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Inside this issue:

CHINA

NEW TAX INCENTIVE POLICY ENCOURAGES TO REINVEST PROFITS FROM FOREIGN-INVESTED ENTERPRISES

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On June 27, 2025, the Ministry of Finance, the State Taxation Administration, and the Ministry of Commerce jointly issued the Announcement on the "Tax Credit Policy for Direct Reinvestment by Foreign Investors Using Distributed Profits" (Announcement No. 2 of 2025 jointly issued by the Ministry of Finance, the State Taxation Administration, and the Ministry of Commerce, hereinafter referred to as the "Announcement No. 2"). It specifies that during the period from January 1, 2025 to December 31, 2028, foreign investors who use profits distributed by resident enterprises in China for direct investment in China may enjoy tax credits if the prescribed conditions are met.

This policy is a tax incentive specifically designed for foreign investors investing in China and is regarded as an upgrade to Circular of the Ministry of Finance and the State Taxation Administration on Issues Concerning the Deferral of Enterprise Income Tax for Foreign Investors Reinvesting Distributed Profits in China (Caishui [2018] No. 102). Compared with the tax deferral under Caishui [2018] No. 102, the tax credit policy in Announcement No. 2 can bring real financial savings to foreign investors. The combination of "tax deferral" and "tax credit" is a major positive for foreign investors.

Core Contents of Announcement No. 2 as follows:

" …from January 1, 2025 to December 31, 2028, foreign investors who use profits distributed by resident enterprises in China for direct investment in China may enjoy tax credits..."

1. Scope and Core Policy

- Beneficiaries: Foreign investors (i.e., non-resident enterprises as stipulated in the Enterprise Income Tax Law).
- Preferential Period: January 1, 2025 to December 31, 2028.
- Policy Core: foreign investors that make qualified direct reinvestments within China using profits distributed by domestic resident enterprises may apply for a tax credit equal to 10% of the reinvestment amount, which may be offset against their tax payable for the current year, and any unused portion of the tax credit may be carried forward to subsequent years.

2. Five Conditions to be Met Simultaneously to Enjoy the Preferential Policy

- Source of Profit: The profits distributed are dividends or other equity investment income derived from retained earnings actually distributed by the Chinese resident enterprise to the foreign investor.
- Investment Forms: The distributed profits are used for direct reinvestments within China shall be in the form of three types of equity investments: capital increase, establishment of a new resident enterprise, or acquisition the equity of resident enterprise from non-related parties, excluding purely financial investments such as purchase of shares of listed companies (except where such purchases qualify as strategic investments).
- Industry Requirement: During the period of reinvestment in China by the foreign investor, the industry in which the invested enterprise operates shall fall within the scope of nationally encouraged industries for foreign investment, as listed in the Catalog of Encouraged Industries for Foreign Investment.
- Holding Period Requirement: The foreign investor must hold the reinvestment equity in China for a minimum consecutive period of five years (60 months).

- Funding Requirement: The profits used for direct domestic investment must be transferred directly in the form of cash or assets without "intermediate transfers". For investment paid in cash, the relevant funds shall be transferred directly from the account of the profit-distributing enterprise to the account of the invested enterprise or the equity transferor, and shall not be circulated in other domestic or foreign accounts prior to the investment. For investment paid in non-cash form such as physical assets or securities, the ownership of the assets must be transferred directly from the profit-distributing enterprise to the invested enterprise or the equity transferor, and shall not be held on behalf by other enterprises or individuals prior to the investment.

3. Application of Tax Credit and Administrative Rules

- What can be offset by the tax credit? The credit can be used to offset income tax payable on income such as dividends, interest, and royalties obtained by the foreign investor from the profit-distributing enterprise, starting from the date of reinvestment with distributed profit.

- Tax Deferral and Declaration of Credit: when an eligible foreign investor provides compliant documents to the profit-distributing enterprise, the profit-distributing enterprise may not withhold the enterprise income tax on the distributed profits that is to be reinvested at this point of time. When the profit-distributing enterprise makes payments of dividends, interest or royalties to the foreign investor and withholds income tax on above mentioned income, it may apply to use the tax credit obtained by foreign investor from reinvestment to offset the enterprise income tax payable on income from dividends, interest or royalties.

- Tax Treatment for withdraw of reinvestment:

  - ✓ If the reinvestment is withdrawn after 5 years (60 months), the foreign investor shall make payment for the tax on distributed profit, which has been deferred at the time of reinvestment. The remaining balance of the tax credit from reinvestment may be used to offset the tax payable.

  - ✓ If the reinvestment is withdrawn before holding it for 5 years (60 months), the profits corresponding to that part of the reinvestment shall be deemed as not meeting the preferential conditions. In addition to paying the deferred tax, the foreign investor shall also reduce the available tax credit amount in proportion. If the tax credit amount already used exceeds the adjusted amount, the overdue tax and late penalty charge shall be paid.

  - ✓ If the withdrawn investment includes both investments that have enjoyed preferential treatment and those that have not, it shall be deemed that the investments enjoying preferential treatment are disposed first.

It is evident from Announcement No. 2 that the new policy guides foreign capital to key areas, encourages long-term investment, and discourages short-term speculation. The introduction of this policy will encourage foreign investors to continuously increase their investments in China. It also demonstrates China's determination to open up to the outside world.

