General tax update for financial institutions in Asia Pacific

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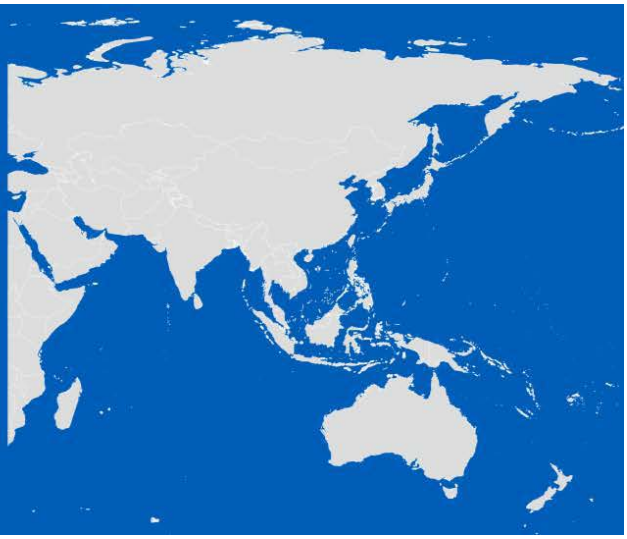
As the BEPS program is implemented across the region, we are now starting to see concrete steps taken on the difficult issue of hybrid mismatches with the OECD members of Australia and Korea leading the way with specific proposals.



Highlights

- Revised Exposure Draft of the legislation to implement hybrid mismatch rules and to introduce new integrity rules for related party loans from low/no tax or territorial tax regimes released
- Exposure Draft legislation addressing branch mismatch hybrid arrangements released
- Tax integrity package aiming at stapled structures and foreign investor tax concessions released

- Hong Kong enacted two tiered profits tax rate
- Hong Kong tightened up on corporate beneficial ownership – Companies (Amendment) Ordinance 2018

- Key highlights of the Union Budget 2018 Proposals
- CBDT issues FAQs on new taxation regime of long-term capital gains proposed in Finance Bill, 2018.
- Proposed amendments to the Finance Bill, 2018

- New regulation on Corporate Income Tax deduction enacted

- 2018 Revised Tax Provisions
- Recent Advance Rulings

- Labuan Business Activity Tax (Automatic Exchange of Financial Account Information) Regulations 2018
- Stamp Duty (Exemption) Order 2018

- The Income Tax (Country-by-Country Reporting) