



**REANDA**

INTERNATIONAL



**TAX  
YEAR  
BOOK  
2013**

## **PREFACE**

The Reanda International Tax Year Book 2013, a yearly tax publication of Reanda International, aims to be a tax handbook for providing the tax rates, main reliefs and exemptions for countries where Reanda International has established its presence. Unless otherwise explicitly stated, all data and comments provided by member firms of Reanda International are current as of 1 January, 2013 only.

On a country-by-country basis, each summary is divided into 6 sections, addressing the country's 1) corporate, 2) personal tax regime, 3) statutory requirement on social security and retirement contribution, 4) GST/VAT, 5) Double Tax Treaty as well as 6) other significant taxes in the country that need readers' attention.

The Tax Year Book only contains general information of the taxation issues in each country for the broad guidance of readers only. It is NOT intended to offer specific and universal explanation or advices in the tax fields. Readers shall take the Tax Year Book as first point of reference and should they need specific information and advice, please contact the respective Reanda International network firm for professional services and advices addressing to their particular situation.

In addition to the printed version of the Tax Year Book, the electronic version can be downloaded from the Reanda International website at [www.reanda-international.com](http://www.reanda-international.com).

## **REANDA INTERNATIONAL**

April 2013

# 序

税务年鉴2013作为利安达国际之年度税务刊物，旨在为客户提供利安达国际成员所在国家之税率、税务豁免及减免等信息。如非特别註明，所有利安达国际成员所提供之数据及评论均截至2013年1月1日。

相关国家之税务摘要共分为6部分，包括该国的1)企业所得税、2)个人所得税之税收体制、3)社会保障及退休供款之法定要求、4)商品及服务税/增值税、5)双重税务条约以及6)其他重要税项。

税务年鉴内含相关国家税务事项的基本信息，仅供读者作参考之用，而并非为读者提供具体的税务说明及建议。如读者需要具体的信息和建议，请联系利安达国际当地成员所，就个别情况寻求专业的服务及建议。

除印刷版外，读者亦可用于利安达国际网站[www.reanda-international.com](http://www.reanda-international.com)下载税务年鉴电子版。

**利安达国际**

2013年4月

## **FOREWORD**

“Some people want it to happen, some people wish it would happen, in Reanda, WE MAKE IT HAPPEN”!

I think it is most appropriate to make the above as our first Tax Year Book quote because it concurs with our goal of helping our most valued clients and associates achieving their business ambitions, making their financial dreams become realities.

The idea of having Reanda International's Tax Year Book was first mooted in 2012 after the successful launch of our quarterly international tax newsletter, PRISM. With a steady growth in terms of numbers and revenue, Reanda International is carving its position as one of the leading independent accounting and consulting firms' networks in the Asian Region.

Besides this, due to financial turmoil in the Eurozone and continuing low growth in the USA, the focal is on doing business in Asia and how to decrease the downside risks.

With the given backdrop, we and our member firms find it imperative and timely to produce a useful tool to help our most valued clients and associates, who wish to access to the basic current useful information, especially on the taxation in brief, together with the contact persons' details, of the countries of our 12 member firms, hence the birth of our Tax Year Book.

Globalisation and liberalisation brings intense competition into doing business worldwide. The Tax Year Book aims to provide the busy readers a quick glance and equip them with those useful fundamental information, on taxation, of both the corporate and individuals, in ready template formats for easy reading, reference and comparison purposes.

Although we endeavour to include the most basic useful information for the readers but we acknowledge the fact that every business needs are different. Hence, please do not hesitate to refer to the point of contact if you have any query and/or need further clarification on the information contained therein. I also welcome any constructive suggestions for future edition.

With the Reanda International's Tax Year Book, I empower you, the readers with greater knowledge of doing business internationally!

Last but not least, I like to thank the members and the Secretariat who have put in tremendous efforts to ensure the publication timelines are met.

### **LL Koong**

Chairman, International Tax Panel

# 前言

「有人梦想成功，也有人期待成功；在利安达，我们创造着成功！」

这是我认为最能成为我们首部税务年鉴的格言，因为年鉴的出版，正是我们致力协助尊贵客户与伙伴们达成他们生意上的宏愿，积极成就他们财务上梦想，而努力不懈的目标之一。自税务季刊PRISM成功推出后，利安达国际于2012年开始策划出版税务年鉴的工作。

近年来，利安达国际规模及成员业务收入稳步增长，现已跻身成为亚洲地区领先的独立会计与谘询网络之一。此外，欧盟区域的金融风暴与美国经济增长持续放缓，商业活动之焦点已转移至亚洲及如何应对生意下行的风险。

鉴于上述原因，利安达国际认为必需适时推出一本参考小册子，为尊贵客户与伙伴提供利安达成员所所处地区之基本税务概要及联络信息。税务年鉴因而诞生。

全球化与自由贸易为企业经营带来激烈严峻的竞争。税务年鉴提供12个地区的企业及个人税率信息，目的旨在让读者在百忙中轻易一窥各地税务摘要。年鉴系统化的编排方式，方便于阅读、参考以至比较，从而让读者一目了然并迅速掌握国际税务脉动。

税务年鉴务求涵括最全面的基本信息。然而，每个企业所需亦不尽相同。因此，若阁下对年鉴内的地方信息有任何疑问或需进一步的了解，欢迎谘询相关地区的利安达成员所。除此之外，如往后对年鉴有任何建议，亦欢迎阁下提出。

凭借这本税务年鉴，利安达国际期望能助您拓展国际业务时掌握更多知识。

最后，本人对成员所及秘书处全体同仁在2013税务年鉴出版工作所付出的努力，谨表示诚挚的谢意。

**孔令龙**

国际税务组主席

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## GENERAL INFORMATION

**1.1 Country :** Australia

**1.2 Currency :** Australian Dollar (AUD)

### **1.3 Principal business entities**

Private Companies  
 Public Companies  
 Corporate Unit Trusts  
 Public Trading Trusts  
 Pooled Development Funds  
 Partnerships  
 Sole Proprietors  
 Superannuation Funds  
 Clubs and Associations

### **1.4 Foreign exchange control**

No exchange control

### **1.5 Current economy climate (Industry overview/encouraged business development)**

Australia's abundant natural resources attract high levels of foreign investment and include extensive reserves of coal, iron ore, copper, gold, natural gas, uranium, and renewable energy sources. Australia also has a large services sector and is a significant exporter of natural resources, energy, and food. The Australian economy grew for 17 consecutive years before the global financial crisis. The economy grew by 1.4% during 2009 - the best performance in the OECD - by 2.7% in 2010, and by 1.8% in 2011.

### **1.6 National tax authority**

Name: Australian Taxation Office

Website: [www.ato.gov.au](http://www.ato.gov.au)

## CORPORATE INCOME TAX

### **2.1 Basis of taxation**

The residence of a company and the source of its income are both important elements in calculating income tax payable. If a company is a resident of Australia, the company's assessable income includes income derived from all sources whether in or out of Australia. If, on the other hand, the company is not a resident

of Australia, the company's assessable income includes income derived from all sources in Australia. A company is a resident of Australia if it is incorporated in Australia or carries on business in Australia and has either its central management or control in Australia or is controlled by shareholders who are residents of Australia.

## **2.2 Rates of tax**

Companies are subject to a 30% flat rate of tax on taxable income with no tax free threshold.

## **2.3 Year of assessment**

The income tax year for most companies commences on 1 July and ends the following 30 June. In certain circumstances, a substituted accounting period of twelve months ending on a date other than 30 June may be adopted.

## **2.4 Profits deemed to be taxable**

For Australian resident companies, assessable income includes income derived from all sources whether in or out of Australia. For non-resident companies, assessable income includes income derived from Australian sources only.

Assessable income includes income according to ordinary concepts as well as statutory income that are amounts included as assessable income under a specific provision of the income tax act.

## **2.5 Taxation of dividends**

Resident individual shareholders who receive assessable distributions from a company are entitled to a tax credit (franking credit) for the tax paid by the company on its income. Only Australian resident taxpayers can claim a tax credit attached to a distribution. For non-residents, the distribution would be exempt from withholding tax to the extent that it is franked and therefore exempt from income tax. Generally a non-resident receiving an unfranked distribution is subject to withholding tax.

## **2.6 Taxation of capital gains**

Net capital gains from the disposal of assets acquired after 19 September 1985 are included in a company's assessable income. Capital gains and capital losses that occur during a year are offset. If a net capital gain arises, the net capital gain is included in assessable income. If a net capital loss arises, it is not deducted from assessable income but carried forward to offset future capital gains.

## **2.7 Taxation of interest income**

Interest is included in a company's assessable income and subject to a 30% flat rate of tax.

## **2.8 Utilization of tax losses**

Revenue losses can be carried forward to offset future income if the company satisfies either:

- The continuity of majority beneficial ownership test
- The continuity of business test



For 1989/90 and subsequent years, losses may be carried forward indefinitely.

Proposed tax loss carry back legislation will allow tax losses incurred in 2012/13 to be carried back and offset against tax paid in the 2011/12 year. For 2013/14 and later years, the proposed legislation will allow tax losses to be carried back and offset against tax paid up to two years earlier. Companies will be able to carry back up to AUD \$1 million of revenue tax losses each year, subject to integrity rules and limited to a company's franking account balance.

## 2.9 Key tax incentives

A research and development (R&D) tax incentive provides refundable or non-refundable tax offsets to encourage more companies to engage in R&D. The R&D tax incentive applies to expenditure incurred and the use of depreciating assets in an income year commencing on or after 1 July 2011. A 45% refundable tax offset, equivalent to a deduction of 150%, is available to eligible small companies with an annual aggregate turnover of less than \$20 million, provided they are not controlled by income tax exempt entities. These companies can receive a refundable tax offset of 45% of their R&D spending as part of the processing of their income tax return. A 40% non-refundable tax offset is available to companies with an annual aggregate turnover of \$20 million or more - equivalent to a deduction of 133%. Unused offset amounts may be carried forward for use in future income years. The tax incentive is available to corporations that are Australian residents, foreign corporations that are resident of a country with which Australia has a double tax agreement and carry on business through a permanent establishment in Australia, and to public trading trusts with a corporate trustee.

The government has also announced that it will introduce quarterly credits for small and medium businesses from 1 January 2014.

Accelerated capital allowances are another key tax incentive.

## 2.10 Withholding tax

### Where there is no Double Tax Agreement with Australia

Unfranked Dividends	Interest	Royalties
30%	10%	30%

Withholding tax does not apply to the franked portion of a dividend.

Where the recipient is a resident of a country that has a double tax agreement with Australia, the rates may vary.

### Withholding tax rates on other payments to non-residents

Description of Payment <sup>2</sup>	Rate
For operating or promoting casino-gaming junkets <sup>3</sup>	3%
For entertainment or sports activities <sup>4</sup>	
– payment to a non-resident company	30%
– payment to a non-resident individual	Marginal tax rate <sup>1,5</sup>
For construction and related activities <sup>5,6</sup>	5%

<sup>1</sup> The withholding rates outlined in the table are not a final tax. That is, non-residents who receive payments of the type listed in the table may be required to lodge an Australian income tax return including these payments. In this case, they will receive a credit against their assessment for the tax withheld.

- 2 *In general, a foreign resident payee carrying on an enterprise in Australia must supply an Australian business number (ABN) (if not, 46.5% must be withheld from any payments to them).*
- 3 *'Junket' means an arrangement for the promotion or organising of gaming in one or more casinos.*
- 4 *'Entertainment or sports activities' are those of a performing artist or a sports person, including certain support staff (e.g., body guards, coaches, hairdressers, personal trainers). Payments include appearance fees, awards, bonuses, expense reimbursements, match payments, non-cash prizes, prize money, sponsorship fees etc.*
- 5 *For non-resident taxpayers.*
- 6 *'Related activities' include those associated with the construction, installation and upgrading of buildings, plant and fixtures.*

## 2.11 Transfer pricing

Related party trade was valued in excess of AUD\$270 billion in 2009, representing approximately 50% of Australia's cross border trade flows. Transfer pricing rules are therefore a critical element in the integrity of the Australian tax system.

Each of Australia's tax treaties contains articles that deal with transfer pricing including the associated enterprise article and the business profits article (the treaty transfer pricing rules). The treaty transfer pricing rules, interpreted through the framework of the OECD guidance, require profits that relate to cross-border intra group dealings to be calculated consistently with the arm's length principle. This internationally accepted principle is set out in the OECD Model Tax Convention on Income and on Capital (OECD Model) and explained in associated guidance material. Australia incorporates its international tax treaties into domestic law through its income tax assessment act.

New cross border transfer pricing legislation will be inserted into the Australian Income Tax Assessment Act 1997 (ITAA 1997). The new legislation contained in subdivision 815 A:

- Ensures that the tax treaty transfer pricing rules are able to be applied independently of existing "domestic" transfer pricing rules and should provide a separate assessment authority. An express reference to the tax treaty pricing rules will be included in the ITAA 1997; and
- Requires the arm's length principle to be interpreted as consistently as possible with relevant guidance issued by the OECD – by providing direct access to OECD guidance material when interpreting Australia's enacted transfer pricing rules; and
- Clarifies how the transfer pricing rules will interact with Australia's thin capitalisation rules.

The new legislation will have retrospective operative effect from 1 July 2004 but administrative penalties may only apply from 1 July 2012.

## 2.12 Filing requirements of tax return

### Filing due dates

Existing large companies (including public companies and companies with turnover > AUD\$10 million) – within 5 months after closing the company's year end

New large and medium companies – within 8 months after closing the company's year end

Medium companies (turnover AUD\$2 million to AUD\$10 million) - within 9 months after closing the company's year end

Small companies (turnover < AUD\$2 million) – within 10 ½ months after closing the company's year end

## Penalties

### Shortfall Penalties

Penalties may apply where a taxpayer or their tax agent, makes a false or misleading statement to the Commissioner, including where there is an omission from the statement, about a tax law that results in a shortfall amount. The severity of penalties is based on the culpability of the taxpayer or their agent. The more culpable the behaviour the more severe the rate of the penalty applied to the shortfall amount. Under the Tax Agent Services regime that commenced on 1 March 2010, a taxpayer who engages a registered Tax or BAS agent will not be liable for a penalty if the taxpayer provided the agent with all relevant tax information and the false or misleading statement did not result from the agent's intentional disregard of a tax law or recklessness.

### Administrative Penalties

Failure to lodge penalties and other administrative penalties may also be imposed.

### Payment of profit tax and application of holdover

Existing large companies (including public companies and companies with turnover > AUD\$10 million) – within 5 months after closing the company's year end

New large and medium companies – within 8 months after closing the company's year end

Medium companies (turnover AUD\$2 million to AUD\$10 million) - within 9 months after closing the company's year end

Small companies (turnover < AUD\$2 million) – within 10 ½ months after closing the company's year end

An instalment system for provisional tax known as Pay As You Go instalments collects company income tax instalments during the income year based on the previous year's income tax assessment.

## PERSONAL TAX

### 3.1 Basis of taxation (Residence, Personal assessment)

Resident individuals are subject to Australian income tax on income derived from all sources whether in or out of Australia.

Non-resident individuals are subject to Australian income tax on income derived from Australian sources.

The primary tax residency definition in Australia is based on whether the individual is ordinarily residing in Australia. The basic tests of tax residency for an individual in Australia are:

Test	When to apply
Resides	Primary test - if you reside in Australia according to the ordinary meaning of the word, you don't need to apply any of the other three tests.
Domicile	Statutory tests - if you don't satisfy the 'resides test' (the primary test), you may still be considered an Australian resident if you satisfy one of the three statutory tests.
183 day rule	
Superannuation	

## 3.2 Rates of tax

### Income tax rates for resident individuals from 1 July 2012

Taxable income	Tax Payable
0 - \$18,200	Nil
\$18,201 - \$37,000	\$0.19 for each \$1 over \$18,200
\$37,001 - \$80,000	\$3,572 plus \$0.325 for each \$1 over \$37,000
\$80,001 - \$180,000	\$17,547 plus \$0.37 for each \$1 over \$80,000
\$180,001 and over	\$54,547 plus \$0.45 for each \$1 over \$180,000

*The above rates do not include the Medicare Levy of 1.5%.*

### Income tax rates for non-resident individuals from 1 July 2012

Taxable income	Tax Payable
0 - \$80,000	\$0.325 for each \$1 of the entire amount
\$80,001 - \$180,000	\$26,000 plus \$0.37 for each \$1 over \$80,000
\$180,001 and over	\$63,000 plus \$0.45 for each \$1 over \$180,000

*Medicare Levy is not payable by non-residents.*

## 3.3 Year of assessment

The income tax year for individuals commences on 1 July and ends the following 30 June.

## 3.4 Allowances and deductions

In general terms, expenses are deductible to the extent to which they are incurred in gaining or producing assessable income. Careful consideration and analysis is required for deductions due to complex legislation and case law.

## 3.5 Taxation of dividends

Resident individual shareholders are assessable on distributions. Resident individual shareholders who receive assessable distributions from a company are entitled to a tax credit (franking credit) for the tax paid by the company on its income. Only Australian resident taxpayers can claim a tax credit attached to a distribution. For non-residents, the distribution would be exempt from withholding tax to the extent that it is franked and therefore exempt from income tax. A non-resident receiving an unfranked distribution is subject to withholding tax.

## 3.6 Taxation of capital gain

A comprehensive capital gains tax commenced in Australia on 19 September 1985. In broad terms, resident individuals are assessable on net capital gains from the disposal of assets acquired after 19 September 1985, whether in or out of Australia. Non-resident individuals are assessable on net capital gains from the disposal of their Australian assets acquired after 19 September 1985.

Capital gains and capital losses that occur during a year are offset. If a net capital gain arises, it is included in assessable income. If a net capital loss arises, it is not deducted from assessable income but carried forward to offset future capital gains.

Net capital gains derived by resident individuals from assets held for at least twelve months are eligible for a 50% discount. Non-residents are not eligible for a 50% discount.

### 3.7 Taxation of interest income

Interest derived by Australian resident individuals is assessable income.

Interest derived by non-resident individuals from Australian sources is subject to withholding tax. Where the recipient is a resident of a country that does not have a double tax agreement with Australia, the withholding tax rate is 10%. The withholding tax rate varies where there is a double tax agreement with Australia.

### 3.8 Personal assessment and utilization of losses

Under the self assessment system that applies in Australia, tax returns are not subject to technical or other scrutiny before assessment. The Taxation Commissioner is authorised to accept, without examination, statements made by a taxpayer. The information provided in a return is generally a minimal amount sufficient to ascertain the taxpayer's taxable income and tax payable. Records and statements must be retained by the taxpayer and may have to be produced if the taxpayer is selected for audit.

In general, revenue losses can be carried forward to offset future income. However, careful consideration and analysis is required due to complex legislation such as the non-commercial loss provisions.

### 3.9 Withholding tax

Employers must withhold income tax from payments made to employees, company directors, certain contractors and other businesses that do not quote their ABN if required.

The reporting and payment of all amounts withheld occurs under the PAYG withholding system.

### 3.10 Statutory obligation of employers

Employer's obligations, in addition to PAYG withholding, include:

#### **Superannuation contributions**

Superannuation contributions must be paid to the correct superannuation fund by the cut-off dates for all eligible employees. Choice of superannuation fund must be offered to eligible employees including individual contractors.

#### **Fringe benefits tax**

Fringe benefits tax is payable on non-cash and in-kind benefits provided to an employee or their associate. Examples of fringe benefits include payments of an employee's personal expenses and when an employee is allowed to use a work car for private purposes.

#### **Payroll tax**

All Australian States and Territories have a payroll tax, which is calculated on wages paid or payable by employers. For payroll tax purposes wages includes salaries, allowances, director's fees, superannuation and the 'grossed-up' value of fringe benefits. Employers are required to self-assess their liability on a monthly basis, with an annual adjustment reconciliation.

### 3.11 Filing requirement of tax return

#### Filing due dates

- 31 October for taxpayers with one or more prior year income tax returns outstanding at the preceding 30 June and for taxpayers not filing with a registered tax agent
- 1 April for individual taxpayers with higher tax payable
- 15 May for all other individual taxpayers

#### Penalties

##### Shortfall Penalties

Penalties may apply where a taxpayer or their tax agent, makes a false or misleading statement to the Commissioner, including where there is an omission from the statement, about a tax law that results in a shortfall amount. The severity of penalties is based on the culpability of the taxpayer or their agent. The more culpable the behaviour the more severe the rate of the penalty applied to the shortfall amount. Under the Tax Agent Services regime that commenced on 1 March 2010, a taxpayer who engages a registered Tax or BAS agent will not be liable for a penalty if the taxpayer provided the agent with all relevant tax information and the false or misleading statement did not result from the agent's intentional disregard of a tax law or recklessness.

##### Administrative Penalties

Failure to lodge penalties and other administrative penalties may also be imposed.

#### Application of holdover

An instalment system for provisional tax known as Pay As You Go instalments, collects income tax instalments during the income year based on the previous year's income tax assessment

## STATUTORY REQUIREMENT ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

The superannuation guarantee scheme, administered by the Australian Taxation Office, requires all employers to contribute a prescribed minimum level of superannuation support in each financial year for their employees.

### 4.2 Basis of contribution

Contributions are calculated by multiplying an employee's "ordinary time earnings" by the superannuation guarantee charge percentage. The charge percentage applies to all employers. Contributions for each employee are measured on a quarterly basis. A maximum contribution base applies to limit the minimum contributions required for high salary employees.

### 4.3 Contribution rate

Period	Super guarantee rate (charge percentage)
1 July 2003 - 30 June 2013	9%
1 July 2013 - 30 June 2014	9.25%
1 July 2014 - 30 June 2015	9.5%
1 July 2015 - 30 June 2016	10%
1 July 2016 - 30 June 2017	10.5%
1 July 2017 - 30 June 2018	11%
1 July 2018 - 30 June 2019	11.5%
1 July 2019 - 30 June 2020 and onwards	12%

### 4.4 Exemption from tax

Contributions paid by employers are generally tax deductible.

Contributions received by complying superannuation funds are generally subject to a 15% contributions tax.

## GST/VAT

### 5.1 Basis of tax

A 10% broad-based goods and services tax (GST) applies to most goods, services and other items sold or consumed in Australia. Subject to limited exceptions, businesses registered for GST include GST in the price of sales to their customers and claim credits for the GST included in the price of their business purchases. While GST is paid at each step in the supply chain, businesses generally do not actually bear the economic cost of the tax. The cost of GST is borne by the final consumer, who is unable to claim GST credits.

### 5.2 Rate of tax

10%

### 5.3 Registration

GST registration is compulsory for business or other enterprises whose GST turnover is AUD\$75,000 or more. For non-profit organisations the threshold is AUD\$150,000 or more.

### 5.4 Filing requirements

GST collected and GST paid are reported in Business Activity Statements that are typically filed on a quarterly basis.

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

Foreign tax paid may be offset against Australian income tax payable on the foreign income. The foreign income tax offset is limited to the Australian income tax payable on the foreign income and is not refundable in Australia.

### 6.2 List of double tax treaties signed

Australia has signed double tax agreements with the following jurisdictions:

- Argentina
- Austria
- Belgium
- Canada
- Chile
- China (People's Republic)
- Czech Republic
- Denmark
- East Timor (Timor Sea Treaty)
- Fiji
- Finland
- France
- Germany
- Hungary
- India
- Indonesia
- Ireland (Southern Ireland only)
- Italy
- Japan
- Kiribati
- Korea
- Malaysia
- Malta
- Mexico
- Netherlands
- New Zealand
- Norway
- Papua New Guinea
- Philippines
- Poland
- Romania
- Russia
- Singapore
- Slovakia
- South Africa
- Spain
- Sri Lanka
- Sweden

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

Australia has eight separate States and Territories. Stamp duty is a State and Territory tax administered by eight separate legislatures and imposed either at a fixed rate or at an “ad valorem” rate on the value of transactions such as real estate conveyances, certain insurance policies, motor vehicle transfers, unlisted security transfers and deeds relating to trusts.

### 7.2 Real property tax

Land tax is a State and Territory tax administered by each state and territory with the exception of the Northern Territory which does not impose land tax. In general terms, exemptions apply to land used and occupied by a natural person as their principal place of residence, land used principally in agriculture, land used for retirement and aged care, land owned by religious, charitable, or educational institutions and non-profit organisations.

### 7.3 Estate duty

N/A

### 7.4 Net wealth/net worth tax

N/A

### 7.5 Others

Business tax	N/A
Consumption tax, etc.	N/A

## POINT OF CONTACT

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## GENERAL INFORMATION

**1.1 Country:** Cambodia

**1.2 Currency:** Riel (KHR)

### 1.3 Principal business entities

- Sole trader/Partnerships
- Limited Liability Company
- Representative Office
- Branch

### 1.4 Foreign exchange control

There are currently no restrictions on the repatriation of profits or capital derived from investments made in Cambodia and 2003 Investment Law guarantees the rights of foreign investors to remit foreign currencies abroad for:

- the payment of imports and repayment of principal and interest on foreign loans
- the payment of royalties and management fees
- the remittance of profits and
- the repatriation of invested capital on dissolution of an investment project.

### 1.5 Current economy climate (Industry overview/encouraged business development)

Cambodia shifted to a free market economy and welcomed FDI in 1989. While Cambodia has adopted a competitive investment strategy, it still lags behind Asia-Pacific countries in terms of investment facilities and other factors such as roads, ports and other infrastructure developments.

Cambodia joined ASEAN in 1999 and WTO in 2005 and has experienced an economic boom over the last fifteen years with average annual growth of 8%. However, GDP contracted slightly in 2009 as a result of global economic slowdown but climbed more than 6% in 2010 and steadily grew to an estimate of 6.8% in 2011. GDP growth is forecasted to be 6.5% and 7% for the year 2012 and 2013 respectively.

### 1.6 National tax authority

**Name:** General Department of Taxation Cambodia, GDT

**Website:** [www.tax.gov.kh](http://www.tax.gov.kh)

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

Any income received by resident companies accruing in or derived from Cambodia or foreign is taxable. For non resident, the tax is liable on income from Cambodian sources only.

### 2.2 Rates of tax

The following table shows the applicable corporate profit tax rates:

Profit realized by a legal person/ Standard rate	20%
Oil or natural gas production sharing contract and the exploitation of natural resources including timber, ore, gold and precious stones	30%
Profit of Qualified Investment Project (QIP) approved by the Council for Development of Cambodia, CDC (Expired in 2010).	9%
Profit of QIP during the tax exemption period as determined by CDC.	0%
Insurance companies insuring Cambodian risk	5% (of gross premium)

### 2.3 Year of assessment

Each tax year or year of assessment is calendar year. However, it may not necessary be the calendar year, i.e. if a company would like to be consistent with its parent company/ if the foreign parent company owns more than 51% equity shares.

### 2.4 Pre-payment of profit tax (PPT)

A company, except those subject to zero percent profit tax rate, are subject to a monthly pre-payment of tax on profit during the year, which is self accessed at 1% on monthly turnover inclusive of all taxes except VAT. Payments at PPT are due by the 15th day of the following month and are offset against the tax on profit due at the annual tax liquidation.

### 2.5 Taxation of dividends

Dividends received from resident companies are exempted from income tax. However, dividends received from non-resident companies are subject to income tax in Cambodia. A credit is allowed for tax paid overseas on foreign source income, subject to certain conditions.

### 2.6 Taxation of capital gains

All realized gains (including capital gains) are treated as income. Cambodia does not impose a separate tax on capital gains. Gains on disposal of real property and other assets are treated as ordinary income and are subject to profit tax.

### 2.7 Taxation of interest income

The interests below are subjected to withholding tax:

a.	Rental of movable and immovable property.	10%
b.	Interest paid by a domestic bank or savings institution to a resident taxpayer:	
	i. having a fixed term deposit account	6%
	ii. having a non-fixed term saving account	4%
c.	Interest paid to foreign parties	14%

## 2.8 Utilization of tax losses

Losses can be carried forward for a maximum of 5 years. Losses cannot be carried back.

However, losses may be forfeited:

1. upon a change in ownership of the business or
2. if there is a change in business activity or
3. in the event a taxpayer is subject to a unilateral tax reassessment.

## 2.9 Key tax incentives

Investors are required to submit an Investment Proposal to either the Council for the Development of Cambodia, CDC or the Provinces-Municipalities Investment Sub-committees, PMIS to obtain a Qualified Investment Project (QIP) status depending on capital level and location of the investment project in question.

**The investment incentives (generally) available to QIPs are:**

a.	Exemption from tax on profit imposed by the Law on Tax. The tax on profit exemption consists of a Trigger Period (of up to 3 years), 3 years automatic exemption, plus a Priority Period that will be provided for in the Law on Financial Management.
b.	Accelerated depreciation on manufacturing assets (if the QIP elects to take the profit tax exemption in point a, this is not applicable)
c.	Exemption from import duty on production equipment, raw materials and inputs to manufacture and
d.	The right to employ foreign labour.

*Investment incentives would be available to all sectors not included in the negative list.*

On an annual basis, the CDC requires all QIPs to apply for a Certificate of Compliance (CoC), to enable QIPs to continue to receive the investment incentives granted under the investment license.

## 2.10 Withholding tax

### A. Resident Taxpayer

1.	<ul style="list-style-type: none"> <li>• Income received from the performance of services including management, consulting, and similar services;</li> <li>• Royalties for intangibles assets and interest in minerals, oil or natural gas;</li> <li>• Interest payments to a physical person or enterprise other than interest paid to a domestic bank or saving institution.</li> </ul>	15%
2.		10%
3.	Rental of movable and immovable property	10%
	Interest paid by a domestic bank or savings institution to a resident taxpayer :	
	a. Having a fixed term deposit account.	6%
	b. Having a non-fixed term saving account.	4%

### B. Non Resident Taxpayer

Any resident taxpayer carrying on business and who makes any of the following payments to a non-resident taxpayer shall withhold, and pay as tax, an amount equal to 14% of the amount paid.

