transaction involving two or more tax rates or collection rates, the rate applicable to the main business of this transaction shall apply." Since a single taxable transaction may only have one price, in cases where there is different of tax rate or treatements, it is necessary to determine the main business of the transaction. The DIR may clarify how to determine the "main business."

5. Issues Related to Input Tax

   - In the VAT Law, the input VAT arising from interest on loan services is not included in the non-creditable input VAT. Therefore, it is important to note whether the DlR will list such input VAT as non-creditable input tax.

   - Under the existing regulations, "only the relevant fixed assets, intangible assets, and real estate solely used for aforementioned items" cannot claim input VAT credit. However, the VAT Law does not mention this in the article

CHINA

(Continued)

addressing non-creditable input tax. We look forward to the clarification of this issue in the DIR.

- The VAT Law stipulates that "input VAT related to the purchasing of catering services, daily citizen services, and entertainment services that are directly consumed" cannot be credited. This expands the scope of input tax credit under current regulations. In practice, further clarification on how to determine "purchase and directly consume" may be required in the DIR.

6. Specific Measures for Input Tax Refund

   The VAT Law clarifies that "for the portion where the current input VAT exceeds the current output VAT, taxpayers may choose to carry it forward to the next period for further credit or apply for a refund in accordance with the State Council's regulations. Therefore, the DIR or subsequent rules will further specify the mechanism and process for the VAT refund.

7. Specifics of VAT Special Preferential Policies

   The current VAT policies include various preferential measures such as exemptions, simplified tax calculation, calculation of sales amount under balance-based VAT method, and super-credit. Except for some exemptions related to basic livelihood and fundamental scientific research, which have been explicitly stated in the VAT Law, the integration, continuation, and termination of other preferential policies will be reflected in the VAT special preferential policies, warranting close attention.

HONG KONG

GLOBAL MINIMUM TAX (GMT) FOR MULTINATIONAL ENTERPRISE GROUPS

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The March 2025 edition of our newsletter includes a heads up on GMT, which is intended to align with the Global Anti-Base Erosion (GloBE) rules promulgated by the OECD to tackle cross-border tax evasion and safeguard a jurisdiction's taxing rights.

On 6 June 2025 the Hong Kong legislation on GMT, which is modelled on the GloBE rules, was enacted to:

- implement in Hong Kong the Income Inclusion Rule (IIR) and prepare for eventual launch of the Undertaxed Profits Rule (UTPR);
- impose a Hong Kong minimum top-up tax (HKMTT);
- provide that HKMTT should have priority over IIR and UTPR so that any low-taxed profits of Hong Kong Constituent Entities (HKCEs) of in-scope multinational enterprise (MNE) groups will be subject to HKMTT first, preserving therefore Hong Kong's taxing right over economic activities in Hong Kong.

The salient features of the legislation are set out below:

Rules	Effective date
Income Inclusion Rule (IIR): • IIR is the primary rule that imposes top-up tax on parent entities, which include: (i) the ultimate parent entity (UPE) of an in-scope Hong Kong-headquartered MNE group, (ii) a Hong Kong intermediate parent entity of an in-scope foreign-headquartered MNE group where its UPE is located in a jurisdiction that does not implement IIR, or (iii) a Hong Kong partially-owned parent entity of an in-scope MNE entity irrespective of whether its UPE or intermediate parent entities are required to apply IIR. • Under the income inclusion rule, the parent entity can be charged top-up tax on profits of its constituent entities which are taxed at an effective tax rate (ETR) below 15% outside the parent's jurisdiction. • The parent entity is charged the IIR top-up tax based on its ownership interest in the low-taxed constituent entities outside Hong Kong. • A group is regarded as an MNE group if it has one or more entities or permanent establishments (PE) located in a jurisdiction other than the UPE jurisdiction.	IIR top-up tax is payable for fiscal years beginning on or after 1 January 2025
Undertaxed Profits Rule (UTPR): • UTPR is a backstop to IIR to ensure that any residual amount of top -up tax that remains after the IIR applies shall be allocated and collected. • UTPR is imposed by way of an equivalent adjustment in the form of an additional tax. The UTPR top-up tax allocated to Hong Kong is charged on HKCEs of an in-scope MNE group, based on the respective proportion (Hong Kong vs all UTPR jurisdictions) of two factors, i.e., employee headcount and value of tangible assets, each given a weighing of 50%.	Implementation date in Hong Kong shall be announced at a later stage, after the Administration has studied the experience of UTPR in foreign jurisdiction
Qualified Domestic Minimum top-up tax (QDMTT) and Hong Kong Minimum top-up tax (HKMTT): • Jurisdictions are allowed to introduce their own QDMTT based on GloBE rules. Under its own QDMTT, a jurisdiction has the first priority to collect top-up tax in respect of low-taxed constituent entities in its jurisdiction. HKMTT is Hong Kong's QDMTT. • Top-up tax = Excess Profits x Top-up %, where	HKMTT is payable for fiscal years beginning on or after 1 January 2025