"It also demonstrates China's determination to open up to the outside world."

HONG KONG

LONG SERVICE PAYMENTS AND SEVERANCE PAYMENTS

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To enhance employees' retirement benefits, new regulation to restrict offsetting of accrued Mandatory Provident Fund (MPF) benefits against long service payments (LSP) or severance payments (SP) was implemented as from 1 May 2025 (Transition Date).

Pre-transition regulation

Under the previous regulation, employers can apply accrued benefits from their MPF contributions to offset LSP or SP payable to employees.

"… LSP attributable to employment period after 1 May 2025 will be calculated without deducting mandatory MPF contributions, representing an increase in employer liability and enhancement of benefits to employees."

Post-transition regulation

Commencing from the Transition Date, the previous offsetting arrangement is abolished and replaced by new regulation as follows:

- Employer Voluntary MPF contributions for any period can be used to offset LSP/SP for any period.
- Employer Mandatory MPF contributions for any period can be used to offset LSP/SP for the pre-transition portion of employment.
- Employer Mandatory MPF contributions for any period cannot be used to offset LSP/SP for the post-transition portion of employment.

Effectively, it means LSP attributable to employment period after 1 May 2025 will be calculated without deducting mandatory MPF contributions, representing an increase in employer liability and enhancement of benefits to employees.

Government subsidy

Furthermore, to ease the financial impact of the abolition to the employers, the Government puts in place a subsidy scheme that runs for 25 years (2025–2050). Briefly, the subsidies are as follows:

- The subsidies are reimbursement-based.
- Employers must first pay the LSP/SP, then apply for the subsidy within 3 months of the LSP/SP payment.
- The subsidy ratio decreases over time, starting at 50% in Year 1 and ends after Year 25.

Commencing from Transition Date	Employer's Share	Cap per Employee for Employer's Share	Government Subsidy, subject to an annual subsidy threshold per employer (Note)
Years 1–3	50%	HK$3,000	Government covers remainder.
Year 4-6	55%-65%	HK$25,000	Subsidy reduces gradually
Year 7-25	70-95%	Increasing / lifting cap	Subsidy reduces gradually
Year 26	100%	N/A	Subsidy ends

Note: The annual subsidy threshold is HK$500,000. When an employer has been approved subsidies for a LSP year cumulatively up to this amount, the "cap per employee for the employer's share" shall not apply in calculating the subsidy exceeding the threshold.

An online Government calculator is available to facilitate calculation of the subsidies.

Accounting treatment for employers

The LSP obligation is classified as a defined benefit plan liability that requires measurement based on the "projected unit credit method". The HKICPA has issued guidance outlining two acceptable approaches under Hong Kong Financial Reporting Standards (HKFRS) for accounting the impact of the abolition of the set off. The approaches are:

Approach 1: Net Liability Model

- Treat offsetable MPF benefits as deemed employee contributions.
- Recognize a negative service cost to reduce the LSP obligation.
- Upon abolition, recognize a one-off catch-up adjustment as past service cost in P&L and increase the LSP liability.

Approach 2: Gross Liability + Reimbursement Asset

- Measure LSP obligation without offset.
- Recognize a separate reimbursement asset for offsetable MPF benefits.
- Adjust the LSP liability to reflect the change in salary reference date for pre-transition service.

"The HKICPA has issued guidance outlining two acceptable approaches under Hong Kong Financial Reporting Standards (HKFRS) for accounting the impact of the abolition of the set off."

Under both approaches, proper projections / actuarial estimates would be required to determine the LSP liability. The HKICPA has issued a template with illustrative data to assist preparation of the liability.

Tax Treatment for LSP Provisions for employers

The Hong Kong Inland Revenue Department (IRD) requires the following tax treatments for LSP provisions and reimbursements:

- LSP provisions made in accordance with the Employment Ordinance (EO) and HKFRS, if fairly accurate and incurred in generating assessable profits, are deductible expenses.
- Provisions shall include current service cost, relevant interest expense, and any one-off past service cost adjustment due to the abolition of MPF offsetting.
- Actuarial assumptions and estimates must be reasonable and valid to qualify for deduction.
- Remeasurement gains or losses due to changes in actuarial assumptions recognized in Other Comprehensive Income (OCI) are also taxable or deductible in the year recognized, provided they meet the above criteria.
- Alternatively, deduction may be claimed based on the actual amount of LSP paid under the EO, provided that this basis is used consistently.

HONG KONG

(Continued)

Tax Treatment for Government Subsidy Reimbursement

- Subsidies received in the course of business is generally taxable under section 15(1)(c) of the Inland Revenue Ordinance. This treatment mirrors the deductibility of the LSP/SP payment / accrual. That said, the HKICPA has lobbied the government to consider granting profits tax exemption for such reimbursements.

- Until specific guidance or legislation granting tax exemption is enacted, these reimbursements remain taxable.

Approaches and Conditions

- Under Approach 1 (net basis accounting of LSP minus offsetable MPF benefits), tax deductions correspond to the net LSP provision.