1. Interest
2. Royalties, rent, and other income connected with the use of property
3. Management or technical services
4. Dividends

## 2.11 Transfer pricing

Currently, there is no directive or ruling issued by Cambodia tax office in respect of transfer pricing regulation. However, the related party provision of the 1997 Law on Taxation, LoT (Article 18) gives wide power to the GDT to re-determine related party transactions. The GDT may re-determine related party transactions to impose pricing that the GDT considers “arm’s length” parties would have undertaken in the transactions. A related party relationship is one where there is a 20% or more shareholders relationship.

## 2.12 Filing requirements of tax return

### Filing due dates

The annual tax return must be filed within 3 months following the tax balance sheet date.

### Penalties

If the taxpayer is considered negligent, being underpayment by less than 10%, or if the taxpayer fails to file a tax declaration or to pay tax by the due date	10%
If the taxpayer is considered seriously negligent, being underpayment by more than 10% or taxpayer has failed to settle for liabilities by the due date	25%
Where the taxpayer receives a unilateral tax assessment	40% of the unpaid tax
Late payment of taxes and late submission of returns	2% per month together with interest

## PERSONAL TAX

### 3.1 Basis of taxation (Residence, Personal assessment)

Income of Resident Individuals derived from Cambodia and foreign source outside Cambodia are subject to the Cambodia income tax (Personal tax/ tax on Salary). Whereas non resident are subject to income tax on Cambodian source income only. Resident individuals are taxed at progressive rates ranging from 0% to 20%. Non residents are taxed at a flat rate of 20%. Employers are required to withhold income tax from salaries and other benefits paid to employees.

### 3.2 Rates of tax

#### a. Residents :

Taxable Income for the Month (KHR)	Progressive Tax (%)
Up to 500,000	0
From 500,001 – 1,250,000	5
From 1,250,001 – 8,500,000	10
From 8,500,001 – 12,500,000	15
Over 12,500,000	20

b. **Non-residents:** Flat rate of 20% on income from Cambodian source.

### 3.3 Year of assessment

Employers must make monthly tax on salary declarations and payments for each of their staff no later than the 15th day of the following month.

### 3.4 Allowances and deductions

An individual resident is allowed for the following personal relief:

- a. KHR 75,000 for each child.
- b. KHR 75,000 for dependent spouse (must be housewife)

### 3.5 Taxation of dividends

14% withholding tax on non residents only.

### 3.6 Taxation of capital gain : N/A

### 3.7 Taxation of interest income

Please refer to the withholding tax rate mentioned under item 2.7.

### 3.8 Personal assessment and utilization of losses : N/A

### 3.9 Withholding tax

Please refer to the withholding tax rate mentioned under item 2.10.

### 3.10 Statutory obligations of employers

N/A

### 3.11 Filing requirement of tax return

Filing due dates	Employers must file salary and fringe benefit tax return and payment to GDT by the 15th day of the following month.
The monthly salary tax deduction is considered to be a final tax for individuals, and do not require to submit annual return to the GDT.	

## STATUTORY REQUIREMENT ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

National Social Securities Fund (NSSF). NSSF is a fund established for well-being and protection of employees and workers.

### 4.2 Basis of contribution

An employer whose has 8 staff or more is obliged to register with NSSF.

### 4.3 Contribution rate

The contribution is a uniform rate applied to all risk class or industry. All employers pay 0.8% of the assumed wage based on the employee's monthly wage before taxation.

## GST/VAT

### 5.1 Basis of tax

VAT is levied on a wide range of importation of goods and almost all supply of goods and services in Cambodia and on each stage of production, VAT is imposed allowing each supplier credit for the tax paid, hence VAT eventually impacts on the end consumer only.

## 5.2 Rates of tax

The supply is subject to VAT at either the zero rate or standard rate:

1.	0%	Export of goods and services, and certain charges in relation to international transport of people and goods.
2.	standard rate of 10%	Value of the import, including charges of customs duty, insurance and freight.

## 5.3 Registration

Any person having businesses with providing taxable supplies of goods and services are required to be registered under VAT if they meet the criteria below:

a.	Corporations, importers, exporters and investment companies
b.	Taxpayers with taxable turnover in any period of 3 consecutive months that exceeds or expect to exceed in the coming period of 3 consecutive months of : <ul style="list-style-type: none"> <li>i. goods sold exceeding KHR125 million; or</li> <li>ii. services provided exceeding KHR60 million</li> </ul>
c.	Taxpayers undertaking government contracts with a total taxable turnover exceeding KHR30 million.

A person who is liable to be registered for VAT shall apply to the GDT at the commencement of business operations or within 30 days, after the point at which tax payer become a taxable person.

## 5.4 Filing requirements

Returns and payment have to be filed and paid to the GDT by the 20th day of the following month.

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

Tax paid overseas on foreign source income is available as a tax credit, subject to the taxpayer providing sufficient evidence to substantiate the foreign tax paid. The tax credit is calculated separately for each foreign country and is the lower of the foreign tax paid or Cambodian tax payable on foreign source income.

### 6.2 List of double tax treaties signed

Currently, there are no double-taxation agreements with Cambodia.

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

Stamp Tax is levied on administration documents, court documents, non-court document and panos/posters.

Ministry of Economy and Finance shall determine the scope of implementation and stamp tax table in the sub-decree. All unpaid documents which are subject to stamp tax will not be received or issued by the competent authority.

Each stamp has value of 100 riel, 200 riel, 500 riel, 1,000 riel, 2,000 riel. Ministry of Economy and Finance is the only competent authority to print the stamp.

## 7.2 Real property tax

Property tax shall be imposed on the properties located in the municipality and provinces of the Kingdom of Cambodia.

This tax shall be collected annually at a rate of 0.1% on the property.

This tax is applied to immovable properties valued in excess of 100,000,000 riels. The term "Property" is referred to lands, houses, buildings and other constructions that are built on the land, and the value of property shall be determined based on the market price by the property evaluation committee which is established by the Prakas of the Minister of Economy and Finance.

## 7.3 Unused land tax

The unused land tax is levied on unused land which are located in the cities and areas which are levied by Unused Land Appraisal Committee (ULAC). The unused land tax is paid by owners. Tax on unused land is based on 2% of the market price per square meter as determined by ULAC.

## 7.4 Patent tax

All enterprise carrying on business activities in Cambodia must register annually with tax authorities and pay a standard patent tax of KHR1,140,000 per year and payment remit by 31 March at the relevant ensuing fiscal year.

## 7.5 Accommodate tax (AT)

AT is a tax imposed on the provision of hotel accommodation service. AT is levied at a rate of 2% on hotel accommodation service, inclusive of other services charge and all kind of taxes, but exclusive of the AT itself and VAT.

## 7.6 Registration tax (or "transfer tax")

The transfer of ownership at immovable property and certain vehicles (including ships, tracks, car and motorbikes) under the form of sales, exchange, gift or share capital contribution, is subject to a 4% transfer tax of the transfer value.

The tax must be paid by the transferee within 3 months of the transfer date.

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## GENERAL INFORMATION

**1.1 Country** : The People's Republic of China

**1.2 Currency** : Renminbi (RMB)

### 1.3 Principal business entities

- Structures Used by Domestic Entities
  - State-owned Enterprises (SOEs)
  - Private or individually owned enterprises
- Joint Stock Companies
  - Limited Liability Companies
  - Companies Limited by Shares
- Foreign Investment Enterprises
  - Equity Joint Ventures
  - Wholly Foreign-Owned Enterprises
  - Cooperative Joint Ventures
- Foreign Enterprise and Other Arrangements
  - Representative Offices
  - Branch Offices

### 1.4 Foreign exchange control

On 1 December 1996, the People's Republic of China (PRC) introduced a foreign exchange control system under which the Chinese currency, Renminbi (RMB), is conditionally convertible for current accounts, but strict administrative measures are still in place for capital accounts. The PRC Foreign Exchange Administrative Rules (the Rules) were promulgated on 29 January, 1996, and were amended on 14 January, 1997, and 5 August, 2008, by the State Council. The Rules and various circulars issued by the State Administration of Foreign Exchange have formed the prevailing legal basis for foreign exchange administration in the PRC.

On April 8, 2009, the executive meeting of the State Council formally decided that it is used 'RMB' as settlement currency for cross-border trading in Shanghai and Guangzhou, Shenzhen, Zhuhai, Dongguan and other cities. On August 23, 2011, the People's Bank, Ministry of Finance, Ministry of Commerce, General Administration of Customs, State Administration of Taxation and the China Banking Regulatory Commission jointly issued a notice of expanding areas for used RMB as settlement currency of cross-border trading, clearly included the enterprises of Hebei, Shanxi,



Anhui, Jiangxi, Henan, Hunan, Guizhou, Shaanxi, Gansu, Qinghai and Ningxia provinces; the enterprises of Jilin Province, Heilongjiang Province, Tibet, and Xinjiang have extended the areas from neighboring countries to all over the world.

### 1.5 Current economy climate (Industry overview/encouraged business development)

In recent years, China has emerged as a major global economic and trade power. It is currently the world's second-largest economy, largest merchandise exporter, second-largest merchandise importer, second-largest destination of foreign direct investment (FDI), largest manufacturer, largest holder of foreign exchange reserves, and largest creditor nation.

China has a large space and many projects to upgrade its industries, construct its infrastructures and improve its social welfares, and with the sufficient financial power and huge economic demand, it is quite possible for China to maintain a steady and high-speed economic growth for quite a long period in the future.

### 1.6 National tax authority

**Name** : State Administration of Taxation of the People's Republic of China

**Website** : [www.chinatax.gov.cn](http://www.chinatax.gov.cn)

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

Enterprise and other organizations that obtain income within the PRC (hereinafter referred to as "Enterprises") and shall pay corporate income tax in accordance with the provisions of the Law of the PRC on Corporate Income Tax.

This Law shall not apply to wholly individually-owned enterprises and partnership enterprises.

### 2.2 Rates of tax

The corporate income tax rate for the general enterprises is 25%.

Non-resident enterprises that have obtained income in accordance with the provisions of Corporate Income Tax Law of PRC, the applicable tax rate shall be 20%.

Small-scale enterprises with minimal profits that are qualified are subject to the applicable corporate income tax rate of 20%.

High and new technology enterprises that require key state support are subject to the applicable corporate income tax rate of 15%.

### 2.3 Year of assessment

Corporate income tax shall be computed on a tax year basis. The tax year shall begin on 1 January and end on 31 December of a calendar year. Where an enterprise commences or ceases its business operation during the tax year and the actual business operation period is less than 12 months, the actual business operation period shall be regarded as one tax year. Where an

enterprise is being liquidated according to the law, the liquidation period shall be regarded as one tax year.

## 2.4 Profits deemed to be taxable

The taxable amount of income of an enterprise shall be the balance derived from the total income in each taxable year of enterprises, after deduction of non-taxable income, tax-exempt income, other deductions and unabsorbed losses of previous years.

The total income of an enterprise comprises monetary and non-monetary forms of income received by the enterprise from various sources, which include:

1. income from sale of goods;
2. income from provision of labor services;
3. income from transfer of property;
4. gains from dividends, bonus issues or other returns on equity investment;
5. interest income;
6. rental income;
7. income from royalties;
8. income from gifts and donations; and
9. other income.

The following income within the total income is deemed as non-taxable income:

1. financial allocation;
2. administrative and institutional expenses and government funds lawfully collected and brought under financial administration;
3. other non-taxable income stipulated by the State Council.

Reasonable expenses that are relevant to the income actually incurred and obtained by enterprises, including costs, fees, tax payments, losses and other fees may be deducted from the taxable income.

In relation to the expenses from charitable donations incurred by enterprises, the portion within 12% of the total annual profit may be deducted from the taxable income.

The following expenses may not be deducted from the taxable income:

1. income from equity investment paid to investors such as dividend and bonus;
2. payment of corporate income tax;
3. late payment fines;
4. penalties; fines and losses from confiscated property;
5. expenses from donations other than those prescribed in article 9 of Corporate Income Tax Law;
6. sponsorship fees;
7. expenses for non-verified provisions; and
8. other expenses irrelevant to the income obtained.

Where enterprises compute the taxable income, the depreciation of fixed assets calculated in accordance with provisions may be deducted.

No depreciation may be deducted for the following fixed assets:

1. fixed assets (other than premises and buildings) that have not yet been used;
2. fixed assets leased from other parties by means of operating lease;
3. fixed assets leased to other parties by means of financial lease;
4. fixed assets that have been depreciated in full but are still in use;
5. fixed assets that are irrelevant to business activities;
6. land credited as fixed assets after independently valued;
7. other fixed assets whose depreciation may not be calculated.

Where enterprises compute the taxable income, the amortization of intangible assets calculated in accordance with provisions may be deducted.

The amortization of the following intangible assets may not be deducted:

1. the fees for self development of intangible assets that have been deducted from the taxable income;
2. self-created goodwill;
3. intangible assets that are irrelevant to business activities; and
4. other intangible assets whose amortization fee may not be calculated.

When enterprises calculate taxable income, the following expenses incurred by enterprises as long-term fees to be amortized and that are amortized in accordance with provisions may be deducted:

1. reconstruction expenses for fixed assets that have been depreciated in full;
2. reconstruction expenses for fixed assets leased from other parties;
3. overhaul expenditure of fixed assets; and
4. other expenses that shall be treated as long-term amortization fees.

During the period when enterprises invest oversea, the cost of investment in assets may not be deducted from the taxable income.

Inventory costs computed by an enterprise pursuant to provisions for inventory used or sold by the enterprise may be deducted from the taxable income.

Where enterprises transfer assets, the net value thereof may be deducted from the taxable income.

When an enterprise consolidates computation of the corporate income tax payable, it shall not set-off an overseas business entity's losses against the profits of a business entity in China.

Where there is a loss in a taxable year of enterprises, it may be carried forward to the succeeding years may not exceed five years.

Where non-resident enterprises obtain income as mentioned in Paragraph 3 of Article 3 of Corporate Income Tax Law of PRC, the taxable income shall be calculated in accordance with the following methods:

1. income from equity investment such as dividend and bonus and interest income, rental income and royalties, the total income shall be the taxable income;
2. income from property transfer, the balance derived from the deduction of net asset value from the total income shall be the taxable income;
3. other income whose taxable income shall be calculated with reference to the previous two methods.

The income, specific scope and standard of deduction and the specific method of taxation treatment of assets shall be provided by the departments in charge of finance and taxation under the State Council.

In computing the taxable income, where financial and accounting treatment methods of enterprises are inconsistent with tax laws and administrative regulations, such taxable income shall be computed in accordance with tax laws and administrative regulations.

## 2.5 Tax treaty network and the applicable withholding tax rates

From 1 January, 2008, the income tax on dividends obtained by non-resident enterprises from resident enterprises of China shall be withheld at the rate of 10%. However, if the agreement on the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income entered into between the government of our country and the government of any foreign country or the tax arrangement made between the government of our country and Hong Kong or Macau conflicts with the tax law of our country, the agreement shall prevail.

### Table of Negotiated Dividends and Interest Rates

Tax rates	Agreements entered with the following countries
0%	Georgia (for direct holding of 50% or more of shares in the company that pays dividends and making investment of two million Euros in the said company)
5%	Kuwait, Mongolia, Mauritius, Slovenia, Jamaica, Yugoslavia, Sudan, Laos, South Africa, Croatia, Macedonia, Seychelles, Barbados, Oman, Bahrain, Saudi Arabia
5% (for direct holding of 10% or more of shares in the company that pays dividends)	Venezuela and Georgia (for making investment of 100,000 Euros in the said company) (agreed with these countries that the interest rate is 10% for the direct holding of less than 10% of shares in the company that pays dividends)
5% (for direct holding of 25% or more of shares in the company that pays dividends)	Luxembourg, Republic of Korea, Ukraine, Armenia, Iceland, Lithuania, Latvia, Estonia, Ireland, Moldova, Cuba, Trinidad-Tobago, Hong Kong, Singapore (agreed with these countries (regions) that the interest rate is 10% for the direct holding of less than 25% of shares in the company that pays dividends)

*to be continued*

Tax rates	Agreements entered with the following countries
7%	United Arab Emirates
7% (for direct holding of 25% or more of shares in the company that pays dividends)	Austria (the interest rate is 10% for the direct holding of less than 25% of shares in the company that pays dividends)
8%	Egypt, Tunisia, Mexico
10%	Japan, the United States, France, the United Kingdom, Belgium, Germany, Malaysia, Denmark, Finland, Sweden, Italy, the Netherlands, the Czech Republic, Poland, Bulgaria, Pakistan, Switzerland, Cyprus, Spain, Romania, Austria, Hungary, Malta, Russia, India, White Russia, Israel, Vietnam, Turkey, Uzbekistan, Portugal, Bangladesh, Kazakhstan, Indonesia, Iran, Kyrgyzstan, Sri Lanka, Albania, Azerbaijan, Morocco, Macao
10% (for direct holding of 10% or more of shares in the company that pays dividends)	Canada and the Philippines (agreed with these countries that the interest rate is 15% for the direct holding of less than 10% of shares in the company that pays dividends)
15%	Norway, New Zealand, Brazil, Papua New Guinea
15% (for direct holding of 25% or more of shares in the company that pays dividends)	Thailand (the interest rate is 20% for the direct holding of less than 25% of shares in the company that pays dividends)

## 2.6 Taxation of capital gains

The capital gains is not applicable in China, but it needs to pay the relevant tax which the income obtained from share, such as interest, dividend, etc.

## 2.7 Taxation of interest income

According to the Corporate Income Tax Law, the interest income shall be included into the total taxable income except for the interest income raised from treasury bonds.

## 2.8 Utilization of tax losses

- a) Once the trading loss occurred, enterprise shall be allowed to offset against the next year's trading profit or carry forward against future trading profit, but it shall be limited within 5 years.
- b) The trading profit obtained from the projects of tax exemption or tax deduction, may not be offset against current year's trading loss as well as carried backward for the trading loss. In addition, the trading loss has risen from tax exemption or tax deduction projects may not be offset against current year's trading profit and carried forward against future gains.
- c) The year of the enterprise started to trade shall be the tax year counted for the trading loss.
- d) The trading profit from domestic activities shall not be allowed to offset against the trading loss from oversea. However, the trading profit from oversea activities would be allowed to offset against the domestic trading loss.
- e) During the period of liquidation, the enterprise shall be offset the trading loss complied with the related tax law, and ensure the taxable income of liquidation. The enterprise shall treat the whole liquidation period as a single tax year.

## 2.9 Key tax incentives

The industries and projects with key support and under encouraged development by the State may be given preferential corporate income tax treatment.

The following income of enterprises shall be tax-exempted income:

1. income from interests on government bonds;
2. income from equity investment income such as dividend and bonus between qualified resident enterprises;
3. income from equity investment such as dividend and bonus obtained from resident enterprises by non-resident enterprises that have set up institutions or establishments in China with an actual relationship with such institutions or establishments;
4. income of qualified non-profit organizations.

The following income may be subject to exemption or reduced corporate income tax:

1. income from engaging in projects of agriculture, forestry, animal husbandry and fisheries by enterprises;
2. income from investment and operation of infrastructure projects with key state support such as harbour, pier, airport, railway, highway, electricity and hydroelectricity by enterprises;
3. income from engaging in qualified projects of environmental protection and energy and water conservation;
4. income from qualified transfer of technology by enterprises; and
5. income prescribed by Paragraph 3 of Article 3 of Corporate Income Tax Law of PRC.

Small-scale enterprises with minimal profits that are qualified are subject to the applicable corporate income tax rate of 20%.

High and new technology enterprises that require key state support are subject to the applicable corporate income tax rate of 15%.

The autonomous authority of ethnic autonomous locality may decide on the reduction or exemption of a portion of corporate income tax shared by the locality that shall be paid by enterprises of the ethnic autonomous locality. Where an autonomous prefecture or autonomous county decides on the reduction or exemption, they must report to the people's government of province, autonomous region or municipality directly under the central government for approval.

Weighted deduction may be computed in taxable income for the following expenses of enterprises:

1. research and development expenditures incurred by enterprises in the development of new technology, new products and new skills; and
2. the wages paid by enterprises for job placement of the disabled and of other personnel encouraged by the State.

Venture investment enterprises that engage in venture investment requiring key state support and encouragement may offset the taxable income at a certain ratio of the investment amount.

Where the fixed assets of enterprises actually require accelerated depreciation due to technology advancement, the years of depreciation may be shortened or the accelerated depreciation method may be adopted.

The income obtained by enterprises from the production of products in line with state industrial policies through comprehensive use of resources may be deducted from the taxable income.

The investment by enterprises on procurement of special facilities for environmental protection, energy and water conservation and safe production may be subject to an offset tax amount at a certain ratio.

The specific measures of preferential tax treatment prescribed by the relevant law shall be formulated by the State Council.

Where there is a significant impact on the business activities of enterprises pursuant to the needs of national economy and social development, or due to unexpected public incidents, the State Council may formulate the special preferential policy of corporate income tax and report to the Standing Committee of the National People's Congress for the record.

- a) The income obtained by the enterprise from investing in or operating any of the public infrastructure projects under the key support of the State, or engaging in any of the environmental protection or energy-saving or water saving projects, shall be exempted from the corporate income tax for first three years from the tax year when the first revenue arising from production or operation it is attributable to, and shall be taxed at the reduced half rate for the fourth to the sixth years.
- b) According to Regulations for the Implementation of Corporate Income Tax Law, the R&D expenditure shall be measured at the additional deduction basis which means that the R&D expenditures from the development of new technologies and new products, extra 50% deduction for eligible expenditure if it has not formed as intangible asset, otherwise they shall amortize on the basis of 150% of the cost of intangible asset.

## 2.10 Withholding tax

The payable income tax from income obtained by non-resident enterprises in accordance with Paragraph 3 of Article 3 of Corporate Income Tax Law of PRC shall be subject to tax withheld at source, with the payer as the withholding agent. The tax payment shall be withheld from the amount paid or the payable amount due from each tax payment and payable amount of the withholding agent.

In respect of the payable income tax from income obtained by non-resident enterprises from project works and labour services in China, the tax authority may designate the payer of project price or labour fee as withholding agent.

In respect of the income tax that shall be withheld in accordance with Articles 37 and 38 of Corporate Income Tax Law of PRC, where the withholding agent has not withheld or fails to perform the withholding obligation in accordance with the law, the taxpayer shall pay in the place where the tax is incurred. Where the taxpayer does

not pay in accordance with the law, the tax authority may pursue the payable tax amount of such taxpayer from the amount payable by the payer of other income projects in China of such taxpayer.

The withholding agent shall turn the tax payment withheld to the treasury within 7 days from the day of withholding, and submit a statement of withholding corporate income tax to the tax authority of the place where it is located.

**Dividends** – Dividends paid to a non-resident enterprise are subject to a 10% withholding tax (the statutory rate is 20%), unless the rate is reduced under a tax treaty.

**Interest** – Interests paid to a non-resident are subject to a 10% withholding tax (the statutory rate is 20%), unless the rate is reduced under a tax treaty. A 5% Business Tax will also be applicable.

**Royalties** – Royalties paid to a non-resident are subject to a 10% withholding tax (the statutory rate is 20%), unless the rate is reduced under a tax treaty. A 5% Business Tax is also imposed, but may be waived when royalties are paid for the transfer of qualified technology.

**Technical service fees** – Technical service fees paid to a non-resident company are subject to the statutory income tax rate (i.e. 25%) on a net-profit basis to the extent the relevant services are derived within China, unless the rate is reduced under a tax treaty. The deemed profit rates for non-resident company range from 15%-50% is used by local tax authorities due to the common lack of documents substantiating costs and expenses. A 5% Business Tax also will be imposed regardless of where the services are rendered.

## 2.11 Transfer pricing

The business transactions between enterprises and their affiliates that reduce the taxable income or income of such enterprises and their affiliates not in compliance with independent transaction principle, the taxation authority has the right to make an adjustment in accordance with reasonable methods.

The cost incurred in joint development and transfer of intangible assets, or joint provision and acceptance of labour services by enterprises and their affiliates shall be shared under the independent transaction principle in computing the taxable income.

Enterprises may report to the tax authority the pricing principle and calculation method of the transactions between their affiliates. Upon negotiation and confirmation with the enterprises, the tax authority may reach the advance pricing arrangement.

Transfer pricing is the transactions between the related parties.

In the beginning of 2012, the government has issued two documents which are Guo Sui Fa No.13 'Internal working procedures for Special Tax Adjustments (Trial)' and Guo Sui Fa No. 16 'Work Statutes for Special Tax Adjustment of Important Case Review'. Those documents have further regulated the management of transfer pricing between the related parties.



## 2.12 Filing requirements of tax return

### Filing due dates

The tax return of CIT shall be submitted within 15 days from the first day of the following quarter; and final settlement of CIT shall be submitted within 5 months from the first day of the following year. If enterprises have ceased to operate, they shall submit the declaration form within 60 days from the day it ceased to operate.

### Penalties

Failed to submit the tax return of CIT on time would be given a penalty of 50 Yuan per day with a surcharge fine for the overdue amount (total corporate income tax payable x 0.05% x days)

### Payment of profit tax and application of holdover

According to the Article 27 of Law of the PRC to administer the levying and collection of taxes and the Article 37 of detailed rules for the implementation of the law of the PRC to administer the levying and collection of taxes, for any reasons, enterprises have difficulties to submit the tax return on time. It shall submit a formal application form for delaying in advance. After approved by the tax authority, it shall be allowed to delay but shall be submitted as soon as possible.

## PERSONAL TAX

### 3.1 Basis of taxation (Residence, Personal assessment)

An individual having residence in China or having resided in China for one year or more although without a permanent residence therein shall pay individual income tax on income from inside and outside China in accordance with the provisions of Individual Income Tax Law of the PRC.

An individual who neither has residence nor lives in China or who has no residence and has lived in China for less than one year shall pay individual income tax on income from inside China in accordance with the provisions of this Law

Individual income tax shall be levied on the categories of personal income listed below:

1. Income from wages, salaries,
2. Income of individual industrial and commercial operators from production or business operation,
3. Income from business operations contracted or leased from enterprises or other undertakings,
4. Income from labor service,
5. Income from remunerations to authors,
6. Income from royalties,
7. Income from interests, dividends and bonuses,
8. Income from the leasing of property,
9. Income from transfer of property

## 3.2 Rates of tax

Schedule 1 Individual Income Tax Rates from 1 September 2011  
(Applicable to income from wages and salaries)

Tax Grade	Monthly Taxable Income (RMB)	Rate
1	RMB ≤1500	3%
2	1500 < RMB ≤ 4500	10%
3	4500 < RMB ≤ 9000	20%
4	9000 < RMB ≤ 35000	25%
5	35000 < RMB ≤ 55000	30%
6	55000 < RMB ≤ 80000	35%
7	RMB > 80000	45%

Schedule 2 Individual Income Tax Rates from 1 September 2011  
(Applicable to income from production or business operation)

Tax Grade	Yearly Taxable Income (RMB)	Rate
1	RMB ≤15000	5%
2	15000 < RMB ≤ 30000	10%
3	30000 < RMB ≤ 60000	20%
4	60000 < RMB ≤ 100000	30%
5	RMB > 100000	35%

## 3.3 Year of assessment

Usually, except income from production or business operation, other personal income tax should be paid on monthly basis.

## 3.4 Allowances and Deductions

China's legislature has approved an increase in the individual income tax free threshold to RMB 3500 for Chinese nationals and a new streamlined schedule of tax brackets, down from nine to seven. The new rates effect from 1 September 2011. Foreigners will also be subject to the new rates; however, the tax free threshold for foreign workers will remain at RMB 4800.

## 3.5 Taxation of dividends

The tax rate of income from dividend shall be 20%.

## 3.6 Taxation of capital gain

N/A.

## 3.7 Taxation of interest income

The tax rate of interest income shall be 20%.

## 3.8 Personal assessment and utilization of losses

In China, no personal assessment is applicable for the resident. According to the Article 14 of Guo Sui Fa [2009] No.91, for those sole traders and partnership enterprises paid the individual income tax, all taxpayers who fail to make a profit on their business, shall be allowed to carry forward the loss against future profits but no more than 5 years.

### 3.9 Withholding tax

Referring to the Article 2 and Article 3 of Interim Measures of Withholding Individual Income Tax, all units including enterprises (companies), institutions, agencies, organizations, armed forces, foreign organizations in China, private businessmen and individuals paying taxable income are withholding agents, and it is the obligation of those agents to withhold individual income tax.

### 3.10 Statutory obligation of employers

Withholding agents, when making payments (including cash, property and securities) that are subject to tax, must withhold the individual income tax regardless of the fact whether the taxpayers belong to the paying units or not.

Withholding agents shall, when failing to withhold and collect the taxable amount that should be withheld and collected, pay such taxable amount that should be withheld and collected together with the necessary surcharge or fine for overdue payment.

Withholding agents shall make up account books to record properly the withholding of individual income tax and the payment of the withheld tax into the State Treasury, and fill in accurately the withholding statement of individual income tax and other relevant information.

### 3.11 Filing requirement of tax return

#### Filing due dates

A tax withholder withholding tax payments and a taxpayer filing tax returns every month shall hand the tax payments to the State treasury within the first 15 days of the next month and provide the tax authorities with the tax returns forms. And final settlement of IIT shall be handed to the State treasury within 30 days after the year end.