Excess Profits = Aggregate GloBE income net of loss for all constituent entities in the jurisdiction less a substance-based income exclusion (SBIE) for that jurisdiction Top-up % = 15% less the ETR in that jurisdiction SBIE amount for a jurisdiction is the sum of the payroll carve-out and the tangible asset carve-out (being a % of the eligible payroll costs and a % of the carrying value of the eligible tangible assets respectively) for each in-scope constituent entity. The % shall decrease over time to settle at 5% by the fiscal year in 2033.	
Hong Kong resident entity: • Defined to mean an entity incorporated/ constituted in Hong Kong or managed or controlled in Hong Kong if incorporated / constituted overseas. The definition is relevant to determine whether the parent entities and constituent entities are located in Hong Kong.	The definition is retrospectively from 1 January 2024. This allows an entity to be regarded as located in Hong Kong throughout 2024 to minimize exposure to top-up tax in other jurisdiction that have implemented GloBE rules in 2024.

Entities affected

MNE Groups with annual consolidated revenue equals or exceeds EUR 750 million in at least 2 of the 4 preceding fiscal years.

- Applies to all Hong Kong Constituent Entities (HKCEs) regardless of ownership structure.
- Essentially this means any entity which is required to submit Country-by-Country (CbC) Notification or CbC Report in Hong Kong shall be affected.

Nature of tax and how calculated

- HKMTT shall qualify as a Qualified Domestic Minium Top-up Tax (QDMTT) under the GloBE rules so that income charged to HKMTT shall not be chargeable to QDMTT under the GloBE rules of other jurisdictions.
- HKMTT is imposed on the whole amount of the total top-up tax in respect of all HKCEs of the MNE group, regardless of the percentage interest in the HKCEs held by the group.
- Specific rules apply to JV interest.
- HKMTT is allocated among the HKCEs of the MNE group in proportion to each entity's GloBE income, unless the group designates one or more than one HKCEs to pay the HKMTT.
- Investment entities and insurance investment entities are excluded from top-up tax calculation to preserve their tax neutrality.
- The financial accounting net income or loss of an HKCE is determined in accordance with an accounting standard prescribed by the HKICPA, e.g. IFRS, HKFRS, HKFRS for private entities, and SME Financial Reporting Framework

and Financial Reporting Standard.

- The top-up tax is treated as profits tax. The existing tax administration mechanism under the Inland Revenue Ordinance (IRO) on collection and handling of objections and appeals shall generally apply, save for certain modifications as specified in the new legislation.

Compliance timeline

Requirement on in-scope entity	Time limit
Top-up tax notification to the Inland Revenue Department (IRD)	Due 6 months after fiscal year-end
Top-up tax return to the IRD	Due 15 months (18 months for first return) after fiscal year-end
Tax payment (based on information declared in the top-up tax return)	Due 1 month after expiry of the return filing deadline or the date of assessment, whichever the later.
Record retention for GMT / HKMTT	9 years after completion of the transaction.

Safe harbours, reliefs, credit and deduction

	Relief / conditions
Adoption in Hong Kong of OECD transitional safe harbours using information in the CbC Report	Under the transitional CbC Report Safe Harbour, an in-scope MNE group's top-up tax for a particular jurisdiction in a fiscal year will be deemed to be zero if the group can satisfy one of the following 3 tests: • Total Revenue test – the group reports total revenue of less than EUR 10 million and profit(loss) before income tax of less than EUR 1 million in such jurisdiction; • Simplified ETR test – the group has a simplified ETR equal or greater than the transitional rate in such jurisdiction for the fiscal year (being 16% and 17% for fiscal years beginning in 2025 and 2026 respectively); or • Routine Profit test – the group's profit(loss) before income tax in such jurisdiction is equal or less than the SBIE amount, for constituent entities resident in that jurisdiction.
5-year HKMTT relief for MNEs newly entering international markets meeting a prescribed size test	The relief is granted on condition that none of the ownership in the HKCE is held directly or indirectly by a parent entity subject to a qualified IIR.

Simplified calculation for non-material constituent entities	A non-material constituent entity of an MNE group is a constituent not consolidated in the UPE's audited financial statements solely for size or materiality grounds. Under the simplified calculation for non-material constituent entities, the top-up tax for a jurisdiction is deemed to be zero for a fiscal year if meeting any one of the 3 tests (Total Revenue, ETR or Routine Profit) above.
Tax credit	Tax credit shall be granted in Hong Kong for QDMTT paid in an overseas jurisdiction when the same income is also subject to Hong Kong tax under the situation that the QDMTT is in respect of (i) income of a PE in that jurisdiction, or (ii) underlying profits of the foreign investee entity out of which dividend is paid to the HKCE.
Expense deduction	Deduction shall be allowed for QDMTT paid in a foreign jurisdiction in respect of interest, gains or profits that are deemed taxable in Hong Kong under Section 15(1) of the IRO, e.g. IP income.