- Under Approach 2 (gross LSP provision with reimbursement asset), deductions are allowed against the gross LSP liability, on the condition that no separate deduction for MPF contributions is claimed.

- Any timing differences in deduction between provision and actual payment are recognized accordingly.

In summary, LSP provisions and related one-off adjustments are generally deductible for profits tax purposes if they comply with EO and are fairly accurate. Government subsidies received are taxable until the tax law is amended to specifically provide for exemption.

INDIA

UPDATES FROM THE RBI, SEBI AND MORE

Sharp & Tannan

Chartered Accountants

1. Reserve Bank of India ('RBI')

1.1 Review of the 'Qualifying Asset' criteria for NBFC – Micro Finance Institutions

With effect from 6 June 2025, RBI has revised the asset qualification criteria for Non-Banking Financial Companies – Micro Finance Institutions (NBFC–MFIs) from 75% to 60%, which means that the qualifying assets of an NBFC-MFI should be a minimum of 60% of the total assets (excluding intangible assets) on an ongoing basis. If an NBFC-MFI fails to maintain the qualifying assets as mentioned above for four consecutive quarters, it shall approach the RBI with a remediation plan for rectifying the matter.

1.2 Investment in Government Securities by persons resident outside India through a special rupee Vostro account

Investment by persons resident outside India is controlled and monitored by various regulations, notifications and guidelines issued by the RBI. Vide its notification dated 12 August 2025, RBI has directed that persons resident outside India who maintain a Special Rupee Vostro Account ('SRVA') for international

trade settlement in Indian Rupees in terms of A.P. (DIR Series) Circular No. 10 dated 11 July 2022 may invest their rupee surplus balance in the aforesaid account in Central Government Securities (including Treasury Bills).

These directions have come into effect immediately, i.e. from 12 August 2025.

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

Framework for Environment, Social and Governance ('ESG') Debt Securities

SEBI circular dated 5 June 2025 establishes a detailed operational framework for the issuance and listing of ESG debt securities, specifically social bonds, sustainability bonds, and sustainability-linked bonds, while excluding green bonds (which are already covered under existing regulations).

The move aims at promoting sustainable financing by enabling issuers to raise funds for projects with defined environmental and social benefits.

The framework has been finalised by SEBI in consultation with the Industry Standards Forum ('ISF') and aligns Indian practices with recognised global frameworks such as the International Capital Market Association ('ICMA') Principles, ASEAN Standards, and European Union ('EU') Standards.

The circular defines each type of bond:

- **Social Bonds:** Funds must be allocated to projects that address specific social issues like affordable housing, basic infrastructure, employment generation, food security, and socio-economic empowerment.
- **Sustainability Bonds:** These finance a mix of green and social projects.
- **Sustainability-Linked Bonds:** The bond's financial or structural terms are tied to the issuer's achievement of pre-defined sustainability performance targets, which are measured through key performance indicators ('KPIs').

"To maintain transparency and credibility, issuers must provide initial disclosures, continuous post-listing obligations and appointment of independent third-party reviewers/certifiers."

To maintain transparency and credibility, issuers must provide initial disclosures, continuous post-listing obligations and appointment of independent third-party reviewers/certifiers. These include details of the projects being financed, the social or environmental objectives, systems for tracking fund utilisation, and the measurable impact of the projects.

Preventing 'purpose-washing': SEBI has mandated strict monitoring, reporting, and corrective measures, including early redemption of bonds if misuse of the funds and non-fulfilment of the social/sustainability objects are identified. Issuers must not use misleading labels or make false claims and must quantify any negative externalities associated with the funded projects.

This framework will apply to all ESG debt securities issued on or after 5 June 2025.

3. ICAI: Announcement on the ceiling on the number of tax audits

Presently, the Institute of Chartered Accountants of India ('ICAI') allows a maximum of 60 tax audits for a member. In July 2025, the ICAI has retained the said limit, but the same shall be in respect of tax audit assignments in a particular

financial year. In other words, an individual member cannot sign more than 60 tax audit reports in a financial year. The limit applies in respect of all tax audits accepted and signed by a member, both in his/her individual capacity and as a partner of a firm.

Applicability: Effective for tax audits starting from 1 April 2026.

The limit on the number of tax audit assignments per partner in a CA Firm **cannot** be distributed/or shared between the partners.

The limit of 60 does not apply to tax audit assignments under the presumptive taxation, i.e. **under section 44AE, 44ADA and 44AD**, of the Income-tax Act, 1961.

Revision of the tax audit report **shall not be taken into account** for the purpose of reckoning the said limit.

4. Ministry of Corporate Affairs ('MCA')

"The limit on the number of tax audit assignments per partner in a CA Firm cannot be distributed/or shared between the partners."

Companies (Accounts) Second Amendment Rules, 2025

The Ministry of Corporate Affairs ('MCA') issued the Companies (Accounts) Second Amendment Rules, 2025, bringing changes to compliance reporting and statutory disclosures under the Companies Act, 2013 with effect from 14 July 2025.

- **E-filing of Forms AOC-1 and AOC-2**

  As part of the digital compliance initiative, Form AOC-1 (statement of salient features of subsidiary financials) and Form AOC-2 (details of related party transactions) must now be submitted electronically.