The tax payable on the income from the production or business operation of sole traders shall be assessed on a yearly basis and paid by monthly advances by the taxpayer within the first 15 days of the next month and the tax payable shall be cleared at the end of the tax year with excess payment refunded and deficit made up by supplementary payment in 3 months.

The tax payable on income derived from operations contracted or leased from an enterprise or undertaking shall be assessed on a yearly basis and paid by the taxpayer to the state treasury within 30 days after the year-end and with the tax returns filed by the taxpayer to the tax authorities. The taxpayer who gets income from contracted or leased business operations on a number of occasions in a year shall pay a tax advance payment within 15 days after an income is obtained and clear the tax payable within three months after the year end with the excess payment refunded and deficit made up by supplementary payment.

A taxpayer with income obtained from a source outside China shall pay the tax payable to the State treasury within 30 days after the year-end and file tax returns to the tax authorities.

## Penalties

From the Law of the PRC on the Administration of Tax Collection, it states as follows:

Article 32 where a taxpayer fails to pay tax or a withholding agent fails to remit tax within the specified time limit, the tax authorities shall, in addition to ordering the taxpayer or withholding agent to pay or remit the tax within a fixed period of time, impose a surcharge on a daily basis at the rate of 0.05% of the amount of tax in arrears, from the date the tax payment is defaulted.

Article 62 where, within the prescribed time limit, a taxpayer fails to go through the formalities for tax declaration and submit information on tax payment or a withholding agent fails to submit to the tax authorities statements on taxes withheld and remitted or collected and remitted and other relevant information, he shall be ordered by the tax authorities to rectify within a time limit and may be fined not more than 2,000 Yuan; if the circumstances are serious, he may be fined not less than 2,000 Yuan but not more than 10,000 Yuan.

Article 69 where a withholding agent fails to withhold or collect the amount of tax which should be withheld or collected, the tax authorities shall pursue the payment of the said amount, and impose on the withholding agent a fine of not less than 50 percent but not more than three times the amount of tax that should have been withheld or collected.

### Application of holdover

Taxpayers who have difficulties to submit the tax return on time, he/she shall submit in advance a formal application form for deferment.

## STATUTORY REQUIREMENT ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

1. Social Insurance agency ( the national or social institutions of implementing and managing the social insurance policies and social insurance funds)
2. Labor and Social Security Department

### 4.2 Basis of contribution

For the purposes of regulating social insurance relationship, protecting the legal right and interest of citizens in participating in social insurance and enjoying social insurance benefits, enabling citizens to share the development achievements and promoting social harmony and stability, China government has released the Social Insurance Law of the PRC.

The State establishes social insurance systems such as basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance so as to protect the right of citizens in receiving material assistance from the State and the society in accordance with the law when getting old, sick, injured at work, unemployed and giving birth.

### 4.3 Contribution rate

The contribution rate for each city is different. The following table is the contribution rate of Beijing:

Items	Company	Individual
Pension insurance	20%	8%
Basic medical insurance	9%	2%
Large medical insurance	1%	3 Yuan
Injury insurance	0.5%-2%	N/A
Unemployment insurance	1.50%	0.50%
Maternity Insurance	0.80%	N/A
Housing provident fund	12%	12%

### 4.4 Exemption from tax

The expenditures of social contributions shall be deducted from the taxable income when calculated the CIT and IIT.

## VAT

### 5.1 Basis of tax

All units and individuals engaged in the sales of goods, provision of processing, repairs and replacement services, and the importation of good switch in the territory of the PRC are taxpayers of Value-Added Tax (VAT).

### 5.2 Rates of tax

- For taxpayers selling or importing good, or providing processing, repairs and replacement services, the tax rate shall be 17%.
- For taxpayers selling or importing the following goods, the tax rate shall be 13%:
  - Food grains, edible vegetable oils;
  - Tap water, heating, air conditioning, hot water, coal gas, liquefied petroleum gas, natural gas, methane gas, coal/charcoal products for household use;
  - Books, newspapers, magazines;
  - Feeds, chemical fertilizers, agricultural chemicals, agricultural machinery and covering plastic film for farming;
- The rate on the small-scale taxpayers selling goods or taxable services shall be 3%.

### 5.3 Registration

The taxpayers of engaging in the production and business shall register in the national tax authorities within 30 days upon received the business license.

Taxpayers shall hand in the application in writing and provide the following documents:

- Business Licenses
- The related Articles of Association, contracts and engagement letters
- The certificate of bank
- Legal representative or the owners' identity card, passport, HVPs or other legal documents;

- 5) The approved documents from national tax authorities which of the head office located.
- 6) Other documents required by national tax authorities.

## 5.4 Filing requirements

- a) The VAT assessable period shall be one day, three days, five days, ten days, fifteen days or one month. The actual assessable period of the taxpayer shall be determined by the competent tax authorities according to the magnitude of the tax payable of the taxpayer; tax that cannot be assessed in regular periods may be assessed on a transaction-by-transaction basis.
- b) Taxpayers that adopt one month as an assessable period shall report and pay tax within ten days following the end of the period. If an assessable period of one day, three days, five days, ten days or fifteen days is adopted, the tax shall be prepaid within five days following the end of the period and a monthly return shall be filed with any balance of tax due settled within ten days from the first day of the following month.

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

The foreign tax credit is the income tax the resident company or individual has paid overseas and it is deductible from the taxable income when it is to calculate the income tax payable in China. But the credit is limited to the amount of China tax payable on the same trading income.

### 6.2 List of double tax treaties signed

China has signed the double tax relief with 84 countries as follows:

Japan	Poland	Bahrain	Denmark	Kyrgyzstan
Iran	Tunisia	Ireland	Singapore	Hong Kong
India	Bulgaria	Mauritius	Australia	the United States
France	Pakistan	Croatia	Malaysia	the Netherlands
Britain	Latvia	Belarus	Seychelles	Czechoslovakia
Oman	Albania	Slovenia	Philippines	Papua New Guinea
Cuba	Cyprus	Israel	South Africa	the United Arab Emirates
Norway	Spain	Vietnam	Barbados	Trinidad and Tobago
Laos	Romania	Turkey	Moldova	New Zealand
Egypt	Austria	Ukraine	Venezuela	Switzerland
Finland	Brazil	Armenia	Kazakhstan	Luxembourg
Canada	Mongolia	Jamaica	Indonesia	South Korea
Sweden	Hungary	Iceland	Thailand	Sudan
Malta	Lithuania	Germany	Kuwait	Georgia
Portugal	Macedonia	Italy	Uzbek	Estonia
Morocco	Macao	Bengal	Belgium	Sri Lanka
Mexico	Russia	Yugoslavia	Azerbaijan	

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

#### 1) Basis of taxation

Stamp duty is a tax that is levied on certain legal business transaction, such as the transfer of

a property. Documents evidencing such transactions are recorded and become legally enforceable only if they are stamped to show that the proper amount of tax has been paid. The following categories of documents shall be taxable:

- i. contracts or documents in the nature of a contract with regard to: purchases and sales, the undertaking of processing, contracting for construction projects, property leasing, commodity transport, warehousing, loans, property insurance, technology;
- ii. documents for transfer of property rights;
- iii. business account books;
- iv. certificates evidencing rights or licenses; and
- v. other documents that are taxable as determined by the Ministry of Finance.

## 2) Tax Rates

- Purchase and sales contract is 0.3‰
- Processing contract is 0.5‰
- Construction Survey and Design Contract is 0.5‰
- Construction and installation engineering contract is 0.3‰
- Property lease contracts is 1‰, if the amount less than 1 Yuan, it decal 1 Yuan.
- Goods carriage contract is 0.5‰
- Storage contract is 1‰
- Loan contract is 0.05‰
- Property and casualty insurance contracts is 1‰
- Technology contract is 0.3‰
- Transfer of property rights is 0.5‰
- Accounting book is 0.5 ‰ of the total amount of paid-in capital and capital surplus for the funding Books and others are 5 Yuan per book
- Rights or licenses is 5 Yuan

## 7.2 Real property tax

### 1) Basis of taxation

The owner of property shall be liable for the payment of real estate tax. Where the property is subject to a mortgage, the mortgagee shall be liable for payment. Where the owner and the mortgagee are not present at the locality in which the property is situated, where ownership of the property has not been established or where disputes in connection with the tenancy and mortgage of the property have not been resolved, the tax shall be paid by the custodian or the user of the property on behalf of the owner or mortgagee.

Reductions of or exemptions from real property tax shall be granted in respect of the following circumstance: other real property in respect of which, due to special circumstances, the people's government at the provincial (municipal) level or higher has determined that reductions of or exemptions from real estate tax shall be granted.

## 2) Tax rate

Purpose of the property	Tax base	Rate
Self-used	The balance after deducted 10%-30% of the original value	1.2%
Leasing	Rental	12%

### 7.3 Estate duty

N/A

### 7.4 Net wealth/net worth tax

N/A

### 7.5 Others

#### Business tax

##### 1) Basis of taxation

When enterprises and individual who provide the services of the communications and transportation, construction, finance and insurance, posts and telecommunications, culture and sports, entertainment and service industries, it shall be liable for paying the business tax. However, since 2012, those industries has reformed and levy VAT in Shanghai, Beijing, Tianjin, Jiangsu province, Zhejiang province, Anhui province, Fujian provision, Hubei province and Guangdong province (including Shenzhen) etc.

##### 2) Tax rate

- Transportation is 3%
- Construction, installation and other engineering industries is 3%
- Financial and Insurance industries is 5%
- Post and telecommunication industries is 3%
- Arts and sports industries
- Entertainment is 5% - 20%
- Service, agency, hotel, food, travel, storage, leasing, advertising and other services is 5%
- Asset, land, copyright, trademark, patent and goodwill etc transferred is 5%
- Property sales is 5%

#### Consumption tax, etc.

N/A

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## GENERAL INFORMATION

**1.1 Country** : Cyprus

**1.2 Currency** : Euro - €

### 1.3 Principal business entities

- Public Companies – unlimited number of shareholders and no restrictions on transfer of shares
- Private Companies – limited number of shareholders and possible restrictions on transfer of shares
- Partnerships
- Branches of foreign companies
- Trusts
- Funds
- Investment Firms
- SE Companies – Societas Europaea

### 1.4 Foreign exchange control

No exchange control

### 1.5 Current economy climate (Industry overview/encouraged business development)

Cyprus is an island lying at the south-eastern corner of the Mediterranean. It is the third largest island in the Mediterranean. The geographical position of the island played a significant role in rendering it into an international business centre, as it is in the crossroads of three continents (Europe, Asia, Africa) and the Middle East.

The Cyprus economy is characterized by stability, low inflation and a low unemployment rate. The economy is based mainly on professional services and tourism.

There are more than 265,000 companies registered in Cyprus, evidence of the attractiveness of Cyprus' taxation system benefits and international investors' confidence in Cyprus economy.

The banking system in Cyprus, which is based on the British banking system, is well developed and organized; it is, therefore, capable of providing fast and effective services worldwide. The system is under the supervision of the Central Bank of Cyprus ([www.centralbank.gov.cy](http://www.centralbank.gov.cy)) which controls all businesses carried out by commercial banks and other financial institutions.

All financial institutions provide a wide range of services and they are all subscribers to the SWIFT system (Society for World Interbank Financial Telecommunications).

Operating through a company registered in Cyprus can significantly reduce the tax liability of the business and the ultimate shareholders, thus increasing the net return on the investment.

Cyprus has been a full member of the European Union since 2004.

In addition, due to the great numbers of international businesses already situated in Cyprus, there are outstanding networking possibilities for all of new entrants.

The local governments have traditionally been promoting Cyprus as an international business center, through the enactment of favorable tax laws, which are in full compliance with EU directives and the reduced paperwork and costs necessary to register a Cyprus company.

## 1.6 National tax authority

### Name

The Inland Revenue Department (IRD)

### Website

[www.mof.gov.cy/mof/ird/ird.nsf/dmlindex\\_en/dmlindex\\_en](http://www.mof.gov.cy/mof/ird/ird.nsf/dmlindex_en/dmlindex_en)

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

Trading profits of a Cyprus tax resident company are taxed on their income accrued or derived out of sources in Cyprus and abroad. A unilateral tax credit is given for income taxed abroad. A company is considered to be tax resident in Cyprus, if its management and control is exercised in Cyprus.

### 2.2 Rates of tax

The corporation tax for all companies is the flat rate of 10%, which is the lowest tax rate within Europe. Income from dividend, gains on trading and valuation of securities and gain on disposal of shares in subsidiaries and associates is tax exempt. 80% of income generated out of intangible assets registered in Cyprus is also exempt.

### 2.3 Year of assessment

The tax year of each company covers the year from 1 January to 31 December.

### 2.4 Profits deemed to be taxable

- Business profits
- Interest income
- Income from intangible assets (e.g. royalties)
- Rental income
- Grants and subsidies
- Income from disposal of immovable property situated in Cyprus

## 2.5 Taxation of dividends

Dividends received from abroad are tax exempt unless both of the following conditions are not satisfied, in which case they are taxed to Special Contribution for Defence (SCD) at 20% for the years 2012 and 2013 and 17% from 2014 and onwards:

- (1) The company paying the dividend must not engage directly or indirectly more than 50% in activities which lead to passive income (non-trading income), and
- (2) The foreign tax burden on the income of the company paying the dividend is not substantially lower than the tax burden in Cyprus (an effective tax rate higher than 5% in the country paying the dividend satisfies this condition).

A tax credit will be afforded according to the Double Taxation Agreements concluded by Cyprus. In the absence of a Double Taxation Agreement, Cyprus unilaterally affords a credit for the foreign tax paid on such income. For dividends received from EU Member States Cyprus adopts the EU Parent-Subsidiary Directive.

Dividends paid from one Cyprus tax resident company to another are exempt from any tax in Cyprus.

## 2.6 Taxation of capital gains

Capital gains are not included in the ordinary trading profits of a business, but instead are taxed separately under the CGT Law. Capital gains from the sale of immovable property situated in Cyprus as well as from the sale of shares in companies (other than quoted shares) in which the underlying asset is immovable property situated in Cyprus, are taxed at a flat rate of 20% after allowing for indexation. Capital Gains that arise from the disposal of immovable property held outside Cyprus or shares in companies which may have as an underlying asset immovable property held outside Cyprus, are completely exempt from capital gains tax.

## 2.7 Taxation of interest income

There are two types of taxes that may apply to interest income earned by a Cypriot company: income tax at 10% levied on interest derived, less any allowable expenses or Special Defense Contribution (SDC) at 15% applied to gross interest income. Interest earned by a Cypriot tax resident company derived in the ordinary course of business or closely connected thereto is only subject to income tax. Interest income by all other companies is subject to SDC.

## 2.8 Utilization of tax losses

Income tax losses are carried forward for five years. Capital gains tax losses are carried forward indefinitely.

Group relief is allowed for at least seventy-five percent (75%) group structures and is applicable only on yearly results, if claimants are Cyprus tax resident companies and are members of the same group for the whole tax year. Losses incurred from business carried outside Cyprus are allowed as a deduction against other taxable profits generated by the Cyprus Company.

## 2.9 Key tax incentives

### Royalties

There is an 80% exemption on the net income generated from the utilization of patent, trademark or any other intellectual property (IP) rights. This exemption results in an effective tax rate of 2% from the utilization of Cyprus registered IP.

Gross amounts of royalties from sources within Cyprus by a company which is not a tax resident of Cyprus are liable to 10% (unless a Double Tax Treaty exists, where tax credit might be available) withholding tax at source. If the intangible property right, however, is granted to a Cyprus company for use outside Cyprus, then there is no withholding tax and the corporate rate is applied only on the profit margin left in the Cyprus company.

### Trading In Titles

Gains from trading and disposal of securities are tax free. The term 'Titles' includes:

- ordinary and preference shares;
- founder's shares;
- options on titles;
- debentures;
- bonds;
- short positions on titles;
- futures / forwards on titles;
- swaps on titles;
- depositary receipts on titles;
- rights of claims on bonds and debentures;
- index participations (if they result in titles);
- repurchase agreements or Repos on titles;
- participations in companies; and
- units in open-end or closed-end collective investment schemes such as Mutual Funds, International Collective Investment Schemes (ICIS) and Undertakings for Collective Investments in Transferable Securities (UCITS).

### Shipping Companies

The new tonnage tax system for Cyprus merchant shipping was approved by the European Commission on 24 March 2010 (case N. 37/2010), as compatible with the requirements of the EU acquis, in accordance with the relevant guidelines on State Aid to Maritime Transport. This simplified tonnage tax system is approved for the first time for an EU Member State, a state with an open registry. It extends the favorable benefits applicable to owners of Cyprus flag vessels and ship managers to owners of foreign flag vessels and charterers. It also extends the tax benefits that previously covered only profits from the operation of vessels in shipping activities, to cover profits on the sale of vessels, interest earned on funds used other than for investment purposes and dividends paid directly or indirectly from shipping related profits.

The Merchant Shipping (Fees & Taxing Provisions) Law was enacted in May 2010 and introduces a new tonnage tax system in Cyprus, applicable as from the fiscal year 2010.

The new tonnage tax system contains most of the favorable features found in tonnage tax systems in other EU countries, and more. The system, therefore, provides Cyprus with a competitive advantage and is expected to significantly contribute to the improvement of the already strong position of the country in the shipping world.

### **Beneficiaries**

The tonnage tax system is available to any owner, charterer or ship manager who owns, charters or manages a qualifying ship in a qualifying shipping activity. The tonnage tax is calculated on the net tonnage of the ship according to a broad range of bands and rates prescribed in the legislation. The rates applicable to ship managers are 25% of those applied for ship owners and charterers.

### **Qualifying ship**

A qualifying ship is any seagoing vessel certified under applicable international or national rules and regulations and registered in the ship register of any member of the International Maritime Organization and the International Labour Organization, which is recognized by Cyprus.

The new tonnage tax system specifically excludes certain types of ships, such as fishing vessels, ships used primarily for sports or recreation, river vessels, non-self-propelled floating cranes and non-ocean going tug boats, among others.

### **Qualifying shipping activity**

Any commercial activity that constitutes maritime transport, crew management and/or technical management is considered a qualifying activity.

The definition of maritime transport includes the traditional carriage of goods and passengers, as well as ancillary services such as all hotel, catering, entertainment and retailing activities on board a qualifying vessel, the loading and unloading of cargo, the operation of ticketing facilities and passenger terminals. Towage, dredging and cable laying are also eligible for tonnage tax.

### **Ship owners**

Ship owners of Cyprus flag ships automatically fall within the scope of the tonnage tax system. Ship owners of community flag ships and foreign flag ships may opt to be taxed under the tonnage system.

Ship owners of foreign flag ships must comply with certain requirements to qualify for the option to be taxed under the new system. These include the requirement that a share of their fleet be comprised of EU flag ships, which share must not be reduced in the three-year period following the exercise of the option (flag-share requirement) and that the commercial and strategic management of the fleet be carried out from the EU/EEA.

Any ship owner opting for the tonnage tax system must remain in the system for 10 years. Early withdrawal will result in penalties, calculated as the difference between the amount paid during the period the ship owner was under the tonnage tax system and the amount that would have paid had it been subject to corporation tax in the same period. In addition, the ship owner will lose the right to opt for tonnage taxation until expiration of the 10-year period from the date the option was first exercised.

The tonnage tax system covers profits from shipping operations, dividends paid directly or indirectly out of such profits, profits on the sale of the ship and interest earned on funds used as working capital or for the financing, operation and/or maintenance of the ship.

### **Charterers**

Any charterer who charters a ship under bareboat, demise, time or voyage charter is eligible for the tonnage tax system provided the tonnage of the ships under time and/or voyage charters do not exceed 75% of the total tonnage of ships chartered and owned, for more than three consecutive years. This eligibility percentage increases to 90% if the ships chartered are EU/EEA ships or their crew and technical management are carried out from the EU/EEA. The charterers of a fleet comprising EU and non-EU flag ships must also comply with the flag-share requirement.

An eligible charterer may opt to be taxed under the tonnage tax system, but once the option is made, it must remain in the system for 10 years. Early withdrawal will result in the penalties outlined above for ship owners.

The tonnage tax system covers profits from shipping operations, dividends paid directly or indirectly out of such profits and interest earned on funds used as working capital or for the payment of expenses arising out of the charter party.

### **Ship managers**

A ship manager who provides crew and/or technical ship management services is eligible for the tonnage tax system provided it satisfies certain criteria. These include the maintenance of a fully fledged office in Cyprus, the employment of a sufficient number of qualified personnel (51% of whom should be EU/EEA citizens) and at least 2/3 of the management is entirely carried out from the territory of the EU/EEA. Further, a share of his fleet must be comprised of EU flag ships, which share must not be reduced in the three-year period following the exercise of the option (flag-share requirement). All ships and crews under management must comply with relevant international standards and EU law requirements must be fulfilled, in particular those relating to maritime security, safety, training and certification of seafarers, environmental performance and on-board working conditions.

Other specific criteria must be complied with, depending on the ship management service provided (i.e. full implementation of the 2006 Maritime Labour Convention for crew managers and the ISM Code certification for technical managers).

The tonnage tax system covers profits from the provision of crew and/or technical ship management services, dividends paid directly or indirectly out of such profits and interest earned on funds used as working capital or for the payment of expenses relating to the management of the ships. The 10-year option rule also applies to eligible ship managers and the same penalties apply for early withdrawal.

### Tonnage Tax Rates

The following table summarizes the applicable rates for the tonnage tax calculation:

Net Tonnage				
0 - 1,000	1,001 - 10,000	10,001 - 25,000	25,001 - 40,000	> 40,000
€ 3,650	€ 3,103	€ 2,008	€ 1,278	€ 730

*Note: The rates applicable to ship managers are 25% of the above.*

## 2.10 Withholding tax

There are no withholding taxes on payments to non-tax resident persons (companies or individuals) in respect of dividends and interest.

## 2.11 Transfer pricing

There is no transfer pricing legislation in Cyprus, other than a provision in the Income Tax Law which requires transactions between 'related parties' to be in accordance with the 'arm's length principle'. The Cyprus tax legislation adopted the OECD model and guidelines to determine whether a transaction is at arm's length.

## 2.12 Filing requirements of tax return

### Filing due dates

15 months after the year end

### Penalties

€100 for late submission

### Payment of profit tax and application of holdover

Income tax is paid provisionally based on estimated income in 2 instalments (by 30 June and 31 December of the current year). If the final assessment is lower than 75% of the estimated taxable profits, a 1% additional tax is paid on the balance. The final balancing payment is due by August of the following year.

The annual tax return of each tax year must be submitted electronically by the next following end of March (i.e. Annual tax return for 2012 must be submitted by 31 March 2014). If not electronically, then by the end of the following December.

Application of holdover: Not applicable under Cyprus tax.

# PERSONAL TAX

## 3.1 Basis of taxation (Residence, Personal assessment)

Cyprus tax residents are taxed on their chargeable income as derived or being accrued from all sources in Cyprus and abroad. On the other hand, individuals that are not tax residents are taxed on their income accrued or derived only in Cyprus.

An individual is considered to be Cyprus tax resident if he/she resides more than 183 days in the Republic within one calendar year. The following rules are applied for calculating the exact number of days in the Republic:

- The day of the departure from the Republic is considered to be a day outside of Cyprus.
- The day of the arrival to the Republic is considered to be a day in Cyprus.
- Arrival and departure on the same day is considered to be a day in Cyprus.
- Departure and arrival on the same day is considered to be a day outside Cyprus.

Any foreign taxes paid can be credited against income tax liability.

### 3.2 Rates of tax

Chargeable Income	Tax Rate	Accumulated Tax
€	%	
0 - 19,500	Nil	Nil
19,500 - 28,000	20	1,700
28,001 - 36,300	25	3,775
36,301 - 60,000	30	10,885
over 60,000	35	

### 3.3 Year of assessment

The tax year of each individual covers the year from 1 January to 31 December.

### 3.4 Allowances and deductions

- (a) The following types of income are exempted from Income Tax:
- Interest, except for interest derived out of ordinary business activities – it is subject to Special Defense Contribution.
  - Dividends – subject to Special Defense Contribution.
  - 50% of income/remuneration of an individual is exempted, if and only if, the individual was not a Cyprus tax resident for a period of 5 years prior to his/her employment commencing on 1 January 2012 in relation to income/remuneration exceeding €100,000.
  - 20% of income/remuneration of an individual is exempted (with a maximum amount of €8,550 annually), if and only if, the individual was not a Cyprus tax resident for a period of 3 years prior to his/her employment starting on 1 January following the year of the commencement of his employment.
  - Profits from a permanent establishment.
  - Profits as derive out of the sale of securities.
  - Capital/lump sum as derived out of approved provident funds, retiring gratuity and/or compensation for death or injuries.



The following deductions are permissible:

- Contributions to trade unions and/or other professional bodies.
- Loss of current and previous years.
- 20% of annual rental income.
- Donations to approved institutions.
- Expenditure incurred for the maintenance of preserved buildings – up to €1,200, €1,100 or €700 depending on the size of the building.
- Social Insurance, provident fund and pension fund contributions – up to 1/6 of the annual chargeable income.
- Medical fund contributions with maximum of 1% of remuneration and up to 1/6 of the annual chargeable income.
- Life insurance premiums with maximum of 7% of the insured amount and up to 1/6 of the annual chargeable income.
- Special Contribution, which are payable according to monthly income.

### 3.5 Taxation of dividends

Dividends (from Cyprus and non-Cyprus resident companies) are taxed to Special Contribution for Defense (SCD) at 20% for the years 2012 and 2013 and 17% from 2014 and onwards.

### 3.6 Taxation of capital gain

Capital gains are not included in the ordinary trading profits of a business, but instead are taxed separately under the CGT Law. Capital gains from the sale of immovable property situated in Cyprus as well as from the sale of shares in companies (other than quoted shares) in which the underlying asset is immovable property situated in Cyprus, are taxed at a flat rate of 20% after allowing for indexation. Capital Gains that arise from the disposal of immovable property held outside Cyprus or shares in companies which may have as an underlying asset immovable property held outside Cyprus, are completely exempt from capital gains tax.

Individuals are entitled to a general life time exemption of €17,086 (€85,430 for principal private residence and €25,629 for agricultural land).

### 3.7 Taxation of interest income

There are two types of taxes that may apply to interest income earned by a Cypriot company: income tax at 10% levied on interest derived, less any allowable expenses or Special Defense Contribution (SDC) at 15% applied to gross interest income. Interest earned by a Cypriot tax resident company derived in the ordinary course of business or closely connected thereto is only subject to income tax. Interest income by all other companies is subject to SDC.

### 3.8 Personal assessment and utilization of losses

Allowable expenses and deductions can never exceed 1/6 of income, therefore there are no taxable losses created for physical persons, hence no utilization of losses.

### 3.9 Withholding tax

It is the responsibility of the banking institutions to withhold SDC on behalf of their clients receiving interest income. The same applies to companies distributing dividends.

### 3.10 Statutory obligation of employers

The employers are responsible for withholding social insurance contributions and income tax from their employees on a monthly basis.

### 3.11 Filing requirement of tax return

#### Filing due dates

31 July of the year following the year of assessment

#### Penalties

€100 for late submission

#### Application of holdover

N/A

## STATUTORY REQUIREMENT ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

The Department of Social Insurance Services under the Ministry of Labor and Social Insurance.

### 4.2 Basis of contribution

Social insurance contributions (SICs) are mandatory requirement and comprise of savings for retirement scheme introduced by the Republic. The SICs are suffered equally by the employer and the employee and are deductible from the taxable income of the employee/employer accordingly.

SICs are restricted to a maximum amount of €54,936 (weekly €1,046, monthly €4,533) for 2013 and might be reviewed and adjusted annually depending on inflation rates.

Other than the above, the employer makes the following additional contributions as a percentage of employee's remuneration:

- Social Cohesion Fund
- Redundancy Fund
- Industrial Training Fund
- Holiday Fund

Special Contributions is another type of social security contribution, calculated based on the monthly income of each individual.

The contributions of self-employed depend on the type of profession or trade of each individual.

### 4.3 Contribution rate

- Social Insurance – 6.8% (employer and increase to 7.8% in 2014) and 6.8% (employee and increase to 7.8% in 2014)
- Social Cohesion Fund – 2%
- Redundancy Fund – 1.2%
- Industrial Training Fund – 0.5%
- Holiday Fund – 8% (if not exempted)

### 4.4 Exemption from tax

All of the abovementioned contributions are tax allowable, with the exemption of the Social Cohesion Fund.

## GST/VAT

### 5.1 Basis of tax

In accordance with the Cyprus legislation every corporation must be registered in the Value Added Tax (VAT) Register provided that they have an annual turnover exceeding €15,600. Voluntary registration is also possible.

Where the exclusive purpose of a holding company is the acquisition and holding of interest in shares in other companies, with the intention of deriving dividend income, such a company is not considered to be performing an economic activity for VAT purposes and consequently it does not have the status of a taxable person.

Companies which are not performing economic activities have neither the liability nor the right to register for VAT purposes and consequently they cannot claim input VAT. However, holding companies may be liable to register for VAT where, in addition to the holding of investments, they also have taxable or exempt activities such as:

- Supply management services at a consideration to subsidiaries;
- Supply finance to subsidiaries;
- Trade in shares i.e. purchase and sell shares on a frequent basis with the intention to profit from the fluctuations of the share price.