Risks and governance

	Modified particulars (compared with rules on normal profits tax)
General anti-avoidance rules (GAAR)	In relation to top-up tax, a transaction or arrangement shall be within the scope of the GAAR under the IRO if the sole or dominate purpose of which is to obtain top-up tax benefits. For this purpose, the additional matters to consider shall include: • Any changes in the overall top-up tax liability of the MNE group; and • Whether the transaction's outcome is inconsistent with that under the OECD GloBE rules.

Penalty level and limitation	Level is compatible with normal tax filing. Furthermore, initiation of proceedings against the taxpayer is time barred 8 years after the offence was committed.
Window for IRD to issue top-up tax assessment	Not later than 8 years for non-evasion cases and 12 years for evasion cases after the fiscal year end.
Objection against top-up tax assessment	Not later than 2 months after the date of the assessment notice.

Operational considerations

HKMTT is treated as profits tax under the IRD	This will impact tax provision in financial statements and tax reporting.
Mandatory e-filing for in-scope MNEs	Commencing from assessment year 2025/16 in-scoped HKCEs must adopt e-filings.
Annual top-up tax notification	HKCEs of an in-scope MNE group are allowed to appoint one designated local entity to file the notification for all HKCEs. The annual notification shall state the entity and jurisdiction from which Hong Kong will receive the GloBE Information Return (GIR).
Interactions with Foreign-Sourced Income Exemption (FSIE) regime	Section 15N of the IRO is modified to clarify the interaction between top-up tax chargeable in a foreign jurisdiction and the Subject to tax (STT) condition under the participation requirement of FSIE: • The STT condition is regarded as met for income charged to QDMTT in the foreign jurisdiction. • IIR and UTPR do not fulfill STT condition; • Top-up tax % is disregarded in determining the applicable rate for headline rate in the foreign jurisdiction.

The legislation is complex and comprises texts of more than 200 pages. Professional consultation is suggested for a proper understanding of its impact.

INDIA

UPDATES ON FOREIGN EXCHANGE RATES FROM THE MCA AND SEBI

Sharp & Tannan

Chartered Accountants

1. Ministry of Corporate Affairs ('MCA')

1.1 Amendments to Ind AS 21: The Effects of Changes in Foreign Exchange Rates

Recently, the Ministry of Corporate Affairs ('MCA') issued a notification providing guidance in situations when a particular currency cannot be readily exchanged for another. The amendments will apply for annual reporting periods beginning on or after 1 April 2025.

Key features:

- **Definition of exchangeability**

  A currency is exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations.

- **Assessing the exchangeability**

  An entity assesses whether a currency is exchangeable into another currency at a measurement date and for a specified purpose. If an entity is able to obtain no more than an insignificant amount of the other currency at the measurement date for the specified purpose, the currency is not exchangeable into the other currency.

  An entity shall estimate the spot exchange rate at a measurement date when a currency is not exchangeable into another currency at that date. When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date.

"If an entity is able to obtain no more than an insignificant amount of the other currency at the measurement date for the specified purpose, the currency is not exchangeable into the other currency."

- **Estimating spot exchange rate:**

  If a currency is not exchangeable, entities need to estimate the spot exchange by using:

  - an observable exchange rate without adjustment
  - another estimation technique

- **Disclosure requirements:**

  New disclosure requirements in cases of lack of exchangeability are:

  a) the nature and financial effects of the currency not being exchangeable into the other currency;
  b) the spot exchange rate(s) used;
  c) the estimation process; and
  d) the risks to which the entity is exposed because of the currency not being exchangeable into the other currency.

2. Securities and Exchange Board of India ('SEBI')

INDIA

(Continued)

2.1 Consultation paper - Secretarial compliance report, appointment of auditors and related party transactions

Pursuant to the recommendations of the Advisory Committee on Listing Obligations and Disclosures ('ACLOD') and subsequent internal discussions, SEBI issued a consultation paper to seek public comments for the proposed amendments in SEBI (Listing Obligations and Disclosure Requirements) Regulations (SEBI LODR). These proposals are aimed at bringing accountability, enhanced disclosures to stakeholders and providing a confirmation of compliance with the securities laws.

"These proposals are aimed at bringing accountability, enhanced disclosures to stakeholders and providing a confirmation of compliance with the securities laws."

2.1.1 Strengthening the secretarial compliance report of a listed entity:

- Regulation 24A(2) of the LODR Regulations requires every listed entity to submit a secretarial compliance report to Stock Exchanges within 60 days from the end of each financial year. Given the regulatory developments in the last 2 years, the format needs to include a specific confirmation on the listed entity's compliance (including the identification of non-compliances, if any) with substantial provisions of securities laws.

- To achieve this, the present format of the Annual Secretarial Compliance Report ('ASCR') is proposed to be revised to obtain explicit confirmation from the practising company secretary ('PCS') on compliance with specific provisions of securities laws.

2.1.2 Specifying eligibility criteria for appointment of statutory auditor of a listed entity

- The Companies (Audit and Auditors) Rules, 2014 require that the audit committee / board of directors should consider that the qualifications and experience of the auditor are commensurate with the size and requirements of the company.

- Similar provisions regarding the size, qualification or experience of the statutory auditor, presently do not exist in the LODR Regulations.