- **Disclosures in the Board report**

  - **Regarding sexual harassment cases**

    Rule 8(5) requires a Board report to include a statement that the company has complied with provisions relating to the constitution of the 'Internal Complaints Committee' under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013. It will henceforth be mandatory to include the following additional details:

    - The number of complaints of sexual harassment received in the year
    - Number of complaints disposed off during the year
    - Number of cases pending for more than 90 days.

  - **Regarding adherence to the Maternity Benefit Act, 1961**

    A new clause (xiii) is inserted in Rule 8(5). It requires the companies to include a statement with respect to the compliance of the provisions of the Maternity Benefit Act 1961.

These amendments ensure greater accountability and workplace safety, aligning with the objectives of the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013, as well as the social metrics applicable under ESG and BRSR reporting.

- **Filing of financial statements (Rule 12)**

  In respect of the financials, presently the companies are required to file the following e-forms (as applicable), viz., Form No. AOC-4, AOC-4 CFS, AOC-4 XBRL, AOC-4 NBFC (Ind AS) or AOC-4 CFS NBFC (Ind AS) along with the applicable PDF attachments.

  The new subrule (1C) requires that, in addition to the above, every company shall electronically file:

  - Extract of Board Report,
  - Extract of Auditor's Report (Standalone) and
  - Extract of Auditor's Report (Consolidated)

  The rule further provides that a copy of signed financial statements duly authenticated as per section 134 of the Act (including the board's report, auditors' report and other documents) in PDF version shall also be attached with XBRL Forms.

5. Indirect Taxes: India announces major GST rate cuts w.e.f. 22 September 2025

"The key pillars were 'rate rationalisation' and 'process reforms' with focus on the 'common-man, labour-intensive Industries, farmers and agriculture, health and the key economic drivers'."

On 3 September 2025, the Goods and Services Tax Council (the 'GST Council') approved reforms with a multi-sectoral and multi-thematic focus on improving the ease of living and the ease of doing business. The key pillars were 'rate rationalisation' and 'process reforms' with focus on the 'common-man, labour-intensive Industries, farmers and agriculture, health and the key economic drivers'.

GST tax rate will be as follows (effective from 22 September 2025):

- **Standard rate: 18%** applies to cement, TV sets, vehicles (buses, trucks, ambulances, three-wheelers, and auto parts)
- **Merit rate: 5%** applies to various common-man items, food items, agricultural goods and machinery, labour-intensive goods (e.g. handicrafts, leather goods, etc.), medical/surgical devices, medical supplies and equipment, etc., renewable energy devices and parts of their manufacture.
- **NIL Rate:** applies to **Ultra High Temperature ('UTH') milk, all kinds of Indian breads, prepackaged/labelled chena/paneer.**
- **De-merit rate: 40%** applies to a select few goods and services, e.g. motor motorcycles of engine capacity > 350 cc, certain non-alcoholic beverages, cigars, tobacco and tobacco substitutes, etc.

Process reforms:

- Automated registration process will be effected in the case of low-risk applicants.
- Sanction of provisional 90% refund claims on account of zero-rated supplies and those arising out of the inverted duty structure.
- GST Appellate Tribunal ('GSTAT') for filing appeals under the GST will be made operational by 30 September 2025.

INDONESIA

INDONESIA'S NEW TAX REGULATION: MOF DECREE # 37 /2025 MARKETPLACE AS A COLLECTOR OF ARTICLE 22 INCOME TAX

Russell Bedford SBR

With the rapid advancement of technology and digitalization, Indonesia has now issued a new regulation, namely Minister of Finance Decree (MoF) # 37/2025, to oversee tax compliance in the digital economy.

Based on MoF Decree # 37/2025, foreign digital platforms (marketplace) can be designated as third parties or as collectors of Income Tax (Article 22) for transactions carried out by domestic (Indonesia) merchants on their platforms through an electronic trading system.

This regulation, which was enacted on June 11, 2025, aims to create a level playing field between local and foreign platforms and to enhance tax compliance in cross-border digital trade.

"…foreign digital platforms can be designated as third parties or as collectors of Income Tax (Article 22) for transactions carried out by domestic (Indonesia) merchants on their platforms through an electronic trading system."

Key Points of MoF Decree # 37/2025

1. **Appointment of Domestic and Foreign Platforms as Article 22 Income Tax Collectors**

   The Directorate General of Taxes (DJP) may designate domestic and foreign platforms as Article 22 Income Tax Collectors.

   Electronic trading system operators, whether based domestically or abroad, are included if they meet certain criteria:

   - Uses an escrow account to handle payments, and
   - Reaches a certain volume of transactions and/or user traffic from Indonesia over a 12-month period (threshold to be defined by DJP)

2. **Merchant Data Collection**

   Platforms are required to collect and maintain the following information from Indonesian merchants:

   - Tax ID Number (NPWP) or National ID (NIK)
   - Address
   - Statement letter if their annual turnover is below IDR 500 million (to apply for exemption)

3. **Rates and Withholding Mechanism**

   - The Article 22 Income Tax rate is 0,5% of the gross revenue received, excluding VAT and Luxury Goods Sales Tax (PPnBM)

   - The tax must be withheld at the time of payment from the buyer and subsequently remitted to the Indonesian tax authority.