Where a holding company is registered for VAT purposes, it may claim input VAT on goods and services acquired in Cyprus and other EU Member States. The right to claim input VAT depends on which type of the holding company's activities the acquired goods or services, directly or indirectly relate.

### 5.2 Rates of tax

The following VAT rates are currently applicable:

- Zero rated – 0%
- Reduced rate of 5% – 5%
- Reduced rate - 8% (9% as from January 2014)
- Standard rate – 18% (19% as from January 2014)

Supply of certain goods and services is exempted from VAT as follows:

- Letting of immovable property
- Banking, financial and insurance services
- Medical care services
- Betting

### 5.3 Registration

Registration is compulsory when the turnover (subject to VAT) of the business exceeded €15,600 the prior 12 months or expected to exceed this threshold within the next 30 days. Voluntary registration is also available.

### 5.4 Filing requirements

VAT returns must be submitted quarterly and the payment for the VAT must be made 40 days after the end of the particular quarter.

Under Cyprus legislation, there is no withholding tax on dividends, interests and royalties paid to non-residents of Cyprus.

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

Unilateral tax credit is granted for taxes suffered abroad or according to the Double Tax Treaty in place.

- (a) Under Cyprus legislation, there is no withholding tax on dividends, interests and royalties paid to non-residents of Cyprus.

### 6.2 List of double tax treaties signed

- |                  |              |              |                        |
|------------------|--------------|--------------|------------------------|
| • Armenia        | • Germany    | • Moldova    | • Slovakia             |
| • Austria        | • Greece     | • Montenegro | • Slovenia             |
| • Belarus        | • Hungary    | • Norway     | • South Africa         |
| • Belgium        | • India      | • Poland     | • Sweden               |
| • Bulgaria       | • Ireland    | • Qatar      | • Syria                |
| • Canada         | • Italy      | • Romania    | • Tadjikistan          |
| • China          | • Kuwait     | • Russia     | • Thailand             |
| • Czech Republic | • Kyrgyzstan | • San Marino | • Ukraine              |
| • Denmark        | • Lebanon    | • Serbia     | • United Kingdom       |
| • Egypt          | • Malta      | • Seychelles | • United States        |
| • France         | • Mauritius  | • Singapore  | • United Arab Emirates |

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

Stamp duty is enforced on written documents which deal with Cyprus situated property or matters that will be performed in Cyprus, irrespective of where the agreement is signed. Stamp duty on agreements ranges between 0.15% - 0.20% depending on the amount of the contract, with a maximum duty of €17,086. The duty is payable within 30 days from the signing of the agreement.

Contracts with a fixed amount

*Up to 28 February 2013:*

- the first €170,860: 1.5‰
- over €170,860: 2‰

As from 1 March 2013:

- The first €5,000: 0‰
- €5,001- €170,000: 1.5‰
- more than €170,000: 2‰

## 7.2 Real property tax

N/A

## 7.3 Estate duty

N/A

## 7.4 Net wealth/net worth tax

N/A

## 7.5 Others

### Business tax

All companies are liable for paying a €350 annual levy fee to the Cyprus government.

### Consumption tax, etc.

N/A

## POINT OF CONTACT

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## GENERAL INFORMATION

**1.1 Country :** Hong Kong

**1.2 Currency :** Hong Kong Dollar (HKD)

**1.3 Principal business entities**

- Public company
- Private company
- Branch of a foreign corporation
- Sole proprietorship
- Partnership

**1.4 Foreign exchange control**

No exchange control

**1.5 Current economy climate (Industry overview/encouraged business development)**

In 2012, the overall GDP growth in Hong Kong was approximately 1.4% which showed a modest improvement in the economy. Based on The 2013-14 Budget announced on 27 February, the forecast GDP growth of Hong Kong is between 1.5% and 3.5%. The average rate of headline inflation for the year is estimated at 4.5%, and the underlying inflation is 4.2%. In order to attract more enterprises to form their own captive insurance companies in Hong Kong, the government has proposed in The 2013-14 Budget to reduce profits tax on the offshore insurance income of captive insurance companies. Furthermore, it proposed to allow private equity funds to enjoy the same tax exemption as offshore funds so as to attract more private equity funds to domicile in Hong Kong.

Based on the free market economic policy, together with a sound legal system, Hong Kong has developed into a modern, energetic international services economy, and facilitates a flexible business environment for global commercial activities. In additions, the sound simple tax system and the low tax rate environment enhance Hong Kong to be a place for professionals to make business and maintain its competitiveness among other developed cities.

**1.6 National tax authority**

**Name :** The Inland Revenue Department (“IRD”)

**Website :** [www.ird.gov.hk](http://www.ird.gov.hk)

# CORPORATE INCOME TAX

## 2.1 Basis of taxation

A person who carries on a trade, profession or business in Hong Kong is chargeable to profits tax on the profits from that trade, profession or business (excluding profits arising from the sale of capital asset) that arise in or are derived from Hong Kong. Foreign-sourced income is not taxed even if it is remitted to Hong Kong. The tax residence of a person is generally irrelevant for profits tax purposes.

Territorial concept is the fundamental concept on the taxation of profits in Hong Kong adopted by the Hong Kong IRD. In determining whether profits arise in or are derived from Hong Kong, one looks to see what the taxpayer has done to earn the profits in question and where he has done it. If the profits are generated from operations in Hong Kong, the profits are subject to Hong Kong profits tax. The IRD has issued Departmental Interpretation and Practice Notes ("DIPN") No. 21 "Locality of profits" stating the IRD's interpretation and practice in respect of this area.

## 2.2 Rates of tax

	Y/A 2012/13	Y/A 2011/12
Companies	16.5%	16.5%
Unincorporated businesses	15%	15%

## 2.3 Year of assessment

From 1 April to 31 March of the following year or where the annual accounts are made up to any day other than 31 March, the year ended on that day in the relevant year.

## 2.4 Profits deemed to be taxable

- The assessable profits or adjusted loss are the net profits or loss, except for the capital gain or loss, for the basis period, arising in or derived from Hong Kong.
- Particularly, certain sums received from the use of intellectual properties, such as royalty, trademarks, patent, are deemed as receipts arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong. The effective profits tax rates are as follows:

Sums not from an associate	4.95% on such income
Sums from an associate	16.5% on such income

- Grants, subsidies or similar financial assistance in carrying on a trade, profession or business in Hong Kong;
- Consideration for the transfer of certain rights to receive income from property;
- Profits made by a financial institution through or from the carrying on of its business in Hong Kong from the sale or on the redemption on maturity or presentment of any certificate of deposit or bill of exchange;
- Hong Kong sourced profits from the sale or on the redemption on maturity or presentation of a certificate of deposit or bill of exchange except for individuals in a non-business capacity.

## 2.5 Taxation of dividends

Generally not subject to Hong Kong profits tax and no withholding tax thereon.

## 2.6 Taxation of capital gains

N/A

## 2.7 Taxation of interest income

Interest income derived from any deposits placed in Hong Kong with a financial institution on or after 22 June 1998 is exempted but not apply to:

- interest income received by financial institutions
- interest income from deposits pledged as collateral for financing facilities.

## 2.8 Utilization of tax losses

- Time limit – Tax loss can be carried forward indefinitely
- Loss relief among group companies – Not allowed. The IRD restricts the use of tax losses by changing shareholding for the purpose of utilizing the losses to obtain a tax benefit.

## 2.9 Key tax incentives

### a) Capital allowance

Includes industrial building allowance, commercial building allowance, depreciation allowance for plant and machinery and refurbishment allowance.

### b) Offshore funds

Offshore funds with Hong Kong fund managers and investment advisors with full discretionary powers are exempted, whereas they are derived in Hong Kong from six categories of transactions which are carried out or arranged by “specified persons”.

### c) Qualify debt instruments (“QDI”) - minimum denomination of HK\$50,000

Interest income and trading profits from a QDI with an original maturity of 5 years or more are subject to 50% of the normal profits tax rate. From 2003/04, this concession is further cover a “medium term debt instrument” issued on or after 5 March 2003 having an original maturity of 3 years to 7 years. For interest income and trading profits from a “long term debt instrument” issued on or after 5 March 2003 with an original maturity of 7 years or more are fully exempted from Hong Kong profits tax.

### d) Expenditure on research and development

Allowable deduction on expenditure on research and development is granted for payments to an approved research institute and development related to that trade, profession or business.



### e) Environmental protection facilities

Tax deduction is provided for capital expenditures incurred in relation to environmental protection facilities. For machinery and plant, includes environment-friendly petrol private cars, 100% deduction of cost will be allowed in the year of purchase. For installations forming part of a building or structure, the cost will be allowed for deduction over a 5-year period starting from the year of purchase. No deduction is provided for capital expenditure incurred under hire purchase arrangements.

## 2.10 Withholding tax

Dividends	N/A
Interest	N/A
Royalties	Effective rate of 4.95% for royalty to non-associate and effective rate of 16.5% for royalty to associate.
Technical service fee	N/A

## 2.11 Transfer pricing

The IRD mainly rely on case laws that are relevant to transfer pricing and S16(1) of IRO to govern transfer pricing transactions. S.16 (1) allows deductions of expenses only if they are incurred in the production of assessable profits. In addition, the IRD issued DIPN 45 to 48 to deal with transfer pricing and double taxation relief of transfer pricing adjustments.

The arm's length principle is adopted for pricing transactions between associated enterprises. The arm's length principle uses the transactions of independent enterprises as a guideline to determine how profits and expenses of the transactions should be allocated between associated enterprises.

Alternatively, IRD introduces advance rulings services. A taxpayer may apply for a ruling on how the sections of the IRO apply to the case or state the arrangement in its application. It provides the taxpayer with a degree of certainty about the tax treatments under the current tax legislation for seriously contemplated transfer pricing arrangements.

## 2.12 Filing requirements of tax return

### Filing due dates

Normal profits tax return issue date: 1 April

Normal due date: 2 May

If the tax payer appointed a tax representative, the due dates can be extended as follows:

For accounting year end dates	Normal filing dates
1 April to 30 November	2 May
1 December to 31 December	15 August
1 January to 31 March	15 November

### Penalties

Penalties may be imposed for failure to submit tax return to the IRD on time. The Commissioner of IRD has authority to institute prosecution, to compound or to assess additional tax (in a form of penalty) in respect of an offense.

### Payment of profit tax and application of holdover

Surcharges of 5% or 10% will be imposed for overdue payment of tax, depending on the length of time of late payment.

Provisional profits tax for the following year of assessment has to be paid and estimated by the assessable profits of the preceding year.

If the estimated profits are less than 90% of that previously assessed, an application for holdover of provisional tax can be lodged to the IRD in writing. The application should be lodged not later than:

- 28 days before the due date for payment of the provisional tax, or
- 14 days after the date of issue of the notice for payment of the provisional tax, whichever is later.

## PERSONAL TAX

### 3.1 Basis of taxation

Salaries tax shall be charged on every person in respect of his income arising in or derived from Hong Kong from any office or employment of profit; and any pension.

Income from any office or employment includes

- wages, salary, leave pay, fee, commission, bonus, gratuity, perquisite, or allowance
- certain pension or provident fund
- the rental value of any place of residence provided rent-free by the employer or an associated corporation or relevant rental subsidies
- rights to acquire shares or stock in a corporation

Directors' fee is subject to salaries tax if the company is managed and controlled in Hong Kong

According to DIPN 10, the Inland Revenue Department (IRD) generally accepts that an employment is a non-Hong Kong employment if: (1) the contract of employment was negotiated and entered into, and is enforceable outside Hong Kong; (2) the employer is a resident outside Hong Kong; and (3) the employee's remuneration is paid outside Hong Kong. Only an employment with all three above factors will be treated as a non-Hong Kong employment.

If an employee paid tax outside Hong Kong on income from employment which is chargeable to Hong Kong salaries tax, he could apply exemption on payments of Hong Kong salaries tax on such income, provided that such income has been charged and the employee has paid salaries tax in the territory he rendered services and a double tax arrangement has been signed with that territory.

### 3.2 Rates of tax

Tax payable is calculated at progressive rates on the net chargeable income or at standard rate on the net income (before deducting allowances), whichever is lower. Net chargeable income refers to the income less deduction and allowance.

	Y/A 2012/13	Y/A 2011/12
First HK\$40,000 at	2%	2%
Next HK\$40,000 at	7%	7%
Next HK\$40,000 at	12%	12%
On the remainder at	17%	17%
Standard rate of tax	15%	15%

The maximum tax payable is limited to tax at the standard rate of 15% on the person's income from employment less allowable deductions and charitable donations, but without deducting personal allowances. A married couple may opt for joint or separate assessment.

### 3.3 Year of assessment

From 1 April to 31 March of the following year.

### 3.4 Allowances and deductions

#### a) Allowances

	Y/A2012/13 (HK\$)	Y/A2011/12 (HK\$)
Basic allowance	\$120,000	\$108,000
Married person's allowance	\$240,000	\$216,000
Child allowances		
– 1st to 9th child (each)		
• In the year of birth	\$126,000	\$120,000
• In the following years	\$63,000	\$60,000
Dependent parent and grandparent allowance		
– Aged 60 or above		
• not living with taxpayer	\$38,000	\$36,000
• living with taxpayer throughout the year	\$76,000	\$72,000
– Aged 55 to 59		
• not living with taxpayer	\$19,000	\$18,000
• living with taxpayer throughout the year	\$38,000	\$36,000
Dependent brother or sister allowance	\$33,000	\$30,000
Single parent allowance	\$120,000	\$108,000
Disabled dependent allowance	\$66,000	\$60,000

#### b) Deductions

Allowable deduction includes expenses that must be wholly, exclusively and necessarily incurred in the production of the assessable income.

### 3.5 Taxation of dividends

N/A

### 3.6 Taxation of capital gain

N/A

### 3.7 Taxation of interest income

N/A

### 3.8 Personal assessment and utilization of losses

A Hong Kong resident may elect for personal assessment if himself is a sole proprietor, a partner in a business or a property owner. By aggregating the assessable income under salaries tax, profits tax and property tax, adjusting by certain deductions, the overall

tax to be paid may be reduced. The balance after deducting allowances and deductions are taxed at the same rates as salaries tax. Personal assessment allows a taxpayer to deduct loan interest incurred for rental properties or/ and off-set loss from the business of sole proprietor or partnership.

### 3.9 Withholding tax

Employer does not have the obligation to withhold salaries tax for its employee except:

- For payments made to a non-resident, an employer has an obligation to withhold an amount from that is sufficient to produce the amount of tax due
- For employee about to leave Hong Kong more than 1 month, an employer should withhold all amounts due to be paid to him until such time the employee has made tax clearance.

### 3.10 Statutory obligation of employers

Statutory obligations of an employer to report remuneration paid to an employee

- For commencement of employment, need to notify the IRD in 3 months
- For continuance employment as at 31 March, need to notify the IRD in 1 month from 1 April of the following year of assessment
- For cessation of employment, need to notify the IRD not later than 1 month before cessation
- For departure from Hong Kong, need to notify the IRD not later than 1 month before departure and withhold money for tax clearance

### 3.11 Filing requirement of tax return

#### Filing due dates

<b>Employer's return</b>	
Date of issue	1 April
Filing deadline	2 May
<b>Individual return</b>	
Date of issue	2 May
Normal filing deadline	2 May
With sole-proprietors of unincorporated businesses	2 August

An extension of one extra month will be granted automatically if the return is filed electronically. If the tax payer has appointed a tax representative, a further extension of one month is granted.

#### Penalties

Penalties may be imposed for failure to submit tax return to the IRD on time.

#### Payment of salaries tax and application of holdover

Surcharges of 5% or 10% will be imposed for overdue payment, depending on the length of time of late payment.

Provisional salaries tax for the following year of assessment has

to be charged and estimated by net chargeable income of the preceding year.

If the net chargeable income for the year of assessment for which provisional tax was charged is likely to be less than 90% of the net chargeable income for the preceding year, or the tax payer becomes entitled to an allowance, an application for holdover of provisional tax can be applied to the IRD in writing not later than:

- 28 days before the due date for payment of the provisional tax, or
- 14 days after the date of issue of the notice for payment of the provisional tax, whichever is later.

## STATUTORY REQUIREMENT ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

The Mandatory Provident Fund Schemes Authority

- To regulate and supervise the operations of Mandatory Provident Fund ("MPF") schemes and occupational retirement schemes.

### 4.2 Basis of contribution

The MPF System is a saving for retirement scheme introduced by Hong Kong government. It is designed as an employment based system. MPF contributions are invested in MPF funds, which are managed by trustee and their service providers. Employee and self-employed persons who are aged between 18 and 65 are covered by MPF.

MPF contribution can be withdrawn only until the employees reach the age of 65. Early withdrawal is allowed if the person who is early retirement at the age of 60; or permanent departure from Hong Kong; or total incapacity; or death; or having the balance account of HK\$5,000 or less, and no contributions made for 12 months.

### 4.3 Contribution rate

Employees and employers each are required to make mandatory contributions to a MPF scheme. It is 5% of the employee's relevant income. For monthly-paid employees, the minimum and maximum relevant income levels are \$6,500 and \$25,000 respectively. For employee's monthly relevant income which is less than \$6,500, the employee is not required to make the contribution but the employer is still required to pay.

### 4.4 Exemption from tax

For the mandatory contributions made by an employee to a MPF scheme, tax deduction can be claimed as follows:

	Y/A 2013/14 onwards	Y/A 2012/13	Prior to Y/A 2012/13
Maximum deduction amount	HK\$15,000	HK\$14,500	HK\$12,000

Voluntary contributions made by an employee are not deductible.

The severance payments or long service payments made in accordance with the provisions of the Employment Ordinance are not subject to salaries tax.

## GST/VAT

**5.1 Basis of tax** : N/A

**5.2 Rates of tax** : N/A

**5.3 Registration** : N/A

**5.4 Filing requirements** : N/A

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

Where there is a double tax agreement, foreign tax paid may be credited against profits tax on the same profits, but the credit is limited to Hong Kong tax payable on the same income.

### 6.2 List of double tax treaties signed

As of 18 February 2013, Hong Kong has signed comprehensive double tax agreements/arrangement on income with the following jurisdictions:

#### Agreements signed and effective

- Belgium (2004/05)
- Luxembourg (2008/09)
- United Kingdom (2011/12)
- Hungary (2012/13)
- Liechtenstein (2012/13)
- Thailand (2006/07)
- Vietnam (2010/11)
- Austria (2012/13)
- Ireland (2012/13)
- Netherlands (2012/13)
- Mainland China (2007/08)
- Brunei (2011/12)
- France (2012/13)
- Japan (2012/13)
- New Zealand (2012/13)

#### Agreements signed but not effective

- Canada
- Jersey
- Malta (2013/14)
- Portugal (2013/14)
- Indonesia (2013/14)
- Kuwait
- Mexico
- Spain (2013/14)
- Italy
- Malaysia
- Switzerland (2013/14)

*Note: The years of assessment from which the agreements / arrangement are effective or will be effective are indicated in brackets. Those without indication are pending ratification.*

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

#### a) Basis of tax

The Stamp Duty Ordinance imposes duty on certain types of documents, which include (1) conveyance on sale of immovable property in Hong Kong; (2) agreement for sale of residential property in Hong Kong; (3) lease of immovable property in Hong Kong; (4) transfer of Hong Kong stock; and (5) issue of Hong Kong bearer instruments.

For immovable property in Hong Kong, or Hong Kong stock, is transferred at less than its market value, stamp duty may be imposed on the market value at the date of transfer.

## b) Rates of tax – immovable property

Property consideration	Y/A 2012/13	Y/A 2011/12
Up to HK\$2,000,000	HK\$100	HK\$100
HK\$2,000,001 – HK\$3,000,000	1.50%	1.50%
HK\$3,000,001 – HK\$4,000,000	2.25%	2.25%
HK\$4,000,001 – HK\$6,000,000	3.00%	3.00%
HK\$6,000,001 – HK\$20,000,000	3.75%	3.75%
HK\$20,000,001 and above	4.25%	4.25%

### (i) Special Stamp Duty (“SSD”) on disposal of residential properties

For residential property acquired on or after 20 November 2010, either held by an individual or a company, but resold within 24 months, the transfer will be subject to SSD unless they are exempted. The SSD is imposed on top of the ad valorem stamp duty payable on the sale of residential property with a few exemptions. The SSD is calculated at the purchase consideration or at the market value (whichever is higher) of the resold property at the rates stated below.

Holding period	Duty rate
Held for six months or less	15%
Held for more than six months but for 12 months or less	10%
Held for more than 12 months but for 24 months or less	5%

### (ii) Buyer’s Stamp Duty (“BSD”) on acquisition of residential properties

BSD is payable on an agreement for the acquisition of any residential property if it is acquired by any person (including limited company) on or after 27 October 2012, except for a Hong Kong permanent resident acquiring the property on his/her own use. BSD is charged at a flat rate of 15% on all residential property in addition to the existing ad valorem stamp duty and SSD, if applicable.

### (iii) Amendment of the Stamp Duty Ordinance

With the announcement of the amendment of the Stamp Duty Ordinance, any residential property (except that acquired by a Hong Kong Permanent Resident who does not own any other residential property in Hong Kong at the time of acquisition) and all non-residential property (from the conveyance on sale to the agreement for sale) acquired on or after 23 February 2013 would be subject to the new ad valorem stamp duty rates, where the rate is 1.5% for the transaction amount below HK\$2 million and double of the original rate (stated above) for the transaction amount above HK\$2 million.

## Lease of immovable property in Hong Kong

For leases, stamp duty is calculated at a specified rate of the annual rental that varies with the term of the lease as indicated in the following table:

Lease period	Y/A 2012/13	Y/A 2011/12
Where the lease term is not defined or is uncertain	0.25%	0.25%
Not more than one year	0.25%	0.25%
More than one year but does not exceed three	0.50%	0.50%
More than three years	1.00%	1.00%

### Hong Kong stock and bearer instrument

Stamp duty on stock transactions is charged at 0.2% of the consideration per transaction. Duty of 3% of the market value is charged for any Hong Kong bearer instrument issued in respect of any stock.

## 7.2 Real property tax

### a) Basis and rate of tax

Property tax is charged on the owner of land or buildings in Hong Kong at the standard rate (15%) on the net assessable value. The assessable value generally refers to the rental income arising from such land or buildings. Net assessable value is the value less rates paid by the owner and a 20% allowance on the value after deduction of rates paid. Deduction is allowed for the assessable value of a property if the rental income is proven to be irrecoverable in that year of assessment.

A company can apply in writing for an exemption from property tax if the rental income from the property is assessable under profits tax.

### b) Filing due date – 2 May

### c) Payment of property tax and application of holdover

Surcharges of 5% or 10% will be imposed from overdue payment, depending on the length of time of late payment. Provisional property tax for the following year of assessment has to be charged and it is estimated by the assessable value of the preceding year of assessment.

If the estimated assessable value are less than 90% of that previously assessed, tax payer can apply a holdover of provisional tax in writing but should be lodged not later than:

- 28 days before the due date for payment of provisional tax, or
- 14 days after the date of the notice for payment of provisional tax, whichever is later.

## 7.3 Estate duty

With effect from 11 February 2006, estate duty was abolished. No estate duty will be imposed on the value of an individual's Hong Kong property passing on death.

## 7.4 Net wealth/net worth tax

N/A

## 7.5 Others

Business tax N/A

Consumption tax, etc. N/A



## POINT OF CONTACT

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## GENERAL INFORMATION

**1.1 Country :** Indonesia

**1.2 Currency :** Indonesian Rupiah (IDR)

### 1.3 Principal business entities

8 acknowledged forms of entities are sole proprietorship, vennootschap onder firma, limited liability corporation, commanditaire vennootschap, state-owned enterprise, province-owned enterprise, cooperation, and foundation. However, the most common one used is a limited liability company (Perseroan Terbatas or "PT"). Foreign companies are allowed to set up a PT or representative office. Branches of foreign corporations normally are not permitted except for constructions, oil and gas and banking services. Foreign companies should refer to the negative investment list for the list of sectors that are partially or wholly closed to foreign investment.

### 1.4 Foreign exchange control

Generally, there are no foreign exchange controls but foreign loans should be reported to Central Bank ("Bank Indonesia"). Foreign exchange rate operates on a managed-float regime against a market rate. The Central Bank ("Bank Indonesia") supports the overall macroeconomic objective of maintaining monetary and financial stability while safeguarding the balance of payments position. Furthermore, the rupiah is freely convertible.

Taking out IDR 100 million (or its foreign currency equivalent) or more out of Indonesia must be approved by Bank Indonesia. Taking in IDR 100 million (or its foreign currency equivalent) or more into Indonesia is also subject to authenticity verification. Indonesia does not restrict the transfers of funds to or from foreign countries, but banks must report transfers of funds to foreign countries to Bank Indonesia. There is no set minimum transfer amount for reporting purposes.

Based on the Currency Law stipulated by the Indonesian government, IDR must be used in all transactions that have a purpose of payment, obligations that have to be settled with cash and other financial transactions conducted in Indonesia, except for certain transactions related to the implementations of the State budget; receipt or grant of offshore grant; international commercial transactions; bank deposits in foreign currency; or offshore loan transactions.

## 1.5 Current economy climate (Industry overview/encouraged business development)

Indonesia's economy is estimated to grow at 6.8% in 2013. The economy has been consistently growing at a rate ranging from 6.2% to 6.5% for the past 3 years. The economy has recovered quickly since 2009 when the country only booked 4.6% growth. Inflation rates have been stable at a rate below 5% since mid 2011.

The economy is very well supported by strong investment and resilient domestic consumption although it receives pressures from the decline in exports that led to a trade deficit which puts pressure on the country's currency. Total investment – foreign and domestic – is expected to rise by 25 percent to Rp 390.3 trillion in 2013, according to the Investment Coordinating Board (BKPM). Foreign direct investment alone hit a record of Rp 221 trillion last year, up 26 percent from 2011, due to multinational companies eager to invest in the country's natural resources and reach the burgeoning domestic consumer base. Domestic private spending constituted 54.6 percent of the Rp 8,242 trillion (\$852 billion) in gross domestic product last year, followed by investment (33.2 percent) and public spending (8.9 percent). A decline in net exports, statistical discrepancies and inventories changes made up the remainder. Data from the BPS showed that per capita income rose slightly, to \$3,563 in 2012 from \$3,498 the year before.

The infrastructure, energy and mining, and agricultural sectors are the most lucrative sectors to investors, capitalizing on the country's richness of natural resources and large population. The good corporate governance climate has been improving quite a lot for the past few years. However, concerns have been expressed on increasing political heat following the coming presidential election in 2014.

## 1.6 National tax authority

**Name** : Directorate General of Taxation (DGT)

**Website** : [www.pajak.go.id](http://www.pajak.go.id)

# CORPORATE INCOME TAX

## 2.1 Basis of taxation

Resident companies are taxed on worldwide income. Non-resident companies are taxed only on their Indonesia source income.

Taxable net income is defined as assessable income less tax-deductible expenses.

Taxable business profits are modified by certain tax adjustment. Generally, a deduction is allowed for all expenditures incurred to obtain, collect, and maintain taxable business profits. A timing difference may arise if an expenditure recorded as an expense for accounting cannot be immediately claimed as a deduction for tax.

A company is treated as a resident of Indonesia for tax purposes by virtue of having its establishment or its place of management in Indonesia. A foreign company carrying out business activities through a permanent establishment in Indonesia will generally have to assume the same tax obligations as a resident taxpayer.

## 2.2 Rates of tax

Generally, a flat rate of 25% applies.

Companies engaged in upstream oil and gas and geothermal industries typically have to calculate CIT in accordance with their production sharing contracts (PSCs). Certain companies engaged in metal, mineral and coal mining are governed by a contract of work (CoW) for the CIT calculation. Different provisions may apply to them pertaining to corporate tax rates, deductible expenses and how to calculate taxable income.

## 2.3 Year of assessment

Generally the calendar year although a corporate tax payer can elect to file a corporate tax return based on the book year.

## 2.4 Profits deemed to be taxable

The following business have deemed profit margins for tax purposes:

	Deemed Profit on Gross Revenue	Effective Income Tax
Domestic shipping operations	4%	1.20%
Domestic airline operations	6%	1.80%
Foreign shipping and airline operations	6%	2.64%
Foreign oil and gas drilling operations	15%	3.75%
Certain Ministry of Trade representative offices	1% of export value	0.25%

## 2.5 Taxation of dividends

Tax is withheld from dividends as follows:

### a. Resident recipients

Dividends received from an Indonesian company by a limited liability company incorporated in Indonesia (Perseroan Terbatas/PT), a corporate, or a state-owned company, are exempt from income tax if the following conditions are met:

- The dividends are paid out of retained earnings; and
- The company earning the dividends holds at least 25% of the paid-in capital in the company distributing the dividends.

If these conditions are not met, the dividends are assessable to the company earning the dividends at the ordinary tax rate alongside the company's other income. Upon declaration, dividends are subject to withholding tax at 15%. The amount withheld constitutes a prepayment of the CIT liability for the company earning the dividends.

Dividends received by resident individual taxpayers are subject to final income tax at a maximum rate of 10%.

### b. Non-resident recipients :

20% (or lower for treaty countries) final withholding tax is due on dividends paid to a non-resident recipient.

## 2.6 Taxation of capital gains

Capital gains are taxable as ordinary income while capital losses are tax-deductible.

## 2.7 Taxation of interest income

Interest on time or saving deposits and on Bank Indonesia certificates (SBIs) other than that payable to banks operating in Indonesia and to government-approved pension funds is subject to 20% final tax.