- It is proposed to insert a similar provision in the SEBI LODR that would enable monitoring and enforcement of such requirements by SEBI and stock exchanges, thereby enhancing stakeholder confidence in the financials of the listed entity.

- Further, the audit committee ('AC') may also be required to consider whether the qualifications and years of experience of the signing partner(s) of the firm appointed as 'statutory auditor' are commensurate with the size and requirements of the listed entity.

- Accordingly, Schedule II, Part C of the SEBI LODR: 'Role of the Audit Committee and Review of information by Audit Committee' is proposed to be changed.

2.1.3 Enhancing disclosures to shareholders, BOD and AC at the time of appointment/re-appointment of statutory and secretarial auditors

The present listing obligations and disclosure requirements ('LODR') Regulations require certain disclosures in the notice of the annual general meeting ('AGM') where the statutory auditors/secretarial auditors are proposed to be appointed or re-appointed. To have a standardised format of disclosures to shareholders and disclosures of certain minimum information to the AC/BOD at the time of considering appointment / re-appointment of statutory auditor and secretarial auditor, it is proposed to have the following information:

- Basic details of the statutory/secretarial auditors.
- Experience and past associations.
- Compliance-related information: i.e. whether the firm/auditor holds a peer-review certificate, orders/pending proceedings against the auditors, etc.
- Fee-related information: total fees of the outgoing auditor, proposed fees of the auditor, rationale for material change in the audit fees of the proposed statutory/secretarial auditor.
- Information to be disclosed to the shareholders.

2.1.4 Facilitating ease of implementation with respect to approval of RPTs undertaken by subsidiaries of a listed entity

To ease the implementation of the approval process of related party transactions ('RPTs'), where the subsidiary of the listed entity ('LE') is a party to the transaction (but not the LE itself), it is proposed to bring a monetary threshold in addition to the percentage threshold.

Thus, if the below-mentioned thresholds are met, the approval of the listed entity's audit committee will be required.

- Simplified language making the law more accessible.
- Consolidation of amendments, reducing fragmentation.
- Removal of obsolete and redundant provisions for greater clarity.
- Structural rationalization through tables and formulae for improved readability.
- Preservation of existing taxation principles, ensuring continuity while enhancing usability.

For subsidiaries having a financial track record:

- Subsidiaries of listed entities on the Main Board*: Lower of INR 1,000 crore** or 10% of the annual standalone turnover of the subsidiary.
- Subsidiaries of SME listed entities: Lower of INR 50 crore** or 10% of the annual standalone turnover of the subsidiary.

* Main Board refers to the main platform on stock exchanges (like NSE and BSE) where large, established companies with a significant paid-up capital (typically ₹10 crore or more) go public through an Initial Public Offering (IPO).*
(**1 crore = 10 million)

For subsidiaries not having a financial track record (i.e. those not having financials of at least one year):

Subsidiaries of listed entities on the Main Board: Lower of INR 1,000 crore or 10% of the standalone net worth of the subsidiary, as certified by a practising chartered accountant not more than 3 months prior to the date of seeking approval.

Subsidiaries of SME listed entities: Lower of INR 50 crore or 10% of the standalone net worth of the subsidiary, as certified by a practising chartered accountant not more than 3 months prior to the date of seeking approval.

2.2 SEBI releases certain FAQs on SEBI LODR regulations

On 23 April 2025, SEBI issued a set of FAQs to provide guidance on various SEBI regulations and circulars. These are divided into five sections:

I. SEBI LODR (Third amendment) Regulations 2024 and implementations of the recommendations of the 'Expert Committee' for promoting ease of business

II. Manner of achieving 'minimum public shareholding' as per SEBI master circular of 11 November 2024

III. SEBI LODR Regulations

IV. Disclosure of Information Related to Forensic Audit of Listed Entities

V. Business Responsibility and Sustainability Report (BRSR) Core

These FAQs are available on the following link:
https://www.sebi.gov.in/sebi_data/faqfiles/apr-2025/1745399101865.pdf

3. Reserve Bank of India ('RBI')

Migration to '.bank.in' domain: With an objective of enhancing trust in the financial sector, RBI had earlier announced to introduce the 'bank.in' and 'fin.in' domains exclusively for banks and financial institutions.

In April 2025, RBI has advised banks to commence the migration of their existing domains to the '.bank.in' domain and complete the process by 31 October 2025.

The operationalisation of the domains will be done through the Institute for Development and Research in Banking Technology ('IDRBT'), which has been authorised by National Internet Exchange of India ('NIXI'), under the aegis of the Ministry of Electronics and Information Technology ('MeitY'), to serve as the exclusive registrar for this domain.

UNLOCKING TAX BENEFITS WITH MALAYSIA DIGITAL

MALAYSIA

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In today's fast-changing world, digital transformation is a must. Governments everywhere are supporting digital growth, and Malaysia is doing the same. The Malaysia Digital ("MD") initiative, which was launched in 2022 and succeeding the Multimedia Super Corridor ("MSC"), aims to accelerate the sustainable growth of Malaysia's digital economy and create substantial digital economic spill-over through equitable access to digital tools, knowledge and income opportunities. MD will drive digital transformation of focus areas that present high growth potential, opportunities and importance.

The Malaysia Digital Economy Corporation ("MDEC"), which spearheads the nation's digital economy initiatives, awards MD Status to eligible companies that engage in any of the MD's activities.

MD Status Tax Incentives

The grant of MD Status entitles eligible companies to a set of incentives, rights and privileges from the Government of Malaysia. The recent tax incentives that are being rolled out by MDEC for **MD Status companies** are the expansion and new investment incentives, that cover the below MD activities.

Research, development or commercialisation of solution or provision of services utilising any of the following promoted technology enablers:

1. artificial intelligence (AI) or big data analytics (BDA)
2. internet of things (IoT)
3. cybersecurity
4. cloud
5. blockchain
6. drone technology
7. creative media technology including extended reality (XR) or mixed reality (MR)
8. integrated circuit (IC) design with embedded software
9. robotics or automation;
10. advanced network connectivity or telecommunication technology

"MD will drive digital transformation of focus areas that present high growth potential, opportunities and importance."

These tax incentives are provided in the form of reduced tax rate **OR** investment tax allowance, the choice of which is for the taxpayer to exercise.

	New investment	**Expansion**
Reduced tax rate	▪ 10% or 5% for Non-IP income, 0% for IP Income * ▪ 10 consecutive years	▪ 15% for IP and Non-IP income ▪ 5 consecutive years
Investment Tax Allowance	▪ 60% or 100% of qualifying capital expenditure, against up to 100% of statutory income ▪ 5 consecutive years	▪ 30% or 60% of qualifying capital expenditure, against up to 100% of statutory income ▪ 5 consecutive years

* Intellectual Property ("IP") income refers to royalty and licensing fees.

PHILIPPINES NOW OFFERS VAT REFUND FOR FOREIGN TOURISTS

PHILIPPINES

MFP
M. F. Padernal and Co.

With the signing into law of Republic Act (RA) No. 12079 on December 6, 2024, the Philippines established a VAT Refund System for non-resident or foreign tourists visiting the country. By providing new tax incentives, the new law aims to further boost the country's tourism industry and encourage more foreign tourists to shop and spend more during their stay in the country, thus stimulating economic growth.

On March 24, 2025, pursuant to the provisions of RA No. 12079, the Department of Finance, in consultation with the Department of Trade and Industry, Department of Transportation, Department of Tourism, Department of Information Communications Technology, National Economic and Development Authority, Department of Budget and Management, Commission on Audit, Bureau of Internal Revenue, and Bureau of Customs, adopted the law's Implementing Rules and Regulations (IRR) prescribing the guidelines, procedures, and standards for the implementation of a VAT Refund System (VRS) for tourists. Below are the salient general provisions of the IRR:

"… the new law aims to further boost the country's tourism industry and encourage more foreign tourists to shop and spend more during their stay in the country, thus stimulating economic growth."

Requisites for Availment

Under the IRR, a tourist or non-resident foreign passport holder shall be eligible for a VAT refund on locally purchased goods if the following requirements are met:

a. The goods are purchased in person by the tourist in duly accredited stores;

b. Such goods are taken out of the Philippines by the tourist within sixty (60) days from the date of purchase; and

c. The value of goods purchased per single transaction is equivalent to at least three thousand pesos (P3,000.00) covered by a single invoice: Provided, that the amount shall be adjusted using the cumulative inflation for the past three (3) years as published by the Philippine Statistics Authority (PSA).

Eligible Goods

Under the IRR, the VAT refund shall only apply to retail and tangible goods, such as clothing, apparel, electronics, gadgets, jewelry, accessories, souvenirs, food or non-food consumables, and other goods intended for personal use.

The following are not qualified for the VAT refund under the IRR:

a. Goods in commercial quantity;

b. Goods to be consumed fully or partially in the Philippines;

c. Good purchased from e-markets and other digital or online stores; and

d. Services such as transportation, accommodation or other hospitality services

"Under the IRR, the VAT refund shall only apply to retail and tangible goods, such as clothing, apparel...and other goods intended for personal use."

VAT Refund Process

The processing of VAT refund claims under the IRR shall be subject to the following general guidelines:

a. The tourist intending to avail of the VAT refund shall present their valid foreign passport and eTravel registration to the duly accredited store prior to the purchase of eligible goods.

b. The duly accredited store shall verify the identity and eligibility of the tourist for VAT refund by checking the foreign passport and eTravel registration presented. A photocopy or an image of the foreign passport may be presented, subject to presentation of the original to the VRS operator upon validation of the refund claim.

c. The duly accredited stores shall input the tourist's foreign passport and purchase transaction details in the VRS.

d. The duly accredited stores shall, in all transactions, comply with the provisions of the Tax Code and applicable rules and regulations.

e. At the airport or seaport, the tourist claiming VAT refund shall present their foreign passport to the VRS operator.

f. If physical inspection of the goods is required, the tourist must proceed to the Customs Inspection counter for further inspection and validation before their refund claim can be processed.

g. After the successful validation of the claim for VAT refund, the same shall be approved and paid by the VRS operator in Philippine currency either in cash or electronically (e.g., digital wallets, bank transfers, or credit cards). The electronic payment of the VAT refund shall only be made directly to the digital wallet, bank, or credit card account of the tourist claiming such refund. In case of cash refunds, the same shall be subject to applicable regulations on cross- border transfer of Philippine currency.

h. The tourist shall be charged with a service fee, the maximum amount of which shall be set by the DOF, for the processing of the refund. Transaction fees imposed by digital wallets, banks, or other entities for the electronic transfer or payment of the refund amount shall also be borne by the tourist.

The IRR also outlines the roles of the implementing agencies, VRS operator/s, and duly accredited stores in implementing the VRS. The rules took effect immediately upon its publication in a newspaper of general circulation.

Reliance Audit

The Singapore Budget 2025 unveiled on 18 February 2025 is particularly significant as it coincides with Singapore's 60th year of independence and precedes the upcoming general elections.

Budget 2025 introduces a series of strategic initiatives aimed at bolstering economic resilience, supporting businesses and individuals, and investing in innovation and sustainability. Overall, Budget 2025 balances immediate support for households and businesses with strategic investments aimed at securing Singapore's economic future amid a complex and evolving global landscape. Below are the key tax changes announced.

One off rebates and cash grants Tax (PIT) Changes

All tax-resident individuals will receive a 60% rebate on their personal income tax, capped at SGD 200 per taxpayer. This initiative is designed to provide relief to lower and middle-income earners.

"This measure aims to ease cash flow constraints for business adjusting to Structural Increase."

To assist businesses in managing rising operational costs, a 50% CIT rebate is introduced for YA 2025. Eligible companies that employed at least one local employee in 2024 will receive a minimum benefit of SGD 2,000, with the total benefit capped at SGD 40,000 per company.

Upfront certainty of non-taxation of companies' disposal gains

Aiming to provide companies with greater tax certainty regarding gains from the disposal of shares. These changes are set to take effect for disposal gains derived on or after January 1, 2026.

- The previous sunset clause, which would have terminated the scheme on December 31, 2027, has been removed. This change renders the exemption for qualifying disposal gains a permanent feature of Singapore's tax framework.

- The scope of qualifying gains has been broadened to include gains from the disposal of preference shares, provided these shares are accounted for as equity under the relevant accounting standards. This expansion offers companies more flexibility in their investment strategies.

- The 20% minimum shareholding requirement can now be assessed on a group basis. This means that companies within the same group can aggregate their shareholdings to meet the threshold, facilitating more flexible corporate structuring and potentially encouraging group-level investments.

Enhanced Support for Innovation and R&D

The government is increasing support for companies investing in research and development (R&D) by providing a SGD 3 billion top-up to the National Productivity Fund. This fund will offer additional resources to support high-value investments and innovation activities.

Tax Incentives for the Equities Market

To bolster Singapore's position as a global financial hub and stimulate its stock market, the government has introduced specific tax incentives.

- Companies seeking a primary listing on the Singapore Exchange (SGX) will be eligible for a 20% corporate tax rebate, while those pursuing a secondary listing will receive a 10% rebate. These rebates aim to attract more companies to list on SGX, enhancing market vibrancy.

- To encourage investments in Singapore-listed equities, a corporate tax exemption will be provided on qualifying income derived by fund managers from funds that invest substantially in such equities. This initiative seeks to boost the fund management industry and increase demand for local stocks.

Alignment with Global Tax Standards

In response to international tax developments, particularly the OECD's Pillar Two framework, Singapore is introducing an additional Corporate Tax Rate (CTR) tier of 15% for specific incentive schemes, including the Financial Sector Incentive (FSI) and Insurance Business Development (IBD) schemes. Key highlights as below with more details to be released towards end 2025.

"This adjustment ensures that Singapore's tax regime remains competitive and compliant with global standards."

- Financial Sector Incentive (FSI) Scheme. Effective from February 19, 2025, an additional 15% CTR tier has been incorporated into the FSI-Standard Tier, FSI-Trustee Company, and FSI-Headquarter Services schemes. Previously, approved recipients under the FSI scheme were eligible for concessionary tax rates of 10% or 13.5% on qualifying income. The introduction of the 15% tier provides an alternative rate, potentially mitigating the impact of top-up taxes arising from the global minimum tax requirements.

- Insurance Business Development (IBD) Schemes. Similarly, from February 19, 2025, an additional 15% CTR tier has been introduced for the IBD, IBD-Captive Insurance (IBD-CI), and IBD-Insurance Broking Business (IBD-IBB) schemes. This adjustment aligns these schemes with the minimum tax rate under Pillar Two, ensuring their continued relevance and attractiveness to businesses.

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In the context of ongoing changes within Vietnam's legal and administrative systems, adjustments related to the merging of provinces and cities, modifications of administrative boundaries, and new legal documents continue to impact the investment climate and business operations.

The updates below represent only a portion of these ongoing changes, aiming to provide timely information for investors and businesses—especially as further amendments and implementation guidelines are expected in the near future.

Overall, recent developments have been aligned with the direction of promoting transparency and strengthening government's management to suit the modern business environment. However, businesses may face temporary difficulties in adapting to numerous changes within a short period of time.

Economic Development Orientation Based on the Private Sector for the merger of provinces and lower levels

On 04 May 2025, the National Assembly passed Resolution 68-NQ/TW on the development of the private sector economy. This document outlines Vietnam's economic development orientation through 2030, focusing on strategies, specific goals, and solutions to expand the private sector. Some key points of the resolution include:

- **By 2030**: The goal is to have 2 million businesses operating in the economy, equivalent to 20 businesses per 1,000 citizens. At least 20 large enterprises are expected to participate in global value chains.
- **National GDP growth** is targeted to average 7.0% per year.
- **The private sector's growth rate** is expected to average 10–12% annually, contributing around 55–58% of GDP, 35–40% of total state budget revenue, and providing employment for 84–85% of the total workforce.
- **Vision to 2045**: The aim is to have at least 3 million businesses operating in the economy, contributing more than 60% of GDP.
- **Implement national digital transformation**, developing a digital government, digital economy, and digital society; the digital economy is targeted to account for about 30% of GDP.
- **Vietnam's business and investment environment** is to be ranked among the top 3 in ASEAN and among the top 30 globally.

"Resolution 68 is expected to create a more favorable business environment for private enterprises by removing and minimizing unnecessary barriers and business conditions."

To achieve these goals, the government will reform administrative procedures, reduce business conditions, digitize all processes, strengthen property rights. In addition, it will give more freedom to conduct business, ensure fair competition, and higher enforcement for contracts of private enterprises.

Therefore, Resolution 68 is expected to create a more favorable business environment for private enterprises by removing and minimizing unnecessary barriers and business conditions. The right to conduct business can only be restricted for reasons related to national defense, security, public order and safety, social ethics, environmental protection, and public health—and such restrictions must be clearly defined by law. As a result, foreign investors should find it easier to access and invest in the Vietnamese market.

VIETNAM

(Continued)

Draft Amendment to the Law on Enterprises

The draft law amending and supplementing certain provisions of the Law on Enterprises is currently under public discussion at the National Assembly before the approval (expected within a few days). Some notable proposed changes include:

- Measures to address the establishment of businesses for money laundering purposes, such as:
    - Requiring additional mandatory information in business registration documents.
    - Mandatory disclosure of related interests of shareholders in joint-stock companies.
    - Adding responsibilities for enterprise oversight to local provincial People's Committees.

- Allowing certain categories of government officials to contribute capital and establish businesses (which was not allowed previously).

- Inclusion of new business entities—such as business individuals and business households—under the scope of the Enterprise Law.

- Establishing a legal framework for beneficial ownership (ultimate owners), in line with international commitments on anti-money laundering.

- Corporate income tax exemption for small and medium-sized enterprises (SMEs) for three years from the date of establishment.

- Corporate income tax exemption for two years, followed by a 50% reduction for the next four years, for innovative startups.

"Encouraging investors to establish new enterprises (SMEs) with Corporate Income tax benefits.

and Special priority is given…"

In summary, the draft amendments align closely with the private sector development goals of Resolution 68-NQ/TW, by promoting business establishment through tax incentives. Special priority is given to startups and innovation-driven enterprises. At the same time, the draft also aims to tighten enterprise oversight and increase transparency, especially to combat money laundering, clarify ultimate beneficial ownership, and disclose related interests.

Changes to Electronic Invoicing

On 20 March 2025, the Government issued Decree 70/2025/NĐ-CP (effective from 01 June 2025) amending and supplementing several provisions related to invoices and supplement, evidential records. Some notable changes include:

- ***Foreign suppliers without a permanent establishment in Vietnam**, conducting e-commerce, digital platform-based business, and other services are now allowed to voluntarily register to use electronic invoices. These foreign e-commerce providers can also use VAT invoices.*

  This addition aims to better management of e-commerce activities and prevent tax revenue loss in the Vietnamese market. As a result, businesses operating in Vietnam are likely to prioritize importing goods from foreign suppliers registered to use electronic invoices, to avoid complications related to product origin and expense/tax declarations for imports. Although registration is voluntary, foreign suppliers will likely need to adopt voluntarily e-invoicing if they want to expand their presence in the Vietnamese market.

- ***Delivery service businesses*** *providing goods transportation services via digital platforms or e-commerce activities must now include the name of the transported goods and sender's information (name, address,* ***tax code or identification number****) on invoices*.

  This regulation is likely to serve as a tool for monitoring and taxing online sellers. Tax authorities can more easily use data from shipping providers to verify whether sellers are accurately reporting their transactions.

- **Requirement to use e-invoices generated from POS cash registers** include:

  - Business households and individuals with annual revenue from VND 1 billion (equivalent to around USD 40,000) or more.
  - Enterprises that sell goods or services directly to consumers.

"This expansion of e-invoice requirements has caused many small business households and individual sellers—who previously did not strictly comply with invoice regulations—to temporarily suspend operations to avoid inspections."

This expansion of e-invoice requirements has caused many small business households and individual sellers—who previously did not strictly comply with invoice regulations—to temporarily suspend operations to avoid inspections. It has also reduced the number of small transactions made via bank transfers (as these are now easily traceable), prompting many online sellers to pause business activities. As a result, these business households/individuals lose their previous low price and tax advantages (in the informal economy), lowering their competitiveness compared to traditional businesses.

These are regulatory measures aligned with the government's orientation to increase both the number and quality of enterprises (by forcing transparency and properly establishing new companies), while also reducing tax revenue loss.

Changes to Value-Added Tax (VAT)

The **Law on Value-Added Tax** 2024, which replaces the 2008 version, will take effect on 01 July 2025. Key changes include:

- Elimination of VAT exemptions for certain goods such as fertilizers, machinery and specialized equipment used for agricultural production; exported products made from natural resources or minerals that have been processed into other products etc.

- Clarification of taxable price calculation for imported goods, aligning with the Law on Export and Import Duties. This ensures more transparency and ease of implementation for businesses.

- New provision specifying that the taxable price for goods and services used for promotional purposes is determined as zero.

- **Change in input VAT deduction conditions**: Only purchases with **non-cash payment vouchers** will be eligible, regardless of the amount. This replaces the previous regulation, where businesses could still deduct VAT for purchases **under VND 20 million** (~USD 800) even if paid in cash.

- Expansion of the 0% VAT rate to include:
    - International transportation services
    - Construction and installation projects abroad or in non-tariff zones
    - Exported services such as leasing transport vehicles for overseas use

Most noteworthy is the change in VAT deduction conditions requiring **non-cash payment evidence for all purchases**, regardless of value. In practice, businesses often have many small expenses under VND 20 million, and cash payments are still widely used—especially due to many small suppliers and service providers tend to prefer cash. This new amendment will require significant adjustments to internal payment practices and supplier relationships.

*"Most noteworthy is the change in VAT deduction conditions requiring **non-cash payment evidence for all purchases**, regardless of value."*

Amendments to Regulations Guiding the Implementation of the Law on Independent Auditing

Decree 90/2025/ND-CP, effective from 14 April 2025, introduces adjustments and supplements to the implementation of the Law on Independent Auditing, with a focus on strengthening regulatory oversight of audit activities.

Previously, the Vietnamese National Assembly passed **Law No. 56/2024/QH15**, which amended and supplemented various provisions across several laws—including the Law on Securities, the Law on Accounting, the Law on Independent Auditing, the Law on Tax Administration, the Law on Personal Income Tax etc. These amendments notably **increased the maximum penalties** for violations in the field of independent auditing.

Under Decree 90, the scope of entities required to undergo independent audits has been expanded and clarified. These now include:

- **Large-scale enterprises**, defined as meeting at least **two out of the following three criteria**:
    - Average annual number of employees participating in social insurance exceeds 200 people
    - Annual revenue exceeds VND 300 billion (~USD 12 million)
    - Total assets exceed VND 100 billion (~USD 4 million)
- Public companies, issuing organizations, and securities business organizations .
- Enterprises in which listed organizations, issuing organizations, or securities companies hold 20% or more of voting rights at the end of the financial year.
- State-owned enterprises, except for those operating in areas considered state secrets

These are just a few of the new provisions introduced by Decree 90. Notably, **some types of enterprises will now be required to be audited by foreign audit firms or branches of foreign audit firms** operating in Vietnam.

VIETNAM

(Continued)

Amendments to Regulations Guiding the Implementation of the Law on Independent Auditing

Under **Decree 69/2024** on Electronic Identification and Authentication, the Vietnamese government now requires all organizations—including foreign-invested enterprises, branches, and representative offices—to complete **electronic Identification/authentication (eID)** for both the legal entity and its Legal Representative by **30 June 2025**. This eID is necessary to maintain access to key government services such as business registration updates, tax filings, labor and social insurance reporting, import/export registration, and licensing procedures.

A significant challenge arises for organizations whose **Legal Representatives are foreign nationals**, as the eID system is currently only available to Vietnamese citizens with VNeID Level 2. Without proper authentication, these businesses may face **disruptions to routine operations**, including delayed or restricted access to tax portals, online business licensing platforms, and government reporting systems. Additionally, many banks in Vietnam are requiring eID verification for individuals authorized to execute corporate transactions, meaning that **foreign-led companies may be unable to process bank online transfers**, further increasing the risk of operational slowdowns.

"Foreign-led companies may be temporary unable to process tax filings via the tax portal, other administrative, licensing procedures and bank online transfers..."

While the government is expected to release **further guidance in July 2025** to address the registration process for foreign individuals, companies with foreign Legal Representatives should anticipate temporary disruptions and consider interim measures. These could include designating a Vietnamese national as an authorized representative or preparing for manual or alternative procedures.

Disclaimer

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