4. **Invoice and Reporting Obligations**

   - Every transaction by Indonesian merchants must be accompanied by an invoice showing transaction details, the merchant's identity, and the amount of tax withheld.

- The platform must also submit periodic reports to the Indonesian tax authority

5. Sanctions and Transitional Provisions

- Collectors (Platforms/marketplaces) that fail to fulfil their obligation to withhold, collect, deposit, and report taxes will be subject to sanctions in accordance with tax regulations and electronic system operator regulations.

- The submission of information, such as a statement of annual turnover ≤ IDR 500 million or information on Tax ID Number (NPWP)/National ID (NIK) and address, for the 2025 tax year must be completed no later than 1 (one) Month from the date of the appointment of the third party as a tax collector.

The issuance of the new regulation by the government, namely MoF Decree # 37/2025, does not introduce a new tax but enforces an existing tax- Article 22 Income Tax-on electronic transactions.

MoF Decree # 37/2025 signals a new era of digital tax oversight in Indonesia. Foreign platforms wishing to operate in this market must be ready to act as tax withholding agents if designated, and to build systems that comply with Indonesian tax rules.

By taking early compliance steps, foreign e-commerce platforms can avoid legal risks and strengthen their presence in one of southeast Asia's fastest-growing digital markets.

With the involvement of third parties as tax collectors, merchants can be assisted through the existing systems on the platform. The process of submitting tax information becomes more structured.

INDONESIA

(Continued)

"The issuance of the new regulation by the government, namely MoF Decree # 37/2025, does not introduce a new tax but enforces an existing tax- Article 22 Income Tax-on electronic transactions."

INTRODUCTION OF THE SIMPLIFIED AND STREAMLINED APPROACH FOR APPLICATION OF TRANSFER PRICING RULES

JAPAN

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In February 2024, the OECD and G20 Inclusive Framework on BEPS reached an agreement on the Simplified and Streamlined Approach for the application of transfer pricing rules (commonly referred to as "Amount B"). This approach is intended to simplify and streamline the application of transfer pricing rules to qualifying controlled transactions of distributors engaged in baseline marketing and distribution activities. (Hereinafter referred to as the "Simplified and Streamlined Approach.") The content of this agreement is scheduled to be incorporated into and published as part of the OECD Transfer Pricing Guidelines.

Jurisdictions implementing the Simplified and Streamlined Approach may apply it to in-scope transactions for fiscal years beginning on or after January 1, 2025.

While the National Tax Agency of Japan will not implement the Simplified and Streamlined Approach for the time being, there remains the possibility that foreign

affiliates (such as subsidiaries) of Japanese corporations may be located in jurisdictions that adopt the approach. Accordingly, in June 2025, the National Tax Agency published the "FAQ on the Simplified and Streamlined Approach for the Application of Transfer Pricing Rules," which summarises Japan's tax treatment of the approach.

The following is an English translation. As this translation has been prepared by our firm, please refer to the original Japanese text for greater accuracy.

FAQ (Simplified and Streamlined Approach to Transfer Pricing – Japan, June 2025)

Overview of the Simplified and Streamlined Approach

Q1. Please explain the outline of the Simplified and Streamlined Approach.

"Jurisdictions implementing the Simplified and Streamlined Approach may apply it to in-scope transactions for fiscal years beginning on or after January 1, 2025."

A1. Within the OECD/G20 Inclusive Framework on BEPS, discussions are ongoing concerning the tax challenges arising from the digitalisation and globalisation of the economy. The Simplified and Streamlined Approach, as set out in the Amount B Guidance, constitutes one of the proposed solutions. It seeks to simplify and streamline the application of transfer pricing rules to certain qualifying baseline marketing and distribution activities of distributors, provided that defined quantitative criteria are satisfied. Specifically, relevant controlled transactions are identified by applying quantitative thresholds, and the arm's length price is determined by reference to a pre-determined schedule of fixed returns.

According to the Amount B Guidance, jurisdictions that elect to implement the Simplified and Streamlined Approach may apply it to in-scope transactions for fiscal years commencing on or after 1 January 2025. Japan, however, will not implement the Simplified and Streamlined Approach for the time being.

Calculation of the Arm's Length Price

Q2. If a controlled transaction with our foreign related party located in a host jurisdiction has been priced using the Simplified and Streamlined Approach, can Japan also apply that approach in determining the arm's length price?

A2. Since Japan does not implement the Simplified and Streamlined Approach, the determination of the arm's length price must be carried out under the traditional transfer pricing methods prescribed in Japanese legislation, irrespective of whether the host jurisdiction applies the Simplified and Streamlined Approach or qualifies as a covered jurisdiction.

Possibility of Requesting an Advance Pricing Arrangement (APA)

Q3. Is it possible to request an Advance Pricing Arrangement (APA) in Japan based on the outcome of the Simplified and Streamlined Approach applied in the host jurisdiction?

A3. As Japan does not implement the Simplified and Streamlined Approach, any request for an APA must be based on the conventional transfer pricing methods. This requirement is not affected by whether the host jurisdiction qualifies as a covered jurisdiction.