Interest on bonds other than that payable to banks operating in Indonesia and to government-approved pension funds is subject to 15% final tax. If the recipient is a mutual fund registered with the Capital Market Supervisory Board (now Indonesia Financial Services Authority), the tax rate is 5% for 2011-2013 and 15% thereafter. If the recipient is a non-resident tax payer, the tax rate is 20% (or a lower treaty rate).

## 2.8 Utilization of tax losses

Losses are allowed to be carried forward for 5 years following the year of loss. For certain industries and remote areas, this period may be extended to 10 years. Losses are not allowed to be carried back.

## 2.9 Key Tax incentives

### a. Tax cut for public companies

5% tax cut, giving an effective rate of 20%, can be granted to public companies which satisfy the following conditions:

- At least 40% of their paid-in shares are publicly owned;
- The public should consist of at least 300 individuals, each holding less than 5% of the paid-in shares;
- These two conditions are maintained for at least 6 months (183 days) in a tax year.

### b. Tax reduction for small enterprises

Corporate taxpayers with an annual turnover of not more than Rp50 billion, are entitled a 50% discount of the standard tax rate which is imposed proportionally on taxable income of the part of gross turnover up to Rp4.8 billion.

### c. Tax holiday

New corporate taxpayers in certain pioneer industries may enjoy a CIT exemption for a period of five to ten years from the start of commercial production. After the end of the CIT exemption, the company will receive a 50% CIT reduction for two years.

To be eligible for the above facilities, taxpayers should be newly incorporated in Indonesia (not earlier than 14 August 2010), should have a legalized new capital investment plan of a minimum IDR 1 trillion, should deposit a minimum of 10% of their planned investment value in banks located in Indonesia, and should not withdraw the deposit prior to the realization of the investment plan.

Tax holiday proposals may be submitted to the MoF only until 15 August 2014.

Tax holiday may be available for significant investments in the following "pioneer" industries:

1. Basic metals industry;
2. Petroleum refining industry and/or organic basic chemicals derived from petroleum and natural gas;
3. Industrial machinery;
4. Renewable resources industry; and/or
5. Telecommunication equipment

#### **d. Direct tax incentives for new enterprises**

Under the Capital Investment Law, the new enterprises may apply for an exemption from the income tax payable on the importation of capital goods and raw materials. The exemption is granted for capital goods indicated in the Master list and must be applied for each year. Furthermore, new enterprises should secure an exemption certificate from the DGT where the new enterprise is registered.

#### **e. Tax facilities on investment in certain business and or certain regions**

Income tax facilities are available for investment in 25 selected sectors (52 sub-sectors) and/or 15 selected locations (77 sub-locations), effective 22 December, 2011.

The tax facilities for the selected sectors/regions comprise of 4 incentives:

1. Additional tax deduction of 5% of the realized capital investment (depreciable and non-depreciable assets) each year up to 6 years (revoked if assets are transferred during facility period)
2. Option to use accelerated tax depreciation at double normal rates
3. The period for tax loss carry forward may be extended to 10 years (instead of 5 years)
4. Withholding tax on dividends to non-resident shareholders is reduced to 10% (or a lower DTA rate)

## **2.10 Withholding tax**

**Dividends** - Dividends paid by a domestic corporate taxpayer to a nonresident are subject to a final 20% withholding tax (or a reduced treaty rate). A 10% final withholding tax is imposed on dividends paid to a resident individual.

**Interests** - Interest paid to a non-resident is subject to a 20% withholding tax (or a reduced treaty rate). Interest paid to a resident is subject to a 15% withholding tax, which can be credited against its annual tax liability.

**Royalties** - Royalties refer to payment for the use of (or transfer of a right to use) property or technical know-how. Royalties paid by a domestic taxpayer to a nonresident is subject to 20% withholding tax (or a reduced treaty rate). Royalties paid to a resident is subject to a 15% withholding tax, which can be credited against its annual tax liability.

**Technical service fees** – Any technical, management and consulting services and rentals (except for land and building rentals which are subject to 10% final tax) made by a domestic taxpayer to a resident taxpayer are subject to 2% withholding tax rate. However, if those fees are remitted abroad, they are subject to 20% withholding tax (or a reduced treaty rate).

Branch remittance tax - Permanent establishments are subject to a 20% branch profits tax (or a reduced treaty rate) on after-tax profits.

## 2.11 Transfer Pricing

Transactions between related parties must be carried out in an arm's length basis. A detailed transfer pricing guidance, which is principally in line with the OECD's approach, has been issued by the authorities. Taxpayer should maintain proper documentation including the followings:

- transfer pricing policy and methodology (with explanation)
- business structure and operation
- list of selected comparables and the comparability analysis

## 2.12 Filing requirements of tax return

### Filing due dates

The monthly tax returns must be filed by the 20th of the following month. Annual corporate tax returns must be filed within 4 months after the book year-end.

### Penalties

Penalties vary depending on circumstances. In general, penalties are categorized into administrative sanctions, underpayments of taxes, and tax falsifications. Administrative sanctions are usually in the form of fixed charges. Penalties for tax underpayments are 2% monthly interest on tax underpaid with a maximum of 48%. Penalties for tax falsifications depend on the type of wrongdoings which include imprisonment.

Late filings are subject to the following penalties:

- Monthly tax return: IDR 100,000
- Annual corporate income tax return: IDR 1,000,000

### Payment of profit tax and application of holdover

The monthly tax installment operates under a self-assessment system, with tax due on the 15th day of the calendar month, following the tax-assessment month. Corporate income tax is due at the end of the fourth month after the book year end before filling the tax return.

For annual income tax returns, taxpayers may extend the filing deadline by up to 2 months.

## PERSONAL TAX

### 3.1 Basis of taxation (Residence, Personal assessment)

Individual residents in Indonesia are taxed on their worldwide gross income less allowable deductions and non taxable income.

An individual is a tax resident if he/she fulfills the following conditions:

- He/she resides in Indonesia;
- He/she is present in Indonesia for more than 183 days in any 12-month period (the provisions of tax treaties may override this rule);
- He/she is present in Indonesia during a fiscal year and intends to reside in Indonesia.

Taxable income of individuals includes profits from a business, employment income, capital gains, etc.

### 3.2 Rates of tax

For resident tax payers: most income is subject to the normal rates of 5% on the first IDR 50 million of annual taxable income; 15% on amounts exceeding IDR 50 million up to IDR 250 million; 25% on amounts exceeding IDR 250 million up to IDR 500 million; and 30% on amounts exceeding IDR 500 million.

For non-resident tax payers: 20% withholding tax rate on Indonesia-sourced income.

### 3.3 Year of assessment

The calendar year

### 3.4 Allowances and Deductions

An individual who conducts a business may deduct expenses from business income. Expenses generally are deductible if they are incurred for the purposes of generating income. Allowance are provided for the taxpayer, the taxpayer's spouse and up to 3 dependent children.

	Rp
Taxpayer	24,300,000
Spouse	2,025,000
Each dependant (max of 3)	2,025,000
Occupational expenses (5% of gross income, max Rp 500,000/month)	6,000,000
Employee contribution to jamsostek for old age security savings (2% of gross income)	Full amount
Pension maintenance expenses (5% of gross income, max Rp 200,000/month)	2,400,000

### 3.5 Taxation of dividends

Dividends received by resident individual tax payers are subject to final income tax at a maximum rate of 10%. If received by non-resident recipients, they are subject to final withholding tax of 20% (or lower for treaty countries).

### 3.6 Taxation of capital gain

Capital gains derived by an individual are taxed as income at the normal rates; gains on shares listed in Indonesian Stock Exchange are taxed at 0.1% (final tax) of the transaction value (an additional tax of 0.5% applies to the share value of founder shares at the time of an initial public offering). Gains on the disposal of land and/or buildings are taxed at 5% (final tax) of the transaction value.



### 3.7 Taxation of interest income

Interest income on time or saving deposits and on Bank Indonesia (SBIs) other than that payable to banks operating in Indonesia and to government-approved pension funds.

Interest on bonds other than that payable to banks operating in Indonesia and government-approved pension funds.

### 3.8 Personal assessment and utilization of losses

Personal tax is self-assessed. There are no utilization of losses for deemed income.

### 3.9 Withholding tax

Employers are required to withhold Article 21 income tax from the salaries payable to their employees and pay the tax to the State Treasury on their behalf. The same withholding tax is applicable to other payments to non-employee individuals (e.g. fees payable to individual consultant or service providers). Resident individual taxpayers without an NPWP are subject to a surcharge of 20% in addition to the standard withholding tax.

Non-resident individuals are subject to withholding tax of 20% (unless treaties apply) in respect of the following payments:

#### a. On gross amounts:

- Dividends;
- Interest, including premiums, discounts and guarantee fees;
- Royalties, rents and payment for the use of assets;
- Fees for services, work, and activities;
- Prizes and awards;
- Pensions and any other periodic payments;
- Swap premiums and other hedging transactions;
- Gains from debt write-offs;
- After-tax profits of a branch of PE

#### b. On Estimated Net Income (ENI), being a specified percentage of the gross amount:

	ENI	Effective tax rate
Insurance premiums paid to non-resident insurance companies:		
by the insured	50%	10%
by Indonesian insurance companies	10%	2%
by Indonesian reinsurance companies	5%	1%
Sale of non-listed Indonesian company shares by non-residents	25%	5%
Sale by non-resident of a conduit company where this company serves as an intermediary for the holding of Indonesian company shares or a PE	25%	5%

### 3.10 Statutory obligation of employers

Employers are required to withhold, remit, and report income tax on the employment income of their employees.

### 3.11 Filing requirement of tax return

#### Filing due dates

Monthly employee tax return must be filed by an employer by 20th of the following month. Individual must file his/her annual individual income tax return by the end of the third month after the year end.

#### Penalties

Penalties vary depending on circumstances. In general, penalties are categorized into administrative sanctions, underpayments of taxes, and tax falsifications. Administrative sanctions are usually in the form of fixed charges. Penalties for tax underpayments are 2% monthly interest on tax underpaid with a maximum of 48%. Penalties for tax falsifications depend on the type of wrongdoings which include imprisonment.

Late filings are subject to the penalties of IDR 100,000.

#### Application of holdover

For annual income tax returns, taxpayers may extend the filling deadline by up to 2 months.

## STATUTORY REQUIREMENT ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

PT Jamsostek (Persero)

### 4.2 Basis of contribution

Indonesia does not have a comprehensive social security system; however, there is a worker's social security program (Jamsostek) which provides compensation in the event of working accidents, deaths, and old age (55 years) as well as sickness or hospitalization. The program is maintained by a designated state-owned company, PT Jamsostek.

Employees contributions are collected by the employer through payroll deductions. These must be paid to PT Jamsostek together with the contributions borne by the employers.

Expatriates need not be enrolled in Jamsostek if they can provide evidence that they are covered by social security programs of the same type in their home country. A company which provides better company health insurance to its employees can choose not to join health care program under Jamsostek.

### 4.3 Contribution rate

Areas covered	As a percentage of regular salaries/wages	
	Borne by employers	Borne by employees
Working accident protection	0.24-1.74%	—
Death insurance	0.3%	—
Old age saving	3.7%	2%
Health care*	3%	—

\* Maximum Rp 60,000/month for a married employee and Rp 30,000 for a single employee

## 4.4 Exemption from tax

Working accident protection, death insurance and health care borne by employers are taxable in an employee's income while the old age saving borne by employers is exempted from tax. Old age savings borne by employees are tax deductible from an employee's income.

## GST/VAT

### 5.1 Basis of tax

VAT is withheld on taxable goods and services. Generally, all goods and services are subject to VAT, unless determined otherwise (negative lists of non taxable goods and services are determined by DGT). VAT also applies to services provided outside Indonesia to Indonesian business (domestic consumption rule of thumb).

### 5.2 Rates of tax

The general standard rate is 10%. However, the rate on exports of taxable goods and certain taxable services is 0%. This standard rate can be changed to minimum 5% and maximum 15% by DGT. Zero-rate export services are limited to toll manufacturing services; repair and maintenance services attached to or for movable goods utilized outside the Indonesia customs area; and construction services attached to or for immovable goods located outside the Indonesia customs area.

### 5.3 Registration

Entrepreneurs (individuals or corporations), generating annual revenues above or equal to Rp 600 million, are required to register for VAT purposes of which they will get a taxable entrepreneur number which is different from a tax identification number. With this taxable entrepreneur number, they are obliged to withhold VAT by issuing a tax invoice on any delivery of taxable goods and/or taxable services.

### 5.4 Filing requirements

A monthly VAT return must be filed by the end of the following month, while payment must be made prior to the tax return filing deadline.

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

Resident companies deriving income from foreign sources are entitled to a unilateral tax credit with respect to foreign tax paid on the income. The credit is limited to the amount of Indonesian tax.

### 6.2 List of double tax treaties signed

Effective double tax treaties:

- Algeria
- Australia
- Austria
- Jordan
- Korea (North)
- Korea (South)
- Slovakia
- South Africa
- Spain

- Bangladesh
- Belgium
- Brunei
- Bulgaria
- Canada
- China
- Croatia
- Czech Republic
- Denmark
- Egypt
- Finland
- France
- Germany
- Hong Kong
- Hungary
- India
- Iran
- Italy
- Japan
- Kuwait
- Luxembourg
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- Philippines
- Poland
- Portugal
- Qatar
- Romania
- Russia
- Seychelles
- Singapore
- Sri Lanka
- Sudan
- Suriname
- Sweden
- Switzerland
- Syria
- Taiwan
- Thailand
- Tunisia
- Turkey
- Ukraine
- United Arab Emirates
- United Kingdom
- United States of America
- Uzbekistan
- Venezuela
- Vietnam
- Zimbabwe

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

Certain documents are subject to stamp duty at a fixed amount of either IDR 3,000 or IDR 6,000. Important legal documents such as agreements, notarial deeds, certificates of marketable securities or any documents intended to be used as evidence used in a court are subject to stamp duty of IDR 6,000.

### 7.2 Real property tax

Land and building tax is an annual DGT-assessed tax on land, buildings and other permanent constructions. The effective rates are either 0.1% or 0.2% of the official taxable sale value, whose value is determined by the DGT.

### 7.3 Estate duty

No estate duty will be imposed on the value of an individual's property passing on death. However, further distributions which require a change in certificates of ownership are subject to duty on the acquisition of land and building rights with 5% rate to the relevant tax object acquisition value, minus an allowable non-taxable threshold.

### 7.4 Net wealth/net worth tax

N/A

### 7.5 Others

Business tax	N/A
Consumption tax, etc.	Provincial tax is charged mostly at 10% e.g hotel and restaurant services.

## **POINT OF CONTACT**

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## GENERAL INFORMATION

**1.1 Country :** Japan

**1.2 Currency :** Yen (JPY)

**1.3 Principal business entities**

Representative office, branch office, local corporation

**1.4 Foreign exchange control**

Controlled by Foreign Exchange and Foreign Trade Control Law

**1.5 Current economy climate (Industry overview/encouraged business development)**

Japan is experiencing a solid recovery following the March 2011 Great East Japan earthquake, but the European debt crisis and the appreciation of the yen is likely to dampen demand for the country's exports. Growth prospects for fiscal 2012 and 2013 will likely remain broadly unchanged because the economy is expected to gradually return to a moderate recovery path.

In 2021-30 Japan will see an increase in its rate of GDP growth per head to 1.7% a year, from around 1% a year in the first two decades of the century. Productivity growth will also accelerate in the latter part of the long-term forecast period.

**1.6 National tax authority**

**Name :** National Tax Agency (NTA)

**Website :** [www.nta.go.jp](http://www.nta.go.jp)

## CORPORATE INCOME TAX

**2.1 Basis of taxation**

**A) Domestic Corporations**

Domestic Corporations are subject to Japanese corporation tax on their worldwide income.

The tax base is the corporation's taxable income for each business year. In general, taxable income is calculated by a certain adjustment based on annual profits and losses according to Japanese generally accepted accounting principles on an accrual basis.

**B) Foreign Corporations**

Foreign corporations are taxed only on Japanese-source

income. In this case, taxable income depends on whether they have PE or not, and (if they have) what kind of PE they have, and whether or not tax treaties are concluded.

On the other hand, Japan has concluded tax treaties with many foreign countries. Under the tax treaties, foreign corporations are subject to corporation taxes only on the Japanese-source income which is attributable to their PE in Japan.

Corporations which don't have PE in Japan are only subject to withholding tax in principle.

## 2.2 Rates of tax

Corporate income tax consists of the following 3 taxes.

- (A) Corporation tax (National Tax)
- (B) Prefectural and Municipal Inhabitant Tax (Local Tax)
- (C) Business Tax (Local Tax)

### (A) Tax rate for Corporation Tax

	Taxable income up to JPY8M in a year	Taxable income in excess of JPY8M in a year
Small and medium-sized corporations <sup>1</sup>	19% (15%)*	25.50%
Other than Small and medium-sized corporations	25.50%	

(\*1) A corporation whose paid-in capital is JPY100 million or less, except for either of the following cases:

- where 100% of the shares of the corporations are directly or indirectly held by one large sized company (whose paid-in capital is JPY500million or more);
- where 100% of the shares of the corporations are directly or indirectly held by one large sized companies in a 100% group.

(\*2) 15% is applied to business years beginning between 1 April 2012 and 31 March 2015.

In addition to the above corporation tax, the special reconstruction corporation tax is levied.

For three years from the business year beginning between 1 April 2012 and 31 March 2015, 10% of its corporation tax must be additionally paid as the special reconstruction corporation tax.

### (B) Tax rate for Prefectural and Municipal Inhabitant Tax

Prefectural and Municipal Inhabitant Tax consists of two types. One is an income tax calculated based on the corporation tax, and the other is a per capital tax. The tax rate for income type tax is from 5% through 6 % for prefectural tax, from 12.3 % through 14.7% for municipal tax which is at the local government's discretion.

### (C) Tax rate for Business Tax

Business Tax is a local tax imposed by prefectures. The tax rate is at the local government's discretion under the range between the standard rate and the maximum rate, which is 1.2

times as high as that of the standard rate.

It has two types depending on the paid-in-capital:

- 1) Corporations with paid-in-capital up to 100 million yen  
Only income tax is imposed. Tax basis is same as a corporation tax.
- 2) Corporations with paid-in-capital exceeding 100 million yen

In addition to income tax, Corporations with paid-in capital exceeding 100 million yen are also subject to a size-based business tax. Size-based business tax has two types. One is added value tax calculated based on the total of labor costs, net interest payment, net rent payment and income/loss for the business year. The other is capital tax calculated based on the capital plus capital surplus.

The tax rate for Business Tax is as follows:

from 1 October 2008  
(%)

			Standard Rate	Maximum rate
Paid-in-capital up to JPY100 Million	Taxable Income (JPY)	up to 4 million	2.7	3.24
		4-8 million	4	4.8
		over 8 million	5.3	6.36
Paid-in-capital exceeding JPY100 Million	Taxable Income (JPY)	up to 4 million	1.5	1.8
		4-8 million	2.2	2.64
		over 8 million	2.9	3.48
	added value		0.48	0.576
	capital		0.2	0.24

### [Special local corporate tax]

Special local corporate tax is not a local tax but a new national tax which is imposed for business years beginning on or after 1 October 2008, in order to reduce gap in tax revenue between urban and rural areas. This tax is levied with the reduction in the business tax rates, so the total tax burden does not increase.

The tax rate is as follows:

(%)

Tax base	Paid-in-capital up to JPY 100 million	Paid-in-capital exceeding JPY 100 million
Taxable income* Standard rate of business tax	81	81

## 2.3 Year of assessment

The business year for tax purposes (taxable period) is the same as the accounting period provided for in the articles of incorporation.

## 2.4 Profits deemed to be taxable

In general, profit for accounting purposes is recognized as a taxable income. However, for example, if a corporation obtains a valuable asset at free and does not recognized their income for accounting purposes, such an economical benefit must be recognized as a taxable income.



## 2.5 Tax treaty network and the applicable withholding tax rates

### [Dividend from domestic corporation]

In order to avoid double taxation between corporations which pay dividend and which receive dividend, dividends received by corporate shareholders are excluded from gross revenue, that is to say, taxable income.

The amount which is excluded from gross revenue depends on how many shares and how long they hold.

- a) A shareholder owning at least 25% of the voting shares directly for at least 6 months :  
100% of the net amount of dividends less interest expense is exempt from gross revenue.
- b) A shareholder owning less than 25% or A shareholder owning at least 25% of the voting shares but for less than 6 months:  
50% of the net amount of dividends received less interest expense is exempt.
- c) A shareholder from the same consolidated group(holding shares all the business year of payment corporation):  
All dividends received are exempt.

### [Foreign Dividend Exclusion Rule]

When a Japanese corporation receives a dividend from a foreign subsidiary, in which 25% or more of the voting shares are held directly by the Japanese corporation continuously at least 6 months, 95% of the dividend is excluded from the taxable income of the Japanese corporation.

## 2.6 Taxation of capital gains

There is no separate tax on capital gains from the sale of land, securities, etc. Corporations are subject to ordinary corporation taxes on capital gains in the same way as ordinary income.

## 2.7 Taxation of interest income

Interest income is subject to normal corporate income taxes in the same manner as ordinary income.

## 2.8 Utilization of tax losses

If the ordinary income for a given business year shows a net loss, the net loss may be carried forward or carried back.

- a) Tax losses carry-forward

If the corporation files a blue tax return (See 2.9) for the business year in which the loss was incurred and has continued to file blue tax returns, the net loss can be utilized against profits for succeeding 9 years.

By virtue of the 2011 tax reform, the limit of the deductible amount of tax losses (the deductible amount) was changed as below:

- i) Small and medium-sized companies(\*)  
Up to the total amount of taxable income for the business year

- ii) Companies other than small and medium-sized companies

Up to 80% of taxable income for the business year

*(\*)A small and medium-sized company for the purpose of this rule is the same as that defined in 2-2.*

- b) Tax losses carry-back

If the corporation files a blue tax return for the business year in which the loss has been incurred and the previous business year, the tax loss can be carried back for 1 year.

This provision is only applied to small and medium-sized companies(the definition is same as 2.2)

## 2.9 Key tax incentives

A corporation filing a blue tax return is granted privileges in the calculation of income; (\*).

- Tax losses carry-forward (see 2.8)
- Tax losses carry-back (see 2.8)
- Special depreciation and special tax credits

*(\*)A corporation may file a blue tax return with the approval of the tax office.*

A blue corporation must keep a journal, a general ledger and other necessary books, and record all transactions clearly and in good order according to the principles of double entry. If a corporation meets these requirements, it can file a blue return. If not, it can only file a white return.

## 2.10 Withholding tax

	2012/12/31	2013/1/1
Dividends from a listed Company	7% (+Inhabitant tax 3%)	15% (+Inhabitant tax 5%)
Dividends from private Company	20%	20%
Interest on bank deposits and company/government bonds	15% (Inhabitant tax 5%)	15% (Inhabitant tax 5%)

From 2013/1/1, the special reconstruction income tax is additionally levied (withheld).

The withholding tax is generally creditable against the corporation income tax. Excess payments are refundable.

## 2.11 Transfer pricing

The transfer pricing legislation is set out in order to prevent the tax avoidance by corporations through transactions with their Related Overseas Companies.

When a Japanese corporation transacts business with foreign corporations which have special relationships with it, and if its taxable income is less than the amount calculated on arm's length principles, these transactions will be deemed to have been conducted at an arm's length price and the differential amount will be included in (or not be deductible from) the taxable income of the corporation.

A corporation can select best method of the following five to calculate arm's length prices.

- Comparable uncontrolled Price method
- Resale Price Method
- Cost-Plus Method
- Profit Split Method
- Transactional Net Margin Method

## 2.12 Filing requirements of tax return

### Filing due dates

A corporation is required to file a final return within two months after the end of its business year, whether or not it has a positive income for the business year.

One month extension is allowed with the approval of the tax office.

### Penalties

Penalties may be levied in some case, such as failure to pay tax by the payment due date, failure to file a tax return by the filing due date.

There are three kinds of penalties as follows:

#### A) Delinquency tax (overdue tax)

When tax is not paid by the payment due date, when a return is filed after the due date, or when an amended return is filed after the due date, delinquency tax is imposed.

Tax rate is as follow;

- If paid within 2 months after the payment due date: 4.3%
- If not paid within 2 months of the payment due date: 14.6%

#### B) Additional Tax

- Due to short payment

In case the amount is short though a return is filed by the due date

10% or 15% of the short tax is imposed.

- Due to non-filing

In case a return is filed after the due date or a return is not filed,

15% of the corporate tax is imposed (5% if self-filed).

- Due to non-payment

When withholding tax is not paid by the due date

10% of non-payment tax is imposed (5% if notification from tax office was not anticipated).

- Due to disguise or obscure the facts

Tax rate is 35% instead of 1), 3) and 40% instead of 2).

#### C) Interest Tax

When tax liability is not paid by the payment due date but the tax return's filing extension is already approved, interest tax is imposed. Tax rate is 4.3%.

### Payment of profit tax and application of holdover

In general, Japanese tax offices assess an interim tax on corporate

taxpayers whose corporation income tax amount of the previous fiscal year is over JPY 100,000.

The amount of the interim tax is calculated as follows:

The amount of an interim tax = an annual tax of the previous fiscal year x 6 months / the number of months of the previous fiscal year.

However, in spite of the assessed interim tax amount noticed by the tax office, a corporate taxpayer can pay an interim tax amount which is calculated on a basis of a provisional taxable income for the first 6 months of a current fiscal year by a filing an interim tax return.

## PERSONAL TAX

### 3.1 Basis of taxation (Residence, Personal assessment)

#### A) Residence

Residents are individuals that either have an address (\*1) within Japan, or have had a domicile in Japan continuously for a year or more.

Non-residents are individuals who are not residents.

Residents are further classified into permanent and non-permanent residents, depending on their length of residence in Japan and their intentions toward permanent residence in Japan.

Non-permanent residents are those residents who do not possess Japanese citizenship, and whose total period of possession of an address or domicile in Japan is 5 years or less within the past 10 years. Permanent residents are those residents who are not non-permanent residents.

The range of income taxation differs among non-residents, permanent residents, and non-permanent residents, as indicated by the following table:

Income category		Income withheld at source (in Japan) <sup>*1</sup>		Income withheld at source (outside Japan) <sup>*2</sup>			
		Paid in Japan	Paid outside Japan	Paid in Japan	Paid outside Japan		
Residence status				Component remitted within Japan	Component remitted outside Japan		
residents	Permanent residents	Subject to taxation				Not subject to taxation	
	Non-permanent residents						
Non-residents							

\*1 Domestic source income is income derived from Japan (regardless whether it is paid within Japan or not).

\*2 Foreign source income is income other than income withheld at source (in Japan).

#### B) Income category

Individual's taxable income is defined as assessable income less allowances and deductions. Assessable income is composed of 10 categories.

## 3.2 Rates of tax

### A) Tax Rate on Ordinary Income

The ordinary income is taxed at the following progressive tax rates:

Taxable income		Income tax (national tax)		Inhabitant tax (local tax)
From	But not over	Tax rate applicable to taxable income	Deduction	
—	1,950,000	5%	—	10%
1,950,000	3,300,000	10%	97,500	
3,300,000	6,950,000	20%	427,500	
6,950,000	9,000,000	23%	636,000	
9,000,000	18,000,000	33%	1,536,000	
18,000,000		40%	2,796,000	

### B) Tax Rate on Capital Gains

Capital gains from real estate and stocks are taxed at different tax rates separately from ordinary income.

Applicable tax rate for capital gains from sales of real estate is 39% (income tax 30%, inhabitant tax 9%) or 20% (income tax 15%, inhabitant tax 5%), which depends on the period of possession as of 1 January of sales year.

Basically, capital gain from sales of stocks is taxed at 20% (income tax 15%, inhabitant tax 5%). However, applicable tax rate for capital gain from sales of listed shares is 10% (income tax 7%, inhabitant tax 3%).

### C) Tax Rates on Dividends

In principle, Dividend income is included in the ordinary income, and taxed at the rate of ordinary income.

However, in certain conditions, a taxpayer can select a separate assessment taxation system or final settlement by the withholding income tax. When an individual selects these options, dividend income from listed Japanese company is taxed at 10%. In the case dividend income from non-listed Japanese company etc, is taxed at 20%.

### D) Special Reconstruction Income Tax

In addition to the above, special reconstruction income tax is imposed at 2.1% on the income tax liability from 2013 to 2037.

## 3.3 Year of assessment

The tax years starts on 1 January and ends on 31 December of every year.

## 3.4 Allowances and deductions

### A) Allowance

The allowances described below are available to reduce taxable income for income tax and inhabitant tax purposes:

Allowance	Income tax	Inhabitant tax
Basic deduction for taxpayer	380,000	330,000
Spouse – younger than 70 years	380,000	330,000
Spouse – 70 years of older	480,000	380,000
Dependent - 16-18 years of age	380,000	330,000
Dependent - 19-22 years of age	630,000	450,000
Dependent - 23-69 years of age	380,000	330,000
Dependent – 70 years or older	480,000	380,000
Parent, 70 years old or older, of the taxpayer or his or her spouse living under the same roof	580,000	450,000

## B) Deductions

Some deductions are allowed such as medical expenses, social insurance premiums etc.

### 3.5 Taxation of dividends

As mentioned in the above, in general, dividend income is included in the ordinary income and taxed at the tax rate for the ordinary income. However, with regard to dividends from listed companies etc, under the certain conditions, taxpayer can select a separate assessment taxation system or a final settlement by the withholding income tax.

See “3.2 Rates of tax” for applied tax rate.

### 3.6 Taxation of capital gain

In general, capital gain income derived from the transfer of assets is included in the ordinary income and taxed at the tax rate for the ordinary income. However, with regard to the transfer of the land, building and stock etc, a separate assessment taxation system is applied.

See “3.2 Rates of tax” for applied tax rate.

### 3.7 Taxation of interest income

In general, interest income is included in the ordinary income and taxed at the rate for the ordinary income. However, with regard to interest on bank deposit etc, a final settlement by the withholding income tax is applied.

### 3.8 Personal assessment and utilization of losses

In determining the amount of real estate income, business income, forestry income or capital gain(excluding capital gains on land etc. and stock) respectively, if one or more of these categories of income result in loss, the amount of loss may be deducted from other income .

### 3.9 Withholding tax

The employer is required to withhold income tax from salaries etc to the employee monthly. The employer must pay withholding income tax until the 10th of the following month.

### 3.10 Statutory obligation of employers

#### A) Withholding tax

See “3.9 withholding tax”.

#### B) Year-end adjustment

The employer (except for certain workers) is required to make year-end adjustments of withholding income tax on employment income.

#### C) Submit a report to the appropriate offices of municipalities

The employer is required to submit a report on the employee's income to the municipalities in which employee resides as of 1 January.

### 3.11 Filing requirement of tax return

#### Filing due dates

A final income tax return must be filed by 15 March of the following year.

#### Penalties

Same as “2.12 Filing requirement of tax return”.

#### Application of holdover

An individual taxpayer whose income tax is over a certain amount on his/her income tax return for the previous year is required to make a provisional tax payment by 2 installments (July and November). However, if the taxpayer expects his/her income will be reduced, the taxpayer can submit an application of a reduction of the provisional tax for the tax office's approval.

## STATUTORY REQUIREMENT ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

#### Japan Pension Service Authority

- To regulate and supervise the entire operation of Japanese National Pension Fund (“NPF”) schemes and additional Employees' Pension Insurance (“EPI”) schemes.

#### Japan Health Insurance Association

- To regulate and supervise the operation of Japanese Health and Medical Insurance Fund (“HMIF”) schemes.

### 4.2 Basis of contribution

Japanese National Pension Fund (“NPF”) and Employees' Pension Insurance (“EPI”) system are both basic saving for retirement pension scheme. The former system covers all Japanese adults, over the age of 20. The latter system is designed as an employment based system. Both NPF and EPI contributions are invested in independent funds supervised by the government officials. Both contributions can be withdrawn only until the qualified person or employee reach the age of 65 or under circumstances, including :

- early retirement at the age of 60 up to 64
- permanent departure from Japan(for foreigners who received a rump-sum refund )
- partial or total incapacity
- death(the family of the deceased can be qualified as a recipient of survivor's pension)

Japanese Health and Medical Insurance Fund (“HMIF”) provides universal medical compensation scheme both domestic and internationally for Japanese employees. Self-employed person and retired person can be covered by the Provincial Medical Insurance Fund (“PMIF”) run by the local government officials.

### 4.3 Contribution rate

Mandatory contribution for the EPI is calculated at 16.766% of the employee's relevant monthly income. The contribution for the EPI is equally shared by employees and its employer. Eventually, the mandatory contributions of every employee come down to 8.383%. Mandatory contribution for the NPF is defined as a fixed amount each year. Monthly contribution is 15,020 JPY (in the year of 2013) each person.

Mandatory contribution for the HMIF is calculated at 9.85% up to 10.16% of employee's relevant monthly income. The rate defers from provincial competent authorities.

### 4.4 Exemption from tax

For the mandatory contributions made by an employee to each scheme, tax deduction can be claimed. The tax deduction can be applied as follows :

- Mandatory contributions can be subtracted from monthly taxable income in advance

## VAT

### 5.1 Basis of tax

The consumption tax is levied on the supply of goods and services in Japan.

The following transactions are taxable:

- i) the supply of goods and services in Japan
- ii) the sales or leases of an assets in Japan
- iii) the removal of foreign goods from a bonded area(i.e. import of goods)

Certain transactions are not taxable, such as sales of land, securities etc.

Consumption tax on importation is imposed on any importer regardless of whether the importation is carried out for business purposes. Thus, individuals importing goods as consumers can be an import consumption taxpayer.



## 5.2 Rates of tax

Although the current consumption tax rate is 5%, it will be increased in two stages from the current 5% to 8% on 1 April 2014, and to 10% on 1 October 2015.

## 5.3 Registration

A certain business operator (there are some conditions; such as taxable sales of business year, etc) is a non-taxpayer status.

However, by submitting the notice on election for consumption taxpayer status, he can become a taxpayer.

## 5.4 Filing requirements

A taxpayer has to submit its consumption tax return and pay tax due within 2 months after the end of the taxable period.

The taxable period is generally the business year for a corporate taxpayer and the calendar year for an individual taxpayer. However, the taxpayer can elect the taxable period as a quarterly or monthly basis rather than an annual basis.

# DOUBLE TAX RELIEF

## 6.1 Foreign tax credit

Foreign taxes levied on Japanese domestic corporation may be credited against Japanese corporation tax in order to avoid the double taxation. The principle is the same in the case of individual.

## 6.2 List of double tax treaties signed

As of October 2012, Japan has concluded 53 tax treaties with following 64 countries/regions.

Australia	Finland	Malaysia	South Korea
Austria	France	Mexico	Spain
Bangladesh	Germany	Netherlands	Sri Lanka
Belgium	Hungary	New Zealand	Sweden
Brazil	Hong Kong	Norway	Switzerland
Brunei Darussalam	India	Pakistan	Thailand
Bulgaria	Indonesia	Philippines	Turkey
Canada	Ireland	Poland	UK
China (RPC)	Israel	Portugal	USA
Czechoslovakia *1	Italy	Romania	USSR *2
Denmark	Kazakhstan	Saudi Arabia	Vietnam
Egypt	Kuwait	Singapore	Zambia
Fiji	Luxembourg	South Africa	

(\*1) Covers Czech Republic and Slovakia

(\*2) Covers Russia, Georgia, Kyrgyz, Tajikistan, Uzbekistan, Ukraine, Turkmenistan, Armenia, Moldova, Azerbaijan and Belarus

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

Stamp duty is a kind of national tax incurred when certain documents are created for economic transactions, such as various kinds of contracts, receipts, and similar items. Stamp duty is paid by affixing a revenue stamp directly to the taxable document or contract.

### 7.2 Real property tax

#### 1) Real estate acquisition tax

Real estate acquisition tax is generally levied at 4% of the appraised value of the real property. However, a reduced tax rate 3% is applied for land and residential building until March 2015.

#### 2) Registration tax

When a transfer of ownership of real estate is made, registration tax is imposed.

For transfer of ownership of land by sales transaction, a tax rate is 2%, although 1.5% is applied until 31 March 2013.

For transfer of ownership of buildings by sales transaction, 2% is applied.

#### 3) Fixed assets tax

Fixed assets tax is assessable on real property. The tax is levied at 1.4% of the assessed value of real estate.

In addition, city planning tax is assessable on the real property at 0.3% of the assessed value.

### 7.3 Estate duty

In Japan, Estate duty means Inheritance tax and gift tax.

The Japanese Inheritance Tax Law has two types of taxes, inheritance tax and gift tax.

Inheritance tax is levied on an individual who acquires property by inheritance upon the death of the decedent.

Gift tax is levied on an individual who acquires properties by gift (or economic benefit by deemed gift). Gift tax is a tax supplementary to inheritance tax.

Although current rates of both tax ranges from 10% to 50%, the maximum tax rate will be increased to 55% from 1 January, 2015.

### 7.4 Net wealth/net worth tax

N/A

### 7.5 Others

Business tax See 2.2

Consumption tax, etc. See 5

## **POINT OF CONTACT**

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## GENERAL INFORMATION

**1.1 Country :** Macau

**1.2 Currency :** Macau Patacas (MOP)

**1.3 Principal business entities**

- Limited company by share (SA)
- Private limited company by quotas
- Partnership
- Sole proprietorship
- Branch of a foreign corporation

**1.4 Foreign exchange control**

No exchange control

**1.5 Current economy climate (Industry overview/encouraged business development)**

Macau has shifted from an light industrial-based economy, which placed great emphasis on the garment sector, to a service and tourist economy that focuses on the gaming and tourism sectors. In 2012, gambling activities contributed to over half of Macau's Gross Domestic Product and gaming taxes accounted for over 90% of the government's revenue.

**1.6 National tax authority**

**Name :** Financial Services Bureau

**Website :** [www.dsf.gov.mo](http://www.dsf.gov.mo)

## CORPORATE INCOME TAX

**2.1 Basis of taxation**

Individuals and corporations, regardless of the residence or location of their domicile or head offices, once they carry on commercial or industrial activities in Macau, are subject to Complementary Tax on profits earned in or derived from Macau. Complementary Tax is similar to the business profits tax as commonly seen in other places which is charged on the tax adjusted profits obtained from commercial or industrial activities.

Taxpayers liable to Complementary Tax are divided into two groups, A and B respectively. Group A taxpayer is an individual or a collective body with complete and appropriate accounting

records. Meanwhile, any collective body with capital not less than MOP 1,000,000 or on yearly average taxable profit for the last three years of over MOP 500,000 will also be classified as a Group A taxpayer. All tax Group A taxpayer has to submit annual tax compliance audit return certified by a Macau registered accountant. Any other taxpayers not fulfilling such criteria are regarded as Group B taxpayers.

Macau offshore company is fully exempted from Complementary Tax, and Business Tax.

## **2.2 Rates of tax**

Exemption allowance for Complementary Tax assessment in 2012 is MOP 200,000. The progressive rates from 9% to 12% will be taxed on taxable profit: the taxable profit between MOP 200,001 to MOP 300,000 will be taxed at 9%; and those taxable profits over MOP 300,000 will be taxed at 12%.

## **2.3 Year of assessment**

The basis period of tax computation is commencing on 1 January and ending on 31 December.

## **2.4 Profits deemed to be taxable**

In the case of Group A, annual financial statements are required to be compliance checked and signed by taxpayers and accountants or auditors registered with the Macau Finance Services Bureau while Group B filings are reported by taxpayers without accountant certification.

The reporting of Complementary Tax of Group A taxpayers' profits is similar to other places. Basically, a taxpayer's, accounting profit should be calculated based on generally accepted accounting principles. Then this accounting profit is subject to adjustments due to the specific requirements or provisions as stated in the Regulation of Complementary Tax and other related statutes. Usually, the adjustments include deduction the non taxable income and adding back and non deductible expenses from the accounting profit. Since Macau is a Civil Law jurisdiction, all adjustments should follow strictly the statutes which set out in detail what items are taxable, non taxable, deductible or non deductible. This is different from the common law approach in which, for example, the deductibility of a certain expenses is often dependent on allowed percentages.

On the other hand, Group B taxpayers will be taxed on estimated profits deemed or adjusted by the Finance Services Bureau based on the type of industry that the particular taxpayer is in, the performance of the industry and taxpayer in recent years and other relevant factors. Well documented procedures for reassessment, objection, and appeal are available in case the taxpayer does not concur with the initial estimated assessment.

Macau offshore company can be exempted from all Macau profit tax providing a valid offshore operating permit can be granted from Macau authority. But all such Macau offshore company has to be pre-approval by Macau Investment and Promotion Institution. Such

company has to actually operating in Macau territory and file annual statutory audit report.

## **2.5 Taxation of dividends**

There is no tax if the dividend was paid out of profit after taxation.

## **2.6 Taxation of capital gains**

No special capital gain tax but it has to be included as income item except rental income generated from properties investment.

## **2.7 Taxation of interest income**

It is treated as normal income item.

## **2.8 Utilization of tax losses**

For Group A taxpayers, and net loss incurred in any year of operation can be deducted from the taxable profit of the one or more subsequent years but limited to a maximum of three years. For other taxpayers, any net loss can only be deducted from the current year of operation.

## **2.9 Key Tax incentives**

Macau government offer profit tax exemption for assessed profit under MOP 200,000 for the year of 2012.

## **2.10 Withholding tax**

N/A

## **2.11 Transfer pricing**

N/A

## **2.12 Filing requirements of tax return**

### **Filing due dates**

All taxpayers are required to submit Complementary Tax returns in respect of the preceding fiscal year within prescribed periods. The tax filing period for Group A taxpayers is between April and June while Group B taxpayers file between February and March each year.

### **Penalties**

1. Absence of or inaccuracy in the declarations which the taxpayers are obliged to submit according to the terms of this regulation, as well as the verified omissions in them, will result in a fine of MOP 100 to MOP 10,000.
2. If the absence, inaccuracy or omission is verified to be deliberate, a fine of MOP 1,000 to MOP 20,000 will result.

### **Payment of profit tax and application of holdover**

Profit tax is payable on September and November of coming year. No hold over is allowed.

# PERSONAL TAX

## 3.1 Basis of taxation (Residence, Personal assessment)

Personal tax in Macau is named as Professional Tax. It is applied to the income derived from services rendered for others or for individual professional.

According to the Regulations, taxpayers subject to professional tax are classified into two groups.

Group 1 taxpayers are those who render work for others. They are further classified into two types, namely employees and casual workers. The former perform intellectual work and are paid monthly, while the latter perform physical and handicraft work and are paid on a daily basis.

Group 2 taxpayers are those who are self-employed and exercise professional activities. They are obliged to issue receipts on the date of collection for all amounts received from their clients under the titles of remuneration, provisions, prepayments or any others. Their respective tax numbers should also been mentioned in that receipt which was pre-printed by the Macau Finance Services Bureau.

## 3.2 Rates of tax

Sliding scale tax rates of annual income is shown as follows:

From	To	Tax Rate
0.00	144,000.00	0%
144,000.01	164,000.00	7%
164,000.00	184,000.00	8%
184,000.01	224,000.00	9%
224,000.00	304,000.00	10%
304,000.01	424,000.00	11%
Above 424,000.00		12%

## 3.3 Year of assessment

The basis period of tax computation is commencing on 1 January and ending on 31 December.

## 3.4 Allowances and deductions

- (a) 1/4 of the total gross amount of income can be allowed as deductibles.
- (b) For the year 2013 tax relief measures, 30% wavier on professional tax.

## 3.5 Taxation of dividends

N/A

## 3.6 Taxation of capital gain

N/A

## 3.7 Taxation of interest income

N/A

### **3.8 Personal assessment and utilization of losses**

As for Group 1 taxpayers, Professional Tax is collected on a Pay as You Earn ("PAYE") basis where employers are required to deduct the tax from their payments to employees at source. Professional tax collected is then payable to the tax authority by the employer on a quarterly basis. By the end of February each year, employers are also obliged to lodge the annual professional tax returns M3/M4 with the tax authority in respect of the preceding year for all of their employees.

Group 2 taxpayers are primarily self-employed professionals. Those with appropriate accounting books and records are required to submit their personal tax returns not later than 15 April each year. Taxpayers without appropriate accounting books and records are required to submit their personal tax returns annually by the end of February each year for tax calculation according to the official receipt pre-printed by Macau Government.

### **3.9 Withholding tax**

All professional tax payable shall be withheld by employer and payable to Finance Services Bureau by seasons.

### **3.10 Statutory obligation of employers**

All employees shall be registered under professional tax within 15 days of services commenced. Any withheld professional salary tax shall be reimbursed to the Finance Services Bureau tax each season due on April, July, October and January each year.

### **3.11 Filing requirement of tax return**

**Filing due dates** : End of February

#### **Penalties**

1. The absence of or inaccuracy in the declaration of tax return, as well as omissions verified in them will result in a fine of MOP 500 to MOP 5,000.
2. In case such absences, inaccuracies or omissions are made deliberately, the fine will be from MOP 1,000 to MOP 10,000.

**Application of holdover** : N/A

## **STATUTORY REQUIREMENT ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS**

### **4.1 Regulatory organization**

Fundo de Segurança Social do Governo da RAEM (Social Security Funds)

### **4.2 Basis of contribution**

After the working relation is established between employer and employee, the Social Security Fund System should also be mandated to set up within 15 days.



### **4.3 Contribution rate**

MOP 45 per month(MOP 30 by employers, MOP 15 by employees) for resident employees;  
MOP 200 per month (fully by employers) for non-resident employees.

### **4.4 Exemption from tax**

N/A

## **GST/VAT**

### **5.1 Basis of tax**

N/A

### **5.2 Rates of tax**

N/A

### **5.3 Registration**

N/A

### **5.4 Filing requirements**

N/A

## **DOUBLE TAX RELIEF**

### **6.1 Foreign tax credit**

N/A

### **6.2 List of double tax treaties signed**

1. The Kingdom of Denmark
2. The Faroes
3. Iceland
4. The Kingdom of Norway
5. The Republic of Finland
6. China

## **OTHER SIGNIFICANT TAXES**

### **7.1 Stamp duty**

Currently there are 43 items subject to stamp duty including transfers of property ownership, advertisements, private contracts, capital registration of companies and amusement entrance tickets. The rates of such duties vary from 0.1% to 10%.

However, the 2013 tax relief measures regarding stamp duty is shown as follows:

1. Exemption of stamp duty on insurance contracts and banking service charges;
2. Exemption of stamp duty on all admissions of performance, exhibition or any kind of entertainment.
3. Exemption of stamp duty on putting up or placement of advertisements, signboards and publicity materials.

## 7.2 Real property tax

Property tax is levied on revenues from urban properties through leasing or self-accommodation. Taxpayers may be the registered owners or tenants physically occupying the properties. Taxes are generally levied on two categories. The first category refers to leased properties from which the owner receives rental income and the tax rate is 10%. The second category covers those properties not rented to a third party, i.e. where the owner occupies the property for self usage. The tax rate for this category is 6% on the deemed rental value of the property.

For the 2013 tax relief measures, a standard deduction of property tax for MOP 3,500 is levied on each unit.

## 7.3 Estate duty

N/A

## 7.4 Net wealth/net worth tax

N/A

## 7.5 Others

### Business tax

N/A

### Consumption tax, etc.

Charged on fuel and lubricants, tobacco, alcohol. The tax on some alcoholic drinks is levied ad valorem according to the CIF/Macau value; the remainder is specified by the Government.

## POINT OF CONTACT

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## **GENERAL INFORMATION**

**1.1 Country** : Malaysia

**1.2 Currency**

Ringgit Malaysia (RM) which is divided into 100 sen (cent).

**1.3 Principal business entities**

There are generally three types of business entities operating in Malaysia:

Sole proprietorships are basically one-owner businesses. Before commencement of a business under a sole proprietorship, an interested person must seek registration with the Companies Commission of Malaysia (CCM).

Partnerships are business concerns consisting of not less than 2 and not more than 20 partners. Registration must be formalised at the CCM. Partners in partnership business entities are also bounded by unlimited liability. Whereas a Limited Liability Partnership (LLP) consists of 2 or more partners.

A Sdn Bhd is a private limited company which prohibits any invitation to the public to subscribe to any of its shares. Minimum members in a private limited company are 2 and maximum is 50. Whereas a BHD is a public limited company where its shares can be offered to the public for fixed periods.

**1.4 Foreign exchange control**

The ringgit exchange rate operates on a managed-float regime against a trade-weighted basket of currencies. Malaysia maintains a liberal foreign exchange administration (FEA) policy which are mainly prudential measures to support the overall macroeconomic objective of maintaining monetary and financial stability while safeguarding the balance of payments position.

**1.5 Current economy climate (Industry overview/encouraged business development)**

Malaysia's economy is overall optimistic and is expecting a moderate growth between 4.5% and 5.5% in 2013. Even though oil export revenue is projected to decrease this year and hence by extension, the government's revenue; the government which is keeping a tight rein on its expenditure, expects fiscal deficit to be reduced to 4% of GDP in 2013 from 4.5% in 2012.

Domestic demand is expected to remain resilient and will continue to be the anchor for growth. Some measures announced in the 2013 Budget are expected to provide support to private

consumption. Private investments will be supported by continued investments by domestic-oriented industries and the ongoing implementation of projects under the Economic Transformation Programme (ETP). Major exports include electrical and electronic products, palm oil, liquefied natural gas (LNG), chemicals and chemical products, refined petroleum products and crude petroleum.

## 1.6 National tax authority

**Name** : Inland Revenue Board of Malaysia "IRB"

**Website** : [www.hasil.gov.my](http://www.hasil.gov.my)

# CORPORATE INCOME TAX

## 2.1 Basis of taxation

Income is taxable on modified territorial basis. Generally, any income accruing in or derived from Malaysia is taxable locally notwithstanding the fact that the income may not have been received in Malaysia. However, a foreign source income received will be exempt from income tax with the exception of those resident companies carrying out a business of sea/ air transport, banking or insurance which are assessable on a world income scope.

## 2.2 Rates of tax

Corporate income tax rates:

- Resident company with paid up capital of RM2.5 million or less
  - On first RM500,000 20%
  - Subsequent Balance 25%
- Resident company with paid up capital more than RM2.5 million 25%
- Non resident company 25%

## 2.3 Year of assessment

Each tax year or year of assessment begins on 1 January and ends on 31 December. However, for companies, the basis period will be the financial year of the company which not necessary be the calendar year.

## 2.4 Profits deemed to be taxable

### Certain Income deemed to be derived from Malaysia

Gross income in respect of :

1. interest or royalty,
2. special classes of income (e.g. technical assistance, rent of moveable property, etc) shall be deemed to be derived from Malaysia,
3. Other income such as commission, guarantee fee, agency fees and etc:
  - a. if responsibility for payment lies with the government or state government; or
  - b. if responsibility for payment lies with a person who is resident for that basis year; or

- c. if the payment of the above or other payments is charged as an outgoing or expense in the accounts of a business carried on in Malaysia.

## **2.5 Taxation of dividends**

The single-tier tax system was introduced in Budget 2008 to replace the imputation system with effect from year of assessment 2008. Under this system, corporate income is taxed at corporate level and this is a final tax. Companies may declare single tier exempt dividend that would be exempt from tax in the hands of their shareholders.

## **2.6 Taxation of capital gains**

Capital gains are not taxed in Malaysia, except for the Real Property Gains Tax (RPGT).

## **2.7 Taxation of interest income**

With effect from Year of assessment (Y/A) 2004, companies, trusts and co-operatives will have their interest income to be assessed in accordance with their financial year-end, which may be 31 December or non 31 December year-end. The interest income would be assessed under S.4(a) of the Act as business income if:

- a. it is received from trading debts;
- b. it is received in the ordinary course of business, which includes adventure in the nature of trade;
- c. it is earned by specialised industries like bank or insurance company.

## **2.8 Utilization of tax losses & capital allowances**

A company is entitled to carry forward business losses incurred in one assessment year for deduction against its statutory income in any of the following years. Unabsorbed business losses cannot be set off against future income from sources other than business sources.

Capital allowances in respect of one business cannot be set off against the profits of another business. Thus, if a business ceases permanently any unabsorbed allowances in relation to that business will be lost forever. Where the allowances claimed and due cannot be fully set off against income in any year of assessment, they are carried forward for set-off against future profits from the same business source.

However, with effect from Y/A 2006, any unabsorbed losses and capital allowances will only be allowed to be carried forward and set off against future income where the IRB is satisfied that more than 50% of the shareholders of the company on the last day of the basis period are the same as on the first day of the basis period in which such losses and capital allowances are to be utilised. Ministry of Finance had on 7 December 2007 issued a notification that the guidelines have been revised and it provides that carry forward of unabsorbed losses and capital allowances of a company with a substantial change in ownership is permitted as long as the company is not a dormant company. The revised guidelines took effect from Y/A 2006.

Group relief is available to all locally incorporated resident companies subject to conditions. The amount of relief is limited to 70% of current year adjusted loss to be offset against the total income of another company within the same group (including new companies undertaking activities in approved food production, forest plantation, biotechnology, nanotechnology, optics and photonics).

## 2.9 Key tax incentives

A variety of tax incentives are available pending the types of industries (e.g. manufacturing, IT services, biotechnology, Islamic finance, energy conservation and environment protection etc) and eligibilities. Available incentives include Pioneer Status of tax holidays up to 10 years; investment Tax Allowances (i.e. 100% allowance on capital investments made up to 10 years); Accelerated Capital Allowances; Double Deductions; Reinvestment Allowances (i.e. 60% allowance on capital investments made in connection with approved projects) and others.

## 2.10 Withholding tax

Non residents are subject to the following withholding tax:-

Non-residents (type of income)	WT Rate %
Royalties	10
Rental of moveable properties	10
Technical or management service fees	10
Interest	15
Public entertainer	15
Contract Payment on:-	
- account of contractor	10
- account of employee	3
Other income such as commission, guarantee fee, agency fees and etc (w.e.f 1.1.2010)	10

Where the recipient is a resident of a country which has a double tax treaty with Malaysia, the above said tax rates may be reduced.

## 2.11 Transfer pricing

The much anticipated Income Tax (TP) Rules 2012 and TP Guidelines 2012 were issued on 11 May 2012 and 20 July 2012 respectively but are deemed to be effective retrospectively from 1 Jan 2009. The TP Rules cover the application of Section 140A whereas the Guidelines help to explain the administrative aspects of it. The TP Guidelines are applicable on business with gross income exceeding RM25 million and the total amount of related party transactions exceeding RM15 million. As for persons providing financial assistance exceeding RM50 million, they would be required to comply with it too.

A penalty of 35% of the tax understated will be imposed if there is no contemporaneous TP documentation. Where TP documentation is prepared but not in accordance with the guidelines, a 25% penalty of the tax understated will be imposed.

The Ministry of Finance has informed the professional bodies that the implementation of the Thin Capitalisation Rules has been further deferred to 31 December 2015.

## 2.12 Filing requirements of tax return

### Filing due dates

Companies are placed on self-assessment from the Y/A 2001. Under self-assessment, a company is required to submit only the tax return (Form C) within 7 months after closing the company's year-end.

### Penalties

#### a. Failure to submit a tax return

Upon conviction, the taxpayer will be liable to a fine ranging from RM200 to RM2,000 or face imprisonment for a term not exceeding 6 months or both. If no prosecution is initiated, a penalty equal to treble the amount of tax and /or additional tax which is payable (before any set-off, repayment or relief) for that year. As a matter of practice, with effect from 1 October 2011, the IRB will impose penalties ranging from 20% to 35% of the tax payable for late filing of tax returns.

#### b. Failure to remit tax payable

A penalty equivalent to 10% on the balance of tax payable and if the tax is still not paid after 60 days, a further 5% penalty will be imposed.

#### c. Under-estimation of Tax

If the difference between the actual tax payable and the estimated tax payable (if the revised estimate is not furnished) is more than 30% of the actual tax payable, a 10% increase in tax will be imposed on that difference.

#### d. Instalment payment for tax estimated

If a company fails to pay the monthly instalment on the tax estimate by the stipulated date, a late payment penalty of 10% will be imposed on the balance of tax instalment not paid for the month.

*Penalties at various rates apply for failure to comply with various sections of the tax laws. There can be imprisonment and fine or both upon conviction.*

### Payment of profit tax and application of holdover

Under the Self Assessment System (SAS), every company is required to determine and submit in a prescribed form (Form CP204) an estimate of its tax payable (ETP) for a year of assessment (Y/A), 30 days before the beginning of the basis period. However, when a company first commences operations, the ETP must be submitted to the IRB within 3 months from the date of commencement of its business. The ETP submitted for a particular year cannot be less than 85% of the estimate/revised ETP for the immediate preceding Y/A.

A company is still required to submit the Form CP204 within the stipulated deadline even if it expects its ETP is to be Nil. With effect from Y/A 2008, where a SME first commences operations in a Y/A, the SME is not required to furnish an ETP or make instalment payments for a period of 2 years beginning from the Y/A in which the SME commences operations.

With effect from Y/A 2011, where a company first commences operations in a year of assessment and the basis period for that year of assessment is less than 6 months, that company is not required to furnish an ETP or make instalment payments for that year of assessment.

A SME which is exempted from furnishing an ETP mentioned above is advised to submit Form CP204 notifying the IRB of its SME status without having to state the amount of ETP for that particular year of assessment to avoid any penalty for under-estimation of tax or penalty for non-submission being wrongly imposed by the IRB. All companies must file the tax return Form C and pay the balance of tax payable within 7 months from the end of the accounting period from Y/A 2003 onwards.

## PERSONAL TAX

### 3.1 Basis of taxation (Residence, Personal assessment)

Income derived from Malaysia is subject to the Malaysian income tax whereas income derived from foreign sources outside Malaysia is not taxable. Resident individuals are taxed at progressive rates ranging from 0% to 26% after deducting personal reliefs. Whereas non residents are taxed at a flat rate of 26%. Basically, an individual is considered a tax resident if he/she is in Malaysia for 182 days or more in a calendar year, however, there are also 3 other qualifying conditions.

### 3.2 Rates of tax

Income tax rates for resident individuals, clubs and trade associations or similar institutions, estates (domiciled in Malaysia), Hindu joint family.

Chargeable income	Y/A2010 to Y/A2012 tax rate (%)	Y/A2013 tax rate	Y/A2010 to Y/A2012 tax payable (RM)	Y/A2013 tax payable (RM)
On the first 2,500	0	0	0	0
On the next 2,500	1	0	25	0
5,000			25	0
On the next 5,000	3	2	150	100
10,000			175	100
On the next 10,000	3	2	300	200
20,000			475	300
On the next 15,000	7	6	1,050	900
35,000			1,525	1,200
On the next 15,000	12	11	1,800	1,650
50,000			3,325	2,850
On the next 20,000	19	19	3,800	3,800
70,000			7,125	6,650
On the next 30,000	24	24	7,200	7,200
100,000			14,325	13,850
Exceeding 100,000	26	26		

### 3.3 Year of assessment

The tax years starts on 1 January and ends on 31 December of every year.



### 3.4 Allowances and deductions

In the case of an individual resident for the basis year for a year of assessment, there shall be allowed for that a year of assessment personal deductions/reliefs. For e.g.:-

- (a) RM 9,000 for that individual in respect of himself and dependent relatives
- (b) RM 5,000 for parents medical treatment, special needs or care expenses
- (c) RM 5,000 medical expenses for taxpayer spouse & children on serious diseases
- (d) RM 1,000 per child (below 18 years old) & lots more!

### 3.5 Taxation of dividends

With effect from 1 January 2008, company is effectively placed on single tier dividend system. Any dividend paid out under single tier dividend system will be tax-exempt in the hand of shareholders.

### 3.6 Taxation of capital gain

Capital gains are not taxed in Malaysia, except for the Real Property Gains Tax (RPGT).

### 3.7 Taxation of interest income

Interest is assessable to tax under S.4(c) of the Act if interest falls within investment income. The basis of assessment for interest income in relation to non-companies, trusts, or co-operative societies is on current calendar year basis. Any person receiving interest income will be subject to tax in Malaysia if the interest income is derived from Malaysia.

With effect from 30 August 2008, interest received from moneys deposited in all approved institutions is exempted from tax.

### 3.8 Personal assessment and utilization of losses

Where allowable expenses exceed gross income of a source, adjusted income is deemed to be nil. The deficit is known as "adjusted loss". The Act permits only adjusted loss from business source to be set off against "aggregate income". For non-business income, adjusted loss would be a permanent loss.

Where the adjusted business loss cannot be fully utilized in the current basis year at the "aggregate income" level, the balance (known as unabsorbed business loss) can be carried forward to the next Y/A to be set off against the aggregate statutory income from business source(s) only. The business source(s) need not be the same as the business source(s) that had incurred the loss.

### 3.9 Withholding tax

An employer is not obliged to withhold salaries tax from the remuneration paid to employees except for the compliance of Monthly Tax Deduction (MTD) Scheme. In certain circumstances, however, an employer may be required to withhold payments from an employee who is about to leave Malaysia. Non resident individuals are subject to withholding tax in respect of payments mentioned under the withholding tax section above (Corporate Income Tax).

### 3.10 Statutory obligations of employers

The Inland Revenue Board imposes the following obligations on employers, the major ones are:

#### 1. Commencement of Employment

An employer who commences to employ an individual likely to be chargeable to tax is required to notify the IRB by completing Form CP22 within 1 month from date of commencement of employment. An individual who first arrives in Malaysia and is chargeable to tax have to notify the IRB within 2 months from date of arrival.

#### 2. Cessation of Employment

An employer is required to notify the IRB of the cessation of employment of an employee by the completion of Form CP22A unless the employee is on the Monthly Tax Deduction (MTD) Scheme or whose income is below the minimum amount for the MTD Scheme, and the employee is not retiring from employment permanently. The due date is not less than 1 month before the date of cessation.

#### 3. Departure from Malaysia for a Period Exceeding 3 months

An employer is required to notify the IRB of departure of an employee from Malaysia for a period of more than 3 months by the completion of Form CP21 not less than 1 month before the expected date of departure.

#### 4. Moneys to be withheld on Cessation of Employment and Departure from Malaysia

Employers are required to withhold payment of any moneys payable to employees who have ceased or about to cease to be employed, or who are about to leave Malaysia for a period exceeding 3 months for 90 days or until tax clearance is received, whichever is earlier.

#### 5. Filing of Return by Employer

Under S. 83(1) and 83(1A) of the Income Tax Act 1967, every employer must furnish the Return of its employees' employment income no later than 31 March for each year. In addition, the employer must also prepare and deliver to his employee the statement of remuneration on or before the last day of February for each year.

#### 6. Deductions from Remuneration

Employers must remit to the IRB the tax deducted from employees' remuneration

- As directed by IRB
- Under the monthly tax deduction (MTD) Scheme

By the 10th day of the following month.

### 3.11 Filing requirement of tax return

#### Filing due dates

Every Individual must file a tax return by 30 April of the following year unless that individual with no chargeable income, receives a waiver from IRB or has business income. The tax filing deadline

for a person carrying on a business, such as sole proprietor, partnership, club, association and Hindu joint family, is 30 June of the following year.

### **Penalties**

- a. Failure to submit a Tax Return
- b. Failure to remit tax payable
- c. Under-declaration of income or excessive claim on deductions or expenses

Please refer to the penalties rates mentioned under item 2.12 for the above said offences. Penalties at various rates apply for failure to comply with various sections of the tax laws. There can be imprisonment and fine or both upon conviction.

### **Application of holdover**

N/A

## **STATUTORY REQUIREMENT ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS**

### **4.1 Regulatory organization**

- a. Social Security Organisation (SOSCO)
- b. Employees Provident Fund (EPF)

### **4.2 Basis of contribution**

- a. Social Security Organisation (SOSCO)

Under these schemes, employees are given coverage against job-related injury and disability, workplace accidents, occupational diseases and death. Among the many functions undertaken by SOSCO is registering employer/employees, collection of employers/employee contributions, processing and disbursing claims made by salaried employees and their dependants. In addition SOSCO also provides physical and vocational rehabilitation benefits to claimants and promotes occupational safety and health awareness.

- b. Employees Provident Fund (EPF)

The EPF is a social security institution formed which provides retirement benefits for members through management of their savings. The age for withdrawing one's retirement savings has remained at 55 years.

### **4.3 Contribution rate**

- a. Social Security Organisation (SOSCO)

Employers and employees are required to make social security contributions to the SOSCO. Generally, an employer contributes 1%-1.25% of an employee's remuneration.

- b. Employees Provident Fund (EPF)

A contribution constitutes the amount of money credited to members' individual accounts in the EPF. The amount is calculated based on the monthly wages of an employee. For employees who receive wages/salary of RM5,000 and below,

the portion of employee's contribution is 11% of their monthly salary while the employer contributes 13%. For employees who receive wages/salary exceeding RM5,000 the employee's contribution of 11% remains, while the employer's contribution is 12%.

#### 4.4 Exemption from tax

A maximum relief of RM6,000 is given for contributions made for life Insurance premium and/ or approved scheme (EPF) other than a private retirement scheme.

## GST/VAT

### 5.1 Basis of tax

N/A

### 5.2 Rates of tax

N/A

### 5.3 Registration

N/A

### 5.4 Filing requirements

N/A

### 5.5 INDIRECT TAXES

Sales Tax	5%-20%
Service Tax	6%

*(The sales tax rates may be much lower than the said maximum rates pending on the specific types of products)*

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

Foreign tax paid may be credited against Malaysian tax on the same profits (limited to 50% of foreign tax in the absence of a tax treaty), but the credit is limited to the amount of Malaysian tax payable on the foreign income.

### 6.2 List of double tax treaties signed

#### EFFECTIVE DOUBLE TAXATION AGREEMENT

- Albania
- Australia
- Austria
- South Korea
- Spain
- Sri Lanka
- Sudan
- Sweden
- Syria
- Germany
- Hungary
- Hong Kong
- Bahrain
- Bangladesh
- Belgium
- Brunei
- Canada
- Chile
- Mongolia
- Morocco
- India
- Indonesia
- Iran
- Ireland
- Italy
- Japan
- Jordan
- Singapore
- South Africa
- Myanmar
- Namibia
- Netherlands
- New Zealand
- Norway
- Pakistan
- Papua New Guinea

- Switzerland
- Croatia
- Czech Republic
- Denmark
- Egypt
- Luxembourg
- Malta
- Mauritius
- Vietnam
- China
- Kyrgyz Republic
- Kuwait
- Laos
- Lebanon
- Russia
- San Marino
- Saudi Arabia
- Zimbabwe
- Kazakhstan
- Philippines
- Poland
- Qatar
- Romania
- United Kingdom
- Uzbekistan
- Venezuela
- Thailand
- Turkey
- Turkmenistan
- United Arab Emirates
- Fiji
- Finland
- France
- Seychelles

- (i) There is no withholding tax on dividends paid by Malaysia companies.
- (ii) To claim the DTA rate, please attach the Certificate of Tax Residence from the country of residence.
- (iii) Where the rate provided in the ITA 1967 is lower than the DTA rate, the lower rate shall apply.

### GAZETTE DOUBLE TAXATION AGREEMENTS

- Bosnia and Herzegovina
- Senegal

### LIMITED AGREEMENTS

- Argentina
- United States of America

\* *The withholding tax rate on interest, royalties and fees for technical services is as provided in the ITA 1967.*

### INCOME TAX EXEMPTION ORDER

- Taiwan

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

Stamp duty is chargeable on certain instruments or documents. The rate of duty varies according to the nature of the instruments/documents and transacted values. Exemption of stamp duty is given on certain instruments and documents. The following are rates of stamp duty for some more common instruments and documents.

#### Conveyance, assignment or transfer

	Value RM	Rate	Duty Payable RM
i. Properties			
On the first	100,000	RM1 per RM100 or part thereof	1,000
On the next	400,000	RM2 per RM100 or part thereof	8,000
	500,000		9,000
In excess of	500,000	RM3 per RM100 or part thereof	
ii. stock, shares or marketable securities		RM3 per RM1,000 or part thereof	

### 7.2 Real property tax

Real Property Gains Tax (RPGT) is charged on gains arising from the disposal of real property, and any interest, option, or other right

in or over such land or shares in real property companies (RPC).  
A RPC is a controlled company holding real property or shares in another RPC of which the defined value is not less than 75% of the value of its total tangible assets.

### Real Property Gains Tax Table

	w.e.f 24.10.86	27.10.95 - 31.03.07	01.04.07- 31.12.09 (exemption Period)	w.e.f 01.01.10	w.e.f 01.01.12	w.e.f 01.01.13
Disposal within 2 years after date of acquisition	20	30	NIL	5	10	15
Disposal in the 3rd year after date of acquisition	15	20	NIL	5	5	10
Disposal in the 4th year after date of acquisition	10	15	NIL	5	5	10
Disposal in the 5th year after date of acquisition	5	5	NIL	5	5	10
Disposal in the 6th year and thereafter date of acquisition	5*/Nil	5*/Nil	NIL	NIL	NIL	NIL

All RPGT rates are applicable to both companies and persons other than companies. 5%\* is applicable to disposal by companies only.

### 7.3 Estate duty

N/A

### 7.4 Net wealth/net worth tax

N/A

### 7.5 Others

Business tax N/A

Consumption tax N/A

## POINT OF CONTACT

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## GENERAL INFORMATION

**1.1 Country :** Mauritius

**1.2 Currency :** Rupees (Rs) which is divided into 100 cents

### **1.3 Principal business entities**

- Public company
- Private company
- Partnership
- Limited partnership
- Foundation
- Trust
- Societe

### **1.4 Foreign exchange control**

No exchange control

### **1.5 Current economy climate (Industry overview/encouraged business development)**

Conducive to foreign investment

No exchange control

Low tax jurisdiction

Encourage clean global business

Mauritius is conveniently located allowing for the conduct of business in the Far East in the morning, Europe during the early afternoon and the USA, later in the day.

Well regulated legislative framework, highly skilled professional, international standard banking sector and the continuous expansion of the double taxation treaty network have led to the success of the Mauritian global business sector.

The island offers great opportunities to plan investment through the use of the Mauritian global business vehicles.

The treaties provide attractive concessions for tax planning opportunities:

- Elimination of double taxation through tax credit
- Reduction in withholding taxes on dividends, interests and royalties
- Exemption from capital gains

## African Perspective

Africa is becoming increasingly attractive as an investment destination. Mauritius has tax treaties with Botswana, Lesotho, Madagascar, Mozambique, Namibia, Rwanda, Senegal, Seychelles, South Africa, Swaziland, Tunisia, Uganda, Zambia and Zimbabwe and is in negotiation with other states.

There are special advantages for investment in Africa through Mauritius:

- Capital gains tax minimization & minimization of withholding tax on dividend through the use of DTA
- Free repatriation of investment capital and returns & Guarantee against expropriation under the Investment Promotion and Protection Agreements (IPPAs)
- No exchange control restrictions
- Access to foreign currency loans and advances

IPPAs signed by Mauritius with 15 African member states offer the right incentive and guarantee to investors targeting investment into Africa.

Mauritius is a member of:

- the South African Development Community (SADC)
- The Common Market for Eastern and Southern Africa (COMESA)
- the Indian Ocean Rim association for the regional cooperation (IOR-ARC)

Being a signatory to major African conventions, Mauritius is the best offshore financial service centre for establishing any Fund or Investment Holding Company.

## Asian Perspective

With DTAs in place with the 2 largest emerging countries namely India and China, the Mauritian global business platform is being widely used for:

- Structured Trade Finance between Asia, Africa and Middle-East
- Investment into India

## 1.6 National tax authority

**Name :** Mauritius Revenue Authority (MRA)

**Website :** [www.mra.mu](http://www.mra.mu)

# CORPORATE INCOME TAX

## 2.1 Basis of taxation

Self assessment system subject to review by the MRA.

Bodies of persons subject to corporate tax are:

- Companies
- Trusts
- Trustees of Unit Trust Schemes
- Non-resident Sociétés (Partnerships).

Trusts, Trustees of Unit Trust Schemes and Non-resident Sociétés are treated as companies for tax purposes.



## 2.2 Rates of tax

Domestic companies are taxed at 15%.

Corporate holding a GBL 1 license pays tax at 15% but is entitled to a tax rebate of 80% thus reducing the tax rate to 3%.

Freeport companies are tax free.

2% of the chargeable income are remitted as corporate social responsibility.

Where the normal tax payable for an income year by a company is less than 7.5% of its book profit, the company should pay either 7.5% of its book profit or 10% of dividends declared in respect of that year, whichever is lesser.

## 2.3 Year of assessment

Each tax year or year of assessment begins on 1 January and ends on 31 December.

## 2.4 Profits deemed to be taxable

All income received except for gains on securities/disposal of assets.

## 2.5 Taxation of dividends

Dividends received from a domestic company is not subject to tax.

Dividends received from overseas corporation are taxable.

Exempt dividends are as follows:-

Dividends paid by a company resident in Mauritius

Dividends paid by a co-operative society

Dividends paid by a company holding a GBL 2

## 2.6 Taxation of capital gains

N/A

## 2.7 Taxation of interest income

Domestic company 15%

GBL 1 and GBL 2 exempt

## 2.8 Utilization of tax losses

Losses are carried forward and set off against the income derived in the following 5 income years.

## 2.9 Key tax incentives

Freeport companies are tax exempt except for income derived from operations on local market which is taxed at 15%.

GBL 2 are tax exempt.

## 2.10 Withholding tax

As per prevailing DTAs

Deduction of tax at source is an advance payment of taxes and would be offset against the income tax liability of the payee. The tax to be withheld by any person, other than an Individual is as per table below:

## Amount or sum made available to the payee by way of -

	Rate of tax (%)
Interest payable by any person, other than by a bank or non-bank deposit taking institution, under the Banking Act, to a non-resident	15
Royalties payable to	10
A resident	15
A non-resident	5
Rent	0.75
Payments to contractors and sub contractors	3
Payments to providers of services as specified in the Fifth Schedule	
Payment made by Ministry, Government department, local authority, statutory body or the Rodrigues Regional Assembly on contracts, other than payments to contractors and sub-contractors and payments to providers of services specified in the Fifth Schedule -	
(a) for the procurement of goods and services under a single contract, where the payment exceeds 300 000 rupees	1
(b) for the procurement of goods under a contract, where the payment exceeds 100 000 rupees	1
(c) for the procurement of services under a contract, where the payment exceeds 30 000 rupees	3
Payment made to the owner of an immovable property or his agent	5
Payments made to a non resident for any services in Mauritius	10

The Tax withheld shall be remitted to the Director General of the MRA within 20 days from the end of the month in which the deduction was made

### 2.11 Transfer pricing : N/A

### 2.12 Filing requirements of tax return

#### Filing due dates

Every company, whether or not it is a taxpayer, is required to file its annual return not later than six months from the end of the month in which its accounting year ends.

Besides the annual return, companies are also required to file, under the Advance Payment System (APS), quarterly APS statements and to pay tax in accordance thereof.

All companies deriving gross income and exempt income exceeding Rs 30 million have the legal obligation to file annual returns and pay tax electronically. Failure to file electronic returns carries a penalty of 20 per cent of the tax payable (maximum Rs 100 000) or Rs 5 000 where no tax liability is declared in the return.

The payer shall issue a statement of income tax deduction in respect of the preceding income year, to the payee by 15th February every year showing the total gross payment made to the payee and the tax deducted there from.

#### Penalties

Late submission of return – a penalty of Rs 2,000 per month or part of the month up to a maximum of Rs 20,000.

Late payment of tax – a penalty of 5% of the amount of tax excluding any penalty and interest at the rate of 1% per month or part of the month during which the tax remains unpaid.

## Payment of profit tax and application of holdover

Taxpayers are expected to compute their own tax liability based on the tax laws, guidelines and rulings issued by the MRA. The MRA carries out tax audit to check the returns of companies.

The due dates for the payment of corporate tax are six months from the end of the month in which its accounting year ends.

Every taxpayer who has paid corporate tax in an income year, has to file an APS (Advance Payment System) statement and pay a provisional tax for the following year of assessment. The provisional tax payable is estimated by the assessable profits of the preceding year of assessment.

All companies that had a chargeable income or paid tax under "Alternative Minimum Tax" (AMT) in respect of the preceding accounting year should file an APS Statement.

Companies that had tax losses carried forward in respect of the preceding year and did not pay tax under AMT in respect of that year of assessment may opt not to file an APS Statement.

The chargeable income of a company in respect of an APS quarter may, at the option of the company, be computed in accordance with either Method A or Method B if applicable:

**Method A:** The chargeable income is deemed to be 25% of the chargeable income of the company for the accounting year ending on the date immediately preceding the commencement of that quarter.

**Method B:** The chargeable income is the difference between the gross income and the allowable deductions for that quarter including any loss brought forward from the previous quarter of the accounting year immediately preceding that quarter. Where the company opts for Method B and the calculated value is negative, the value should be entered as zero. The company will then deduct that loss in the APS Statement of the next quarter of the accounting year.

The income tax payable in respect of an APS Quarter is calculated, at the option of the company, at the rate of :

- (i) 15% on the chargeable income arrived at under either Method A or Method B; or
- (ii) 25% of the tax paid as Alternative Minimum Tax (AMT) in respect of the preceding accounting year.

The amount of TDS to which the company has been subject in respect of payments received during the current quarter should be deducted from the tax payable for that quarter

Under the current regime companies are required to file quarterly APS Statements and to pay tax, if any, in accordance thereof except where the company's gross income did not exceed MUR 2 Million or did not have chargeable income.

# PERSONAL TAX

## 3.1 Basis of taxation (Residence, Personal assessment)

All emoluments are subject to tax, except those specified in law to be exempt income.

“Emoluments” means any advantage in money or in money’s worth.

- Resident individuals are subject to Income Tax in Mauritius on income except on exempt income which is derived from Mauritius.
- Income derived by a resident individual from outside Mauritius is taxable in Mauritius on money remitted to Mauritius.
- A resident individual is defined as one who has his domicile in Mauritius, but does not include an individual who is only here for temporary purpose nor does it include an individual who is not present in Mauritius for more than 183 days in the relevant income –year or for more than 270 days over 3 consecutive fiscal years.
- Non Residents will only be subject to Income Tax on Income other than exempt income, derived from or accruing in Mauritius.

## 3.2 Rates of tax

15% on chargeable income after deduction of personal allowance.

## 3.3 Year of assessment

Calendar year – 1 January to 31 December.

## 3.4 Allowances and deductions

An individual is entitled to the Income Exemption Threshold which corresponds to the category he falls in as below :

### Category Description

1. Category A individual with no dependent – Rs 270,000
2. Category B individual with 1 dependent – Rs 380,000
3. Category C individual with 2 dependents – Rs 440,000
4. Category D individual with 3 dependents – Rs 480,000
5. Category E Retired person with no dependent – Rs 320,000
6. Category F Retired person with 1 dependent - Rs 430,000

In order to qualify for Category E and F deduction above, the retired person should have attained the age of 60 before 1 January of the current income year and should derive solely income from employment (i.e. excluding any business, trade / profession or other income)

### “Dependent” means either:

- a spouse;
- a child under the age of 18; or
- a child over the age of 18 and who is pursuing full-time course at an educational institution or a training institution or who cannot earn a living.

Relief for medical/health insurance premium

A taxpayer is entitled to claim a deduction in respect of premium paid for medical or health insurance policy contracted for himself and his dependents as follows:-

Category of income taxpayer	Up to MUR
A (no dependent)	12,000
B (one dependent)	12,000 for self + 12,000 for dependent
C (2 dependents)	12,000 for self + 12,000 for first dependent + 6,000 for second dependent
D (3 dependents)	12,000 for self + 12,000 for first dependent + 6,000 for second dependent + 6,000 third dependent
E (retired person with no dependent)	12,000
F (retired person having one dependent)	12,000 for self + 12,000 for dependent

### 3.5 Taxation of dividends

Exempt if received from a Mauritian company.

### 3.6 Taxation of capital gain

N/A

### 3.7 Taxation of interest income

Interest payable on a balance maintained in a bank by an individual who is not resident in Mauritius is exempt interest.

Interest payable to a non-resident, not carrying on any business in Mauritius, by a corporation holding a GBL1, GBL2 or a Bank holding a banking license under the Banking Act 2004 is also exempt.

Other interests are taxed at 15%.

### 3.8 Personal assessment and utilization of losses

Losses carried forward can only be offset against business income.

### 3.9 Withholding tax

Every employer is required to withhold tax from the emoluments of his employees at the time the emoluments are received by or made available to the employees. This is called PAYE (Pay As You Earn).

The amount of tax to be withheld from the emoluments of each pay period is calculated on a cumulative basis by cumulating both the emoluments and the Income Exemption Threshold pertaining to the current and previous pay periods in the income year concerned.

Workers receiving their pay daily after each day's work are excluded from the operation of the PAYE system.

### 3.10 Statutory obligation of employers

The tax withheld from the emoluments of the employees in the preceding month must be remitted to the Mauritius Revenue Authority (MRA) within 20 days from the end of the month in which the deduction was made.

Every employer has to file a return of employees with the Mauritius Revenue Authority at latest by 15 February of the following year when he has:

- (i) Withheld tax under PAYE during the income year
- (ii) one or more employees who derived emoluments exceeding Rs 270 000 during the income year.

### 3.11 Filing requirement of tax return

#### Filing due dates

A return of Income should be submitted to the Director General-MRA by every person who:

1. has a Chargeable Income
2. has been allotted a Tax Account Number;
3. Other conditions apply.

Due Date for submission of Return and for payment is 31 March following the Income Year ending 31 December.

A CPS Statement of Income should be submitted to the Director General, MRA by every individual deriving business income (Including Income from Profession, Vocation or Occupation) and rental Income in a CPS quarter where the gross income falling under CPS exceeds Rs 2 million per annum.

The Current Payment System (CPS) for self employed people is on a quarterly basis.

In respect of CPS quarter	Due date for submission of CPS Statement and payment of tax
1 Jan to 31 March	30 June
1 April to 30 June	30 September
1 July to 30 September	2 days, excluding Saturdays and public holidays, before the end of December

There is no need to submit CPS for the 4th quarter, since the taxpayer is required to submit an Annual Return on 31 March.

#### Penalties

Late/Non-Submission of return

Rs 2,000 per month or part of the month up to a maximum of Rs 20,000.

Late/Non-Payment of tax

Late payment of tax carries a penalty of 5% of the amount of tax unpaid and interest at the rate of 1% per month.

Submission of return of employees

In case of late submission, a penalty of Rs 5,000 per month or part of a month up to a maximum of Rs 20,000 is applicable.

#### Application of holdover

TDS 5% on rent.

## STATUTORY REQUIREMENT ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

National Pension Fund

## 4.2 Basis of contribution

Contribution is calculated as a percentage of the basic salary presently the maximum ceiling is Rs 13,470.

For employees who are above 60 but below 65 years ,only the employer contributes

For those who are above 65 years no contribution by both employee and employer.

## 4.3 Contribution rate

	Employee	Employer
National Pension Fund	3%	6%
National Solidarity Fund	1%	2.5%
Levy	0%	1.5%

## 4.4 Exemption from tax

Contributions made by the employees to the National Pension Fund are not a deductible expense for tax purpose.

The first Rs 1,500,000 of the aggregate amount received as lump sum by way of commutation of pension, death, gratuity, retiring allowance and severance allowance, received in an income year is exempt from tax.

# GST/VAT

## 5.1 Basis of tax

VAT is chargeable on all taxable supplies of goods and services made in Mauritius by a taxable person in the course or furtherance of any business carried on by him. VAT is also payable on the importation of goods into Mauritius, irrespective of whether the importer is a taxable person or not.

## 5.2 Rates of tax

Exempt  
Zero-rated  
Taxable – 15%

## 5.3 Registration

Compulsory registration if turnover of taxable supplies exceeds Rs 4.0 million.

Compulsory registration is required for certain trade/profession.

## 5.4 Filing requirements

If turnover is less than Rs 10.0 million – quarterly return to be filed at latest on the 20th of the month following the end of the quarter.

If turnover exceeds Rs 10.0 million monthly returns to be filed at latest on the 20th of the month following the end of the preceding month.

# DOUBLE TAX RELIEF

## 6.1 Foreign tax credit

As per The Income Tax (Foreign Tax Credit) Regulations 1996

Where there is a double tax agreement, credit shall be allowed for foreign tax on the foreign source income of a resident of Mauritius against Mauritius tax computed by reference to the same income.

## 6.2 List of double tax treaties signed

So far Mauritius has concluded 37 tax treaties and is party to a series of treaties under negotiation. The treaties currently in force are:

- Barbados
- Botswana
- Cyprus
- France
- India
- Kuwait
- Luxembourg
- Malaysia
- Namibia
- Oman
- People's Republic of Bangladesh
- Rwanda
- Seychelles
- South Africa
- Swaziland
- Thailand
- Uganda
- United Kingdom
- Zimbabwe
- Belgium
- Croatia
- Democratic Socialist Republic of Sri Lanka
- Germany
- Italy
- Lesotho
- Madagascar
- Mozambique
- Nepal
- Pakistan
- People's Republic of China
- Senegal
- Singapore
- State of Qatar
- Sweden
- Tunisia
- United Arab Emirates
- Zambia

**5 treaties awaits ratification:** Congo, Egypt, Kenya, Nigeria, Russia

**4 treaties await signature with:** Ghana, Gabon, Monaco, South Africa

**14 treaties are being negotiated with:** Algeria, Burkina Faso, Canada, Czech Republic, Greece, Hong Kong, Malawi, Portugal, Republic of Iran, Saudi Arabia, St. Kitts & Nevis, Vietnam, Yemen and Tanzania

### Tax Information Exchange Agreements (TIEAs)

#### In Force

Australia, Denmark, Finland, Norway

#### Signed:

Faroe Island, Greenland and Iceland

#### Await signature:

Greece, Guernsey, India and Isle of Man

# OTHER SIGNIFICANT TAXES

## 7.1 Stamp duty

In accordance with land, duties and registration Act.



## **7.2 Real property tax**

Land transfer tax - 5%

Registration duty – 10%

Exemption for first time buyer if cost of bare land does not exceed Rs 1.0 million and building Rs 4.0 million

## **7.3 Estate duty**

N/A

## **7.4 Net wealth/net worth tax**

N/A

## **7.5 Others**

### **Business tax**

Corporate social responsibility – 2% on chargeable income

Environment protection fee for hotels

Solidarity levy for mobile operators and bank

### **Consumption tax, etc.**

Pet tax

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## GENERAL INFORMATION

**1.1 Country :** Singapore

**1.2 Currency :** Singapore Dollars ("SGD")

**1.3 Principal business entities**

- Limited liability company;
- Limited liability partnership;
- Partnership;
- Sole proprietorship;
- Branch of a foreign corporation

**1.4 Foreign exchange control**

No exchange control

**1.5 Current economy climate (Industry overview/encouraged business development)**

Singapore is a global banking and investment centre in the heart of South East Asia. It is an attractive base because it offers an efficient registration process, relatively benign regulations, and smooth movement of money, financial support infrastructure, liberal immigration policy and low tax rates.

Due to various friendly fiscal measures implemented to bolster the growth and to curb business costs, Singapore's economy continues to move up the value-added chain and remains attractive to investors who are concerned about stability in the region despite inflation, high costs and uncertainty caused by European Debt crisis.

Singapore has been focusing on enhanced education, implementing training opportunities, fostering innovation and supporting the growth of Small and Medium Enterprises ("SME") to strengthen Singapore's role as financial and business hub in Asia. Tax rates for companies and individuals have been gradually reducing to attract and retain global investments and talent.

**1.6 National tax authority**

**Name :** Inland Revenue Authority of Singapore ("IRAS")

**Website :** [www.iras.gov.sg](http://www.iras.gov.sg)

# CORPORATE INCOME TAX

## 2.1 Basis of taxation

The tax is assessed on a territorial basis. Singapore tax resident companies are subject to tax on income accruing in, derived from and received in Singapore.

## 2.2 Rates of tax

17%

## 2.3 Year of assessment

The basis period for any Year of Assessment ("Y/A") is the financial year ended preceding the Y/A.

## 2.4 Profits deemed to be taxable

Payment to non residents for the following are deemed to be derived from Singapore:

- a) Commission;
- b) Interest;
- c) Management fee,
- d) Remunerations,
- e) Royalties,
- f) Technical fees.

Such payments are subject to withholding tax of 10% to 17%.  
(Subject to DTA rates)

## 2.5 Taxation of dividends

Since 2003, Singapore adopted a one-tier corporate income tax system. Tax paid by a company on its chargeable income is the final tax and all dividends paid are exempt from further tax.

## 2.6 Taxation of capital gains

N/A

## 2.7 Taxation of interest income

Yes.

## 2.8 Utilization of tax losses

The unutilized tax losses can be carried forward indefinitely to offset future taxable income provided that at least 50% of the paid up share capital of a company are held by the same shareholders at the relevant comparison dates. Tax losses can also be carried back for one preceding year up to a maximum of \$100,000. Tax losses can also be transferred to companies belonging to the same group with 75% direct or indirect interest.

## 2.9 Key Tax incentives

Some of the incentive schemes to encourage foreign investments in Singapore are as follows:

- a) Approved International Shipping Enterprise;
- b) Approved Venture Company;

- c) Exemption of income of shipping investment enterprise;
- d) Further deduction for expenses relating to Approved Trade Fairs, Trade Exhibitions, Trade Missions or to maintenance of overseas Trade Office;
- e) Further deduction for expenses on Research and Development Project;
- f) Concessionary of tax rate for income of life insurance companies apportioned to policyholders;
- g) Concessionary rate of tax for approved offshore general insurance companies;
- h) Concessionary rate of tax for approved offshore life insurance companies;
- i) Concessionary rate of tax for approved offshore composite insurance companies;
- j) Exemption of tax for approved marine hull and liability insurer (onshore and offshore business);
- k) Exemption of tax for approved offshore captive insurance companies;
- l) Exemption of tax for approved insurer underwriting offshore qualifying specialized insurance risk;
- m) Concessionary rate of tax for Approved Operational Headquarters (OHQs);
- n) Concessionary rate of tax for Approved Finance and Treasury Centre;
- o) Concessionary rate of tax for Financial Sector Incentive Companies;
- p) Approved Global Trading Company;
- q) Concessionary rate of tax for shipping investment manager;
- r) Concessionary rate of tax for container investment enterprise;
- s) Concessionary rate of tax for container investment manager
- t) Concessionary rate of tax for ship brokering and forward freight agreement trading;
- u) Pioneer industries;
- v) Pioneer Service companies;
- w) Development & Expansion Incentive;
- x) Investment Allowances

**Other tax allowances/exemptions**

- Exemption of Foreign Sourced Income on dividends, branch profits and service income (conditions applies).
- Exemption on qualified income (e.g. shipping income)
- Exemption for new start-up companies.

The productivity Innovation Credit (“PIC”) Scheme introduced in year 2010 to enhance productivity and investment. Tax savings from enhanced allowance or deduction on the expenditure incurred of up to \$400,000 per year for each of the following six activities:

- a) Acquisition/leasing of prescribed Automation equipment;
- b) Acquisition of Intellectual property rights (IPR);
- c) Registration of IPR;
- d) Research and development (R & D) rendered in Singapore;
- e) Training expenditure in connection with business;
- f) Design project

Tax rebates are introduced to help relieve business costs.

## 2.10 Withholding tax

Yes, please refer to Section 2.4.

## 2.11 Transfer Pricing

The arm's length principal:

IRAS endorses the arm's length principal as the standard to guide transfer pricing. The arm's length principal requires that transfer prices between related parties are equivalent to prices that unrelated parties would be charged in the similar circumstances.

## 2.12 Filing requirements of tax return

Filing due dates	Form C (Paper file)	30 Nov of each year
	Form C-S (Paper file)	By 30 Nov of each year
	Form C-S (E-file)	By 15 Dec of each year

### Penalties

#### Penalties for error/omission/discrepancy in tax returns

Depending on individual circumstances, a taxpayer convicted under Section 95 of the Income Tax Act may be imposed a penalty ranging from 0% to 200% of the amount tax undercharged. A fine up to \$5,000 or an imprisonment up to 3 years may also be imposed.

#### Late payment penalty

Taxpayers are given 30 days from the date of the Notice of Assessment (NOA) to pay the tax. If the tax is not paid or is paid late, the following penalties will be imposed on the tax unpaid after due date:

5% penalty and 1% additional penalty

#### Payment of profit tax and application of holdover

All companies have to submit their Estimated Chargeable Income (ECI) within 3 months from the end of their financial year end. IRAS will send a letter to company towards the end of the companies' financial year to notify you to file ECI.

If the ECI is more than the actual chargeable income reported in the final income tax form (Form C), the excess tax paid earlier will be refunded. However, if the ECI is less than the actual chargeable income reported, the additional tax must be paid within 30 days from the date of the Notice of Assessment. Companies may apply for a waiver to file tax returns if they ceased business activity and do not derive any income.

# PERSONAL TAX

## 3.1 Basis of taxation (Residence, Personal assessment)

Income accruing in, derived from and received in Singapore is chargeable to income tax.

## 3.2 Rates of tax

<b>Tax Residents</b>		
<b>CHARGEABLE INCOME</b>	<b>RATE (%)</b>	<b>GROSS TAX PAYABLE</b>
First \$20,000	0	0
Next \$10,000	2	\$200
First \$30,000	—	\$200
Next \$10,000	3.5	\$350
First \$40,000	—	\$550
Next \$40,000	7	\$2,800
First \$80,000	—	\$3,350
Next \$40,000	11.5	\$4,600
First \$120,000	—	\$7,950
Next \$40,000	15	\$6,000
First \$160,000	—	\$13,950
Next \$40,000	17	\$6,800
First \$200,000	—	\$20,750
Next \$120,000	18	\$21,600
First \$320,000	—	\$42,350
Above \$320,000	20	

### Non tax residents:

Employment income is taxed at 15% or tax resident rates whichever is higher. Director's fees, consultant fee or other income are taxed at 20%.

## 3.3 Year of assessment

The basis period for any Year of Assessment ("Y/A") is the year preceding the Y/A.

## 3.4 Allowances and Deductions

<b>TYPES OF RELIEF</b>	<b>QUANTUM</b>
<b>Earned Income Relief</b>	
i) Below 55 years old	\$1,000
ii) 55 to 59 years old	\$6,000
iii) 60 years old and above	\$8,000
<b>Spouse Relief</b>	
Handicapped Spouse Relief	\$3,500
Qualified Child Relief	\$4,000 per child
Handicapped Qualified Child Relief	\$5,500 per child
<b>Parent Relief</b>	
i) Staying with parents	\$7,000
ii) Not staying with parents	\$4,500
<b>Handicapped Parent Relief</b>	
i) Staying with parents	\$11,000
ii) Not staying with parents	\$8,000
Relief for Course Fees	Capped to \$5,500
Life Insurance Relief	Maximum of \$5,000 capped at the lower of insurance premiums paid in the preceding year or 7% of capital sum assured on death.
Foreign Maid Levy Relief	Twice the levy paid in the previous years on one foreign maid (subject to maximum of \$6,360 or \$4,080 provided that the Ministry of Manpower had approved an individual's application for levy concession)
Supplementary Retirement Scheme (SRS) Relief	SRS Contribution cap is \$12,750 for Singaporean and permanent residents and \$29,750 for foreigners.

### 3.5 Taxation of dividends

Under one-tier tax system, dividends paid are tax exempt in the hands of the shareholders.

### 3.6 Taxation of capital gain

N/A

### 3.7 Taxation of interest income

Interest income received by individuals from deposits with approved banks or licensed finance companies in Singapore is not taxable.

### 3.8 Personal assessment and utilization of losses

Business income is income derived from carrying on a trade, a business, a profession, or a vocation. Business income is taxable in the sole-proprietor's or self-employed person's name. The business income will be added to all other personal income and the total is subject to tax at individual tax rates.

#### Business losses can be offset against other income

If trade losses are incurred after deducting the allowable expenses against the gross profit, the trade losses and any capital allowances claimed can be used to offset against other income such as employment, interest, rental income and income from other business in the same year.

#### Carrying business losses forward

If the other income is not sufficient to offset the trade loss, the unabsorbed trade losses can be carried forward to subsequent years to offset against the income of those years until the trade losses are fully utilized.

### 3.9 Withholding tax

Employers are not required to withhold tax on salaries of employees. Non-resident individuals are subject to withholding tax in respect of payments under the withholding services (Refer to Section 2.4).

### 3.10 Statutory obligation of employers

#### Reporting Employees' Earning

An employer must prepare Form IR8A and Appendix 8A, Appendix 8B or Form IR8S for all employees (who are employed in Singapore) by 1 March each year.

#### Record keeping

With effect from year 2007, employers are required to keep proper records of all employees' income and deductions for 5 years.

#### Tax Clearance for non-citizen foreign employee

Tax Clearance is a process of ensuring that non-citizen foreign employee pays all his taxes when he ceases employment in Singapore or plans to leave Singapore for more than three months. Tax clearance obligations apply to all work pass holders. Employers are obliged to notify IRAS and seek tax clearance for the affected foreign employees. Employers are required to withhold payment of money payable to employee until tax clearance is received.

### 3.11 Filing requirement of tax return

#### Filing due dates

The due date for annual filing of individual tax return is 15 April of every year. If the return is e-filed, the due date is 18 April.

Employers must seek tax clearance for foreign employees by filing Form IR21 (notification by employer of an employee's cessation of employment or departure from Singapore) at least one month before the non-citizen employees ceases to work for the employers in Singapore, is on overseas posting or leaves Singapore for any period exceeding three months.

#### Penalties

Penalties and fines are applicable for failure to file a tax return and payment on due date. In some situations, imprisonment.

**Application of holdover** : N/A

## STATUTORY REQUIREMENT ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

Central Provident Fund Board (CPF) applicable to Singaporeans and permanent residents only.

### 4.2 Basis of contribution

The Central Provident Fund (CPF) is a comprehensive social security savings plan that has provided many working Singaporeans with a sense of security and confidence. All working Singaporeans and their employers make monthly contributions to the CPF accounts.

Employers are required by law to contribute to the Central Provident Fund ("CPF"). Under the scheme, employers are to ensure that CPF contributions are paid monthly for its employees at the rates set out in the Central Provident Fund Act (Cap. 36). The employer is entitled to recover a percentage of that contribution from the employee through deductions from the employee's monthly wages at the rates set out in the CPF Act. Salary ceilings are applicable.

### 4.3 Contribution rate

CURRENT RATES:		
Employee Age	Employer	Employee
50 and below	16%	20%
Above 50-55	12%	18%
Above 55-60	9%	12.5%
Above 60-65	6.5%	7.5%
Above 65	6.5%	5%

FROM 01 JANUARY 2014		
Employee Age	Employer	Employee
50 and below	16%	20%
Above 50-55	14%	18.5%
Above 55-60	10.5%	13%
Above 60-65	7%	7.5%
Above 65	6.5%	5%



## 4.4 Exemption from tax

Employees who are Singaporeans or Singapore Permanent Residents may claim CPF relief against their taxable income on the compulsory employee CPF contributions under CPF Act and Voluntary contributions to their CPF Medisave account.

# GST/VAT

## 5.1 Basis of tax

GST (Goods and Services Tax) is a broad based consumption tax levied on all supplies of goods and services in Singapore and on import of goods. Taxable supplies are classified as follows:

**Standard-rated supplies** refer to taxable supplies of goods and services supplied in Singapore. (e.g. sale of goods in supermarket)

**Zero-rated supplies** refer to export of goods and international services (e.g. provision of international transport).

**Exempt supplies** refer to sale and lease of residential properties and financial services. (e.g. income from sale of shares and interest)

**Out-of-scope supplies** refer to third country sales (e.g. sale of goods from China to India where the goods do not enter Singapore and goods in transit.)

## 5.2 Rates of tax

It is levied at a standard rate of 7%.

## 5.3 Registration

### Compulsory Registration:

A Business is liable to register for GST if the value of taxable supplies exceeded S\$1 million in the past 12 months or currently making taxable supplies and expect the value of taxable supplies to exceed S\$1 million in the next 12 months. They are required to apply for GST registration within 30 days from the date the businesses' liability arose.

### Voluntary Registration:

Businesses or traders making taxable supplies below S\$1 million or have not started making taxable supplies. If annual taxable turnover is below the threshold of S\$1 million or have not started making taxable supplies but expect the taxable turnover to exceed \$1 million in the next 12 months, they can apply for voluntary registration.

### Exemption from Registration:

Businesses can apply to the Comptroller of GST for exemption from registration if they make or intend to make wholly or mainly zero-rated supplies even if the turnover exceeds S\$1 million. If after being so exempted, there is a major change in the nature of the supplies made by the business, they are required to inform the Comptroller of GST.

## 5.4 Filing requirements

Returns are to be filed quarterly by the end of the month following the quarter.

Payments are due within one month after the filing deadline.

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

The foreign tax credit is known as Double Tax Relief (“DTR”) under Avoidance of Double tax agreement concluded between Singapore and various foreign countries to relieve the burden of double taxation.

Singapore laws provide for the ordinary credit method to eliminate double taxation for residents of Singapore, i.e., a credit is allowed, in respect of foreign tax paid against Singapore tax payable on the same income, but the credit is restricted to the lower of the foreign tax and Singapore tax payable on the same income.

Any claim for tax credit under DTA must be made while filing tax returns with documentary proof of foreign tax paid. Singapore also grants a unilateral tax credit for certain income derived from countries that have not entered into tax treaties with Singapore.

### 6.2 List of double tax treaties signed

#### CONCLUDED COMPREHENSIVE TAX TREATIES WITH 69 COUNTRIES

Albania	Estonia	South Korea	Norway
South Africa	Australia	Fiji	Kuwait
Oman	Spain	Austria	Finland
Latvia	Pakistan	Sri Lanka	Bahrain
France	Libya	Panama	Sweden
Bangladesh	Georgia	Lithuania	Papua New Guinea
Switzerland	Belgium	Germany	Luxembourg
Philippines	Taiwan	Brunei	Hungary
Malaysia	Poland	Thailand	Bulgaria
India	Malta	Portugal	Turkey
Canada	Indonesia	Mauritius	Qatar
Ukraine	China	Ireland	Mexico
Romania	United Arab Emirates	Cyprus	Israel
Mongolia	Russian Federation	United Kingdom	Czech Republic
Italy	Myanmar	Saudi Arabia	Uzbekistan
Demark	Japan	Netherlands	Slovak Republic
Vietnam	Egypt	Kazakhstan	New Zealand
Slovenia			

#### LIMITED TAX TREATIES WITH 6 COUNTRIES

Bahrain	Chile	Hong Kong	Oman
Saudi Arabia	United Arab Emirates	United States of America	

#### EXCHANGE OF INFORMATION ARRANGEMENTS WITH 1 COUNTRY

Bermuda

## AGREEMENTS WHICH ARE SIGNED BUT NOT RATIFIED WITH 11 COUNTRIES

Austria	Belgium	Guernsey	Isle of Man
Jersey	South Korea	Malta	Morocco
Poland	Portugal	Turkey	

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

Stamp Duty is a tax on documents such as Lease/Tenancy Agreement, Acceptance to Option to Purchase/Sale & Purchase Agreements, Mortgages and Share Transfer Documents relating to immovable properties, stocks or shares.

### 7.2 Real property tax

The annual property tax rate is 10% of the Annual Value (AV) for all properties.

With effect from January 2014, the progressive tax rate for residential properties is 10% to 19%. With effect from January 2015, the rate is 10% to 20%.

Owner occupied residential properties are tax at a progressive rate of 0% to 6%. With effect from January 2014, the rate is 0% to 15%. With effect from January 2015, the rate is 0% to 16%.

### 7.3 Estate duty

Estate duty has been removed for deaths on and after 15 February 2008.

### 7.4 Net wealth/net worth tax

N/A

### 7.5 Others

Business tax N/A

Consumption tax, etc. N/A

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## GENERAL INFORMATION

**1.1 Country :** Vietnam

**1.2 Currency :** Vietnam Dong (VND)

### **1.3 Principal business entities**

Under the Law of Investment in Vietnam, 100% foreign owned enterprises are only permitted in specific sectors. Many business sectors require equity participation from Vietnamese partners. With Vietnam's ascension to WTO, the investment environment continues to liberalize, and by 2015, almost all business sectors will be opened to 100% foreign investment. In practice, however, there are significant technical and administrative barriers for foreign ownership in many business sectors.

A 49% cap on foreign ownership is generally applicable for all public companies listed in the stocks exchange (unless a lower limit applies in specific sectors).

All foreign investors must first seek approval from the local Department of Planning and Investment in the city/province where the investment is located. In case where the investment is located in industrial parks, the Management Committee of the Industrial Zone shall be the competent authority for approving the investment license. For businesses which are regulated, the competent ministries (or their local departments) would need to provide their endorsement before the Department of Planning and Investment would grant investment license. In some business sectors, investment application would go through several ministries and departments – in some cases with overlapping jurisdiction - and may take several months before the investment license could be issued.

The investment license is issued as an "Investment Certificate" for foreign owned enterprises, and "Business Registration Certificate" for Vietnamese owned enterprises.

The corporate vehicle established will take the form of either a Limited Liability Company ("LLC") or a Joint Stock Company ("JSC"). LLC may take the form of single member LLC or multiple member LLC, in which case the number of members must not exceed 50. A LLC cannot be listed. JSC can only be set up by 3 shareholders or more, and can be listed.

A branch may be established by a foreign company in certain sectors, including banking, insurance, securities, law and some trading.

Establishing a representative office is often the simplest and fastest way for a foreign company to establish a presence in Vietnam. Representative offices are permitted to seek and facilitate opportunities for the commercial activities of that foreign company, for e.g. market research, liaising with authorities and customers, and other general co-ordination work. A representative office cannot enter into commercial contracts directly or conduct profit making activities.

#### **1.4 Foreign exchange control**

There are significant foreign exchange control rules in Vietnam. The policy and regulations on foreign exchange control are subject to frequent changes.

The currency, Vietnam Dong (VND) is not officially convertible outside of the country.

Dividend can be repatriated subject to the fulfillment of profitability condition and payment of corporate income tax.

Long term loans (more than 1 year) need to be registered with the State Bank of Vietnam to allow repatriation of principal and interest.

Equity is contributed through a capital contribution account set up for that purpose. Equity can only be repatriated upon dissolution of a company.

#### **1.5 Current economy climate (Industry overview/encouraged business development)**

Vietnam is poised to be a viable alternative to China for manufacturing activities. The country has a young and abundant labour force, relatively low labour wage and increasing productivity, and stable political environment.

With regional economic integration through the Asean Economic Community in 2015 as well as the plethora of multilateral and bilateral trade agreements entered by Vietnam, global companies could locate their production facilities in Vietnam and enjoy preferential duties and tariff for intra-Asean trade and integrate Vietnam as an essential part of their value chain for their global operations.

In addition, the large domestic market of 87 million people has huge potentials for fast moving consumer products, healthcare, education and entertainment services. Tourism, both international and domestic, is also becoming an essential GDP growth driver, attracting large investment in property development in the hospitality sector. Infrastructural development and information technology also features highly in the government agenda for economic development.

The fertile delta regions, extensive shoreline, abundant waterways, and large tracts of tropical hinterland also contributed to Vietnam becoming a major global player in rice, fishery, rubber, coffee, cashew nuts and pepper.

The Vietnamese GDP has grown on average 7.5% per year over the last decade. After a period of macroeconomic instability since 2008, inflation has been largely brought under control in 2012

and the exchange rate for Vietnamese Dong has enjoyed relative stability throughout 2012.

## **1.6 National tax authority**

**Name** : General Department of Taxation

**Website** : [www.gdt.gov.vn](http://www.gdt.gov.vn)

# **CORPORATE INCOME TAX**

## **2.1 Basis of taxation**

Generally, tax residents are subject to tax on their worldwide income, wherever derived.

An enterprise established in Vietnam is presumed to have tax residence in Vietnam.

## **2.2 Rates of tax**

The headline corporate income tax ("CIT") rate is 25%. Lower CIT tax rates of 10% and 20% apply to enterprises operating in incentivized business sectors.

## **2.3 Tax Year**

The tax year follows the fiscal period of the enterprise, which could be the end of natural quarters (31 March, 30 June, 30 September or 31 December).

## **2.4 Profits deemed to be taxable**

N/A

## **2.5 Taxation of dividends**

Dividends to foreign shareholders are not subject to withholding tax.

## **2.6 Taxation of capital gains**

For a corporate investor, gains on the transfer of equity interests in Vietnamese enterprise (whether foreign invested or Vietnamese owned) are subject to 25% CAPT.

The taxable gain is computed as the excess of the sales proceeds less cost of acquisition or the initial contributed charter capital. Certain transfer expenses may be deducted to arrive at the taxable gains.

Gains earned by a foreign company from transfer of securities (which includes listed shares, shares in joint stock companies, or bonds) are subject to CIT on a deemed 0.1% of the total disposal proceeds

## **2.7 Taxation of interest income**

Interest earned by an enterprise established in Vietnam will be taxed as other income at the standard corporate tax rate of 25%.

## **2.8 Utilization of tax losses**

Unabsorbed tax losses could be carried forward for a period of 5 years.

There are no tax provisions for group relief for tax losses for members in a group of companies.

## 2.9 Key Tax incentives

Tax incentives are granted based on encouraged sectors and difficult socio-economic locations. Some of the sectors which are encouraged include high technology sector, computer software manufacture, scientific research, infrastructural development, environmental protection and health care.

The preferential rates are 10% and 20%, which are available for 15 years and 10 years respectively. These rates apply from the start of business operations.

In certain incentivised industry, tax exemption is also available. This incentive provides complete exemption from corporate income tax for a specific number of years from the year the enterprise makes profit.

## 2.10 Withholding tax

Foreign Contractor's Withholding Tax ("FCWT") is applicable to certain types of payments made to foreign companies.

Dividend paid to foreign shareholders is not subject to withholding tax in Vietnam.

Some categories of payments to foreign companies which are subject to FCWT are as follows:

Non-residents (type of income)	VAT(%)	CIT(%)
Royalties	Exempt	10
Interest	Exempt	5
Services, generally	5	5
Construction, installation without supply of materials or machinery, equipment.	5	2
Construction, installation with supply of materials or machinery, equipment.	3	2

Where the recipient is a resident of a country which has a double tax treaty with Vietnam, the above said tax rates may be reduced.

Foreign contractors may choose one of the three methods for paying taxes in Vietnam – the direct / deduction method (VAT on input / output, net profit taxed at 25% CIT), deemed method (VAT and CIT taxed at deemed percentage) or hybrid method (VAT on input / output, CIT taxed at deemed percentage). Certain conditions relating to residency, project duration and maintenance of accounting books have to be satisfied by the foreign contractors to apply the direct / deduction and the hybrid method.

## 2.11 Transfer pricing

The tax authorities of Vietnam have issued transfer pricing guidelines; these guidelines are gradually being implemented.

## 2.12 Filing requirements of tax return

### Filing due dates

Companies are placed under a self-assessment scheme and are required to submit the annual VAT and CIT finalization return within 3 months from the end of the company's fiscal year end.

In addition, quarterly CIT estimates must be submitted by the 30th day from the end of each quarter. Tax payments are to be lodged together with the quarterly or finalization CIT returns.

The tax filing can be done manually or electronically.

### **Penalties**

Administrative penalties and late payment fine (of 0.05% per day on outstanding tax payment) apply for non / late compliance with tax filing.

### **Payment of profit tax and application of holdover**

N/A

## **PERSONAL INCOME TAX (“PIT”)**

### **3.1 Basis of taxation (Residence, Personal assessment)**

Resident individuals are subject to Vietnamese PIT on their worldwide taxable income. Resident individuals are taxed at progressive rates ranging from 0% to 35% after deducting personal reliefs.

Non residents are taxed at a flat rate of 20% on income earned in Vietnam.

An individual is considered a tax resident if he/she is in Vietnam for 183 days or more in a calendar year or within the first 12 months from his / her first arrival in Vietnam.

Tax residency may also be attracted in case an individual maintains permanent residence in Vietnam.

### **3.2 Rates of tax**

<b>Annual Taxable Income (VND'million)</b>	<b>Tax Rate (%)</b>
0 – 60	5%
> 60 – 120	10%
> 120 – 216	15%
> 216 – 384	20%
> 384 – 624	25%
> 624 – 960	30%
> 960	35%

### **3.3 Year of assessment**

The tax years starts on 1 January and ends on 31 December of every year.

### **3.4 Deductions**

- (a) Some deductions are applicable for employee's contribution to compulsory insurance social, medical and unemployment scheme, personal allowance (VND4m per month), and dependents' allowance (VND1.6m per month).

### **3.5 Taxation of dividends**

Dividends received in the hands of resident and non-resident individuals are taxed at 5%.

### **3.6 Taxation of capital gain**

Resident individuals are subject to (i) 20% personal income tax on



gains from capital assignment (from transfer of equity interest) and (ii) 20% PIT on the net gain or 0.1% on the sales proceeds from transfer of securities. Non residents are taxed at 0.1% on the sales proceeds.

The taxable gain is computed as the excess of the sales proceeds less cost of acquisition or the initial contributed charter capital. Certain transfer expenses may be deducted to arrive at the taxable gains.

### **3.7 Taxation of interest income**

Resident and non-resident individuals are taxed at 5% on interest income earned.

### **3.8 Personal assessment and utilization of losses**

N/A

### **3.9 Withholding tax**

An employer shall deduct and remit PIT from monthly salary of employees.

A company is required to deduct 10% withholding tax in respect of service payments to individuals under contract for services (for e.g. consultancy services). Where such individuals do not have a PIT code in Vietnam, a rate of 20% is applicable instead.

### **3.10 Statutory obligation of employers**

For employment income, the employer has to declare, deduct and remit the PIT for employees on a monthly basis.

### **3.11 Filing requirement of tax return**

#### **Filing due dates**

The due date is by the 20th day of the month following the payroll month.

An annual final PIT tax return must be submitted within 90 days of the tax year (which is normally 1 January to 31 December), and any additional PIT would need to be settled.

Expatriates are also required to undertake PIT finalization before they exit Vietnam when their assignments in Vietnam end.

#### **Penalties**

Administrative and late payment penalties apply.

#### **Payment of salaries tax and application of holdover**

N/A

## **STATUTORY REQUIREMENT ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS**

### **4.1 Regulatory organization**

- a. Social Insurance (SI)
- b. Health Insurance (HI)
- c. Unemployment Insurance (UI)

## 4.2 Basis of contribution

All Vietnamese employees shall be eligible for SI, HI and UI contributions. Expatriates only need to pay HI.

## 4.3 Contribution rate

	SI	HI	UI	Total
Employee	7%	1.5%	1%	9.5%
Employer	17%	3%	1%	21%

The salary subject to SI/HI/UI contributions is capped at 20 times the minimum salary in Vietnam (which stands at VND 1,050,000 effective from 1 May 2012).

## 4.4 Exemption from tax

N/A

# VAT

## 5.1 Basis and Rates of tax

VAT is levied at 10% (standard rating), 5% (provision of essential goods and services) and 0% (for e.g. export of goods and services, international transportation).

## 5.2 Rates of tax

N/A

## 5.3 Registration

N/A

## 5.4 Filing requirements

Monthly VAT returns are due within 20th day from the end of each month.

# DOUBLE TAX RELIEF

## 6.1 Foreign tax credit

Subject to the tax treaty, foreign tax paid may be credited against Vietnamese tax on the same profits, but the credit is limited to the amount of Vietnamese tax payable on the foreign income. To claim the DTA rate, the Certificate of Tax Residence from the country of residence is required. In practice, there are significant administrative and practical challenges to avail fully to the tax treaty provisions.

## 6.2 List of double tax treaties signed

Vietnam has an extensive treaty network and has entered into tax treaties with more than 60 countries.

The list of the DTA concluded by Vietnam is available at the General Department of Taxation's website.

- Australia
- France
- Thailand
- Sweden
- Romani
- Malaysia
- Laos
- Belgium
- Myanmar
- Finland
- Philippines
- Iceland
- Morocco
- Hong Kong
- UAE
- Qatar

- South Korea
- UK
- Singapore
- India
- Hungary
- Poland
- Netherlands
- Denmark
- Czech Republic
- Oman
- Russia
- Algeria
- Luxembourg
- Uzbekistan
- Ukraine
- Switzerland
- Mongolia
- Bulgaria
- Italy
- Belarus
- Ireland
- Germany
- Taipei
- Venezuela
- Korea Republic
- Cuba
- Pakistan
- Bangladesh
- Spanish
- Seychelles
- Sri Lanka
- Brunei
- Japan
- Indonesia
- Slovak
- Kuwait
- Israel
- Saudi Arabia
- Tuynidi
- Egypt
- Kazakhstan
- Mozambique
- Norway
- Canada
- Austria
- China

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

N/A

### 7.2 Real property tax

N/A

### 7.3 Estate duty

N/A

### 7.4 Net wealth/net worth tax

N/A

### 7.5 Others

Business tax N/A

Consumption tax, etc. N/A

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## **About International Tax Panel (ITP)**

Reanda's International Tax Panel (ITP) is formed by a group of experienced and committed tax specialists who are meticulously nominated by our member firms. The international Tax Panel serves as a platform for our members to exchange their insights and knowledge. By collaborating closely with each other, the highly specialized team is fully informed of the latest changes in various tax jurisdictions and is able to provide practical and technical cross-border tax advice to both the local and multi-national clients addressing to their needs.

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