Procedures in Cases Where Double Taxation Arises Due to the Application of the Simplified and Streamlined Approach in the Host Jurisdiction

JAPAN

(Continued)

Q4. If double taxation arises because the host jurisdiction imposes tax by applying the Simplified and Streamlined Approach, can the taxpayer initiate a Mutual Agreement Procedure (MAP)?

A4. Where double taxation arises from taxation in the host jurisdiction under the Simplified and Streamlined Approach, the taxpayer may request MAP under the applicable tax treaty between Japan and the host jurisdiction. This also applies in cases where double taxation results from the application of different approaches (the Simplified and Streamlined Approach abroad and traditional methods in Japan).

The MAP discussions will be conducted on the basis of the conventional transfer pricing methods. However, the Amount B Guidance notes that if the host jurisdiction is a covered jurisdiction and a tax treaty exists, the outcome of the Simplified and Streamlined Approach should be respected to the extent permitted under the domestic law and administrative practice of the other treaty partner. Accordingly, Japan will also take this into account in MAP within the limits of its domestic law and practice.

Preparation of Transfer Pricing Documentation

Q5. Will a transfer pricing documentation prepared by a foreign related party in a host jurisdiction under the Simplified and Streamlined Approach be recognised as transfer pricing documentation in Japan?

A5. Since Japan does not implement the Simplified and Streamlined Approach, transfer pricing documentation prepared in that format by a foreign related party is not deemed compliant with Japan's transfer pricing documentation requirements. Accordingly, taxpayers are still required to prepare, maintain, and submit (upon request) transfer pricing documentation based on the traditional methods.

However, where such documentation also includes an analysis using conventional transfer pricing methods, and the results are consistent with those derived under the Simplified and Streamlined Approach, then it may be regarded as aligned with Japan's documentation requirements. This treatment applies regardless of whether the host jurisdiction qualifies as a covered jurisdiction.

MALAYSIA

MALAYSIA'S 2025 SALES AND SERVICE TAX OVERHAUL

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Malaysia implemented substantial reforms to its Sales Tax and Service Tax ("SST") regime, effective 1 July 2025. These changes, developed through extensive engagement with stakeholders, are intended to modernize the country's indirect tax framework and strengthen fiscal sustainability.

The revised Sales Tax structure introduces a tiered approach to taxation. Essential goods—including rice, chicken, beef, vegetables, eggs, and selected local fish—remain exempt from Sales Tax, ensuring continued affordability of basic necessities. The exemption list has also been expanded to include certain imported fruits such as apples, oranges, mandarin oranges, and dates, reflecting the government's commitment to consumer welfare.

For non-essential and premium goods, the Sales Tax rates have been revised to 5% or 10%, depending on the product category. Items such as abalone, lobster, cheese, and silk are now subject to a 5% tax, while luxury goods including shark fin, alcoholic beverages, leather products, and racing bicycles are taxed at 10%. This targeted approach is designed to enhance government revenue while minimizing the impact on everyday consumers.

The scope of the Service Tax has been broadened to include additional service categories such as finance, rental or leasing, healthcare for non-citizens, construction, and certain education services. In response to industry feedback, the government has increased the annual sales thresholds for mandatory registration for finance and rental/leasing services. Micro, small, and medium enterprises (MSMEs) also benefit from higher exemption thresholds, reducing compliance burdens for smaller businesses.

"By expanding the tax base while safeguarding essential goods, the government aims to support national development without imposing undue hardship on the public."

To facilitate a smooth transition, businesses making genuine efforts to comply with the new requirements will not face prosecution or penalties until after 31 December 2025, except in cases of fraud or intentional non-compliance. Business-to-business (B2B) exemptions and group relief are available for certain newly taxable services, helping to mitigate the risk of cascading tax effects, a known limitation of the SST system compared to value-added tax (VAT) regimes.

Additionally, non-reviewable contracts signed prior to the effective date are granted a 12-month exemption, providing certainty for ongoing business arrangements during the transition period.

Malaysia's 2025 SST reforms represent a strategic effort to balance fiscal objectives with consumer protection. By expanding the tax base while safeguarding essential goods, the government aims to support national development without imposing undue hardship on the public.

NEW TAX REFORMS AIM TO BOOST PH CAPITAL MARKETS

PHILIPPINES

MFP
M. F. Padernal and Co.

Signed into law on May 29, 2025, the new Capital Markets Efficiency Promotion Act (CMEPA) took effect through Bureau of Internal Revenue (BIR) Revenue Memorandum Circular (RMC) No. 60-2025 on July 1, 2025. The law aims to provide a simpler, fairer, more efficient, and regionally competitive passive income tax system to encourage savings, as well as develop and deepen capital markets in the country.

CMEPA streamlines the taxation of passive income. A uniform 20% final tax is now imposed on interest, yield, or any other monetary benefit earned from any currency bank deposit or deposit substitute, trust funds, and other similar arrangements, which are previously subject to varying rates. This include interest earned from long-term deposits and investments of individuals with maturity period of not less than five (5) years, which are previously tax-exempt, and interest income from foreign currency deposits.

"The law aims to provide a simpler, fairer, more efficient, and regionally competitive passive income tax system to encourage savings, as well as develop and deepen capital markets in the country."

CMEPA also provides a uniform 20% final tax on royalties earned as passive income, except those derived from books, literary works, and musical compositions, which benefit from a reduced 10% final tax.

Passive income earned by government-owned and controlled corporations (GOCCs), which is previously exempt from tax, is also subject to 20% final tax under the new law.

CMEPA also introduces tax reforms on capital market transactions. Capital gains from the sale or exchange of shares not traded in the stock exchange, whether domestic or foreign shares, are now uniformly taxed at a 15% final rate. Stock transaction tax for domestic shares traded through a local stock exchange is lowered from 0.60% to 0.10% of gross selling price.

Further, CMEPA reduces the documentary stamp tax (DST) on original issuances of shares of stock and debt instruments from 1% to 0.75%. This includes bonds, debentures, and certificates of stock or indebtedness issued in foreign countries, regardless of jurisdiction.

The new law also exempts the sale, exchange, or redemption of listed shares in local or foreign stock exchanges, original issuances and redemptions of shares in mutual fund companies and the issuance of certificates or other evidence of participation in mutual funds or unit investment trust funds from DST.

CMEPA also clarifies definitions relevant to capital market transactions, including "securities" and "deposit substitute". The term "securities" as defined by the new law now expressly includes the following: (a) asset-backed; (b) securities, investment contracts, certificates of interest, or participation in a profit-sharing agreement, such as certificates of deposit for a future subscription; (c) fractional undivided interests in oil, gas, or other mineral rights; (d) certificates of assignment, certificates of participation, trust certificates, voting trust certificates, or similar instruments; (e) proprietary or non-proprietary membership certificates in corporations; (f) and other similar instruments as may be determined by the Securities and Exchange Commission. As for the term "deposit substitute", the new law now excludes reverse repurchase agreements.

According to the law, any tax exemption and preferential rate on financial instruments issued or transacted prior to its effectivity on July 1 are subject to the prevailing tax rate at the time of its issuance for the remaining maturity of the relevant agreement.

The Department of Finance believes that the new law will encourage market participation

PHILIPPINES

and financial planning, boost market liquidity, make the country's equity market regionally competitive, and increase capital market growth.

(Continued)

VIETNAM

KEY REGULATORY CHANGES EFFECTIVE FROM 2025 AND BUSINESS IMPLICATIONS

Russell Bedford
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Vietnam is entering a period of significant regulatory reforms designed to enhance transparency, strengthen corporate governance, and align more closely with international standards. Starting in 2025, major changes will take effect in areas including corporate governance, taxation, electronic identification, and social security. These developments are particularly relevant for multinational corporations operating in the region, which should proactively prepare compliance strategies and adjust their operating models to ensure efficiency and regulatory readiness.

1. Mandatory Disclosure of Ultimate Beneficial Owners (UBO) – Effective 1 July 2025

"Vietnam is entering a period of significant regulatory reforms designed to enhance transparency, strengthen corporate governance, and align more closely with international standards."

The amended Law on Enterprises No. 76/2025/QH15 introduces a new requirement for all enterprises to disclose information on their **Ultimate Beneficial Owner (UBO)**. A UBO is defined as an individual who directly or indirectly holds at least **25% of charter capital or voting rights**, or otherwise exercises effective control over the enterprise.

This regulation aligns with the recommendations of the Financial Action Task Force (FATF) on anti-money laundering and counter-terrorist financing. In practice, several regional jurisdictions such as Singapore and Malaysia have already implemented UBO disclosure requirements for years. Vietnam's adoption of this obligation reflects its commitment to international financial integration and higher corporate transparency standards.

However, practical implementation remains **inconsistent**, particularly in connection with business registration and subsequent amendments, mainly due to the **lack of detailed guiding regulations**.

Key takeaway for businesses: Authorities may request additional documentation related to UBOs, which could prolong administrative procedures. Companies are therefore advised to closely monitor forthcoming guidance and ensure timely updates to remain compliant.

2. Mandatory Registration of National e-Identification (VNeID) for All Enterprises, Including FDI

VNeID (Vietnam National e-Identification) *is the national electronic identification and authentication platform developed and managed by the Ministry of Public Security. It enables individuals and organizations to conduct secure and unified online transactions, gradually replacing other login methods.*

According to Decree No. 69/2024/ND-CP, **effective 1 July 2025**, VNeID will become the sole method for enterprises to perform administrative and legal transactions. Existing accounts on the National Public Service Portal will **expire on 30 June 2025**.

Key highlights of the new requirement:

- Going forward, administrative procedures such as tax filing, customs declarations, social insurance, banking, and other public services will be

consolidated and must be conducted exclusively through the VNeID system. Enterprises that fail to register in time risk disruptions in fulfilling their administrative and financial obligations.

- To obtain a VNeID, the enterprise's legal representative must hold a personal identification number. This is a particular concern for foreign legal representatives, as such numbers are currently issued only to individuals who legally reside in Vietnam (e.g., with a work permit or investor visa). As a result, many FDI enterprises whose legal representatives do not meet these conditions may face significant obstacles — potentially leading to serious delays in carrying out mandatory procedures.

This development represents a major step in Vietnam's digital government strategy, aligned with e-government initiatives seen across other ASEAN countries. While businesses will need to adjust internal processes, VNeID also offers important benefits: shorter processing times, reduced fraud risks, and greater transparency in transactions. Multinational corporations are strongly advised to prepare system transition plans now to avoid operational disruptions in the second half of 2025.

3. Corporate Income Tax Law 2025 – Effective 1 October 2025

The National Assembly of Vietnam has passed the **Corporate Income Tax (CIT) Law No. 67/2025/QH15**, effective from **1 October 2025** and applicable to the 2025 tax year. The law introduces a number of significant changes with direct impact on both domestic and foreign enterprises.

Expansion of taxable entities in Vietnam. Under the new provisions, foreign enterprises without a permanent establishment in Vietnam — including e-commerce platforms and digital-based businesses — are still required to pay tax on income sourced from Vietnam, regardless of business location. This means tax obligations will arise as soon as goods or services are provided to the Vietnamese market, even without a local commercial presence. In practice, Vietnamese companies prefer to work with foreign suppliers who voluntarily register for a tax code in Vietnam, as this facilitates declaration, withholding, and compliance. On the other hand, foreign suppliers that do not register may face difficulties in contract negotiations, since the Vietnamese counterpart must withhold and remit tax on their behalf, increasing compliance risks and costs.

"This is a particular concern for foreign legal representatives, as such numbers are currently issued only to individuals who legally reside in Vietnam."

Expansion of tax-exempt income. The law adds new categories of exempt income, such as income from the first transfer of carbon credits after issuance, and income from interest or the first transfer of green bonds after issuance. These provisions are intended to encourage businesses to develop sustainable and environmentally friendly practices.

Stricter rules on deductible expenses. Under the new law, cash payments exceeding VND 5 million (approx. USD 200) will not be deductible when determining taxable income, compared with the previous threshold of VND 20 million (approx. USD 800). This is a significant change, requiring enterprises to increase the use of bank transfers to ensure compliance, while enhancing financial transparency and reducing risks in expense management.

Greater flexibility in loss offsetting. Enterprises are allowed to offset losses from real estate transfers against income from other business activities (except those enjoying tax incentives). This provision helps reduce the financial burden on real estate businesses in a volatile market, particularly when projects must be liquidated.

Adjustment of tax incentives for new investment projects in automobile manufacturing

and assembly. Specifically, under Article 13.4, such projects will enjoy a preferential tax rate of 17% for 10 years. Compared with the previous incentive of 10% for 15 years, this is a significant reduction in both rate and duration. As a result, automotive enterprises should carefully reassess their investment and business strategies.

A tiered corporate income tax rate based on revenue scale is introduced. Enterprises with annual revenue below VND 3 billion (approximately USD 120,000) will be subject to a 15% tax rate, while those with revenue between VND 3 billion and VND 50 billion (approximately USD 120,000 – 2 million) will be taxed at 17%, instead of the standard 20% previously applied. This notable change reduces the tax burden on small and medium-sized enterprises and encourages household businesses and individual entrepreneurs to transition into corporate structures once they reach a certain scale. Overall, the Corporate Income Tax Law 2025 is expected to foster a more level playing field, support SMEs, and strengthen tax administration effectiveness for cross-border business activities.

4. Social Insurance Law 2024 – Effective 1 July 2025

The National Assembly of Vietnam has passed the **Social Insurance Law 2024**, effective from 1 July 2025, with a key highlight being the expansion of mandatory social insurance (SI) coverage under Article 2 of the law. Specifically, individuals working under labor contracts of indefinite term or fixed term of at least one month, including contracts under other names but with the nature of employment, remuneration, and subordination to the employer, will all be required to participate. Notably, even part-time employees, shift-based workers, or hourly workers will be covered by mandatory SI if their monthly salary is equal to or higher than the statutory minimum wage used as the SI contribution base.

"The expansion of mandatory SI coverage will increase the level of protection for the workforce, including part-time and short-term contract workers."

In addition, groups such as company managers, controllers, state capital representatives, corporate capital representatives, members of the Board of Directors, Directors, General Directors, Supervisory Boards—regardless of whether they receive a salary—also fall under the scope of application. Another new point is that household business owners with officially registered business licenses are included in mandatory SI participation, as stipulated by the Government.

The expansion of mandatory SI coverage will increase the level of protection for the workforce, including part-time and short-term contract workers. For enterprises, this means reviewing labor contracts and anticipating higher personnel costs due to the extended SI obligations. Although operating costs may rise in the short term, this policy contributes to greater labor market stability, reduces compliance risks, and strengthens the social security framework—an important factor in maintaining Vietnam's long-term attractiveness to investors.

5. New Regulations on Work Permits for Foreign Workers in Vietnam

Vietnam has recently issued Decree 219/2025/ND-CP, effective from 7 August 2025, replacing previous regulations on the management of foreign workers. The key update is that the work permit application process is now integrated and submitted online via the National Public Service Portal, thereby reducing administrative procedures. The processing time is shortened to 10 working days, and certain groups of workers are exempt from work permits, such as those working for less than 90 days per year or in priority sectors (finance, science, technology, innovation, digital transformation). These changes are expected to create greater convenience for investors and FDI enterprises in mobilizing international experts, while also enhancing transparency and efficiency in labor management in Vietnam.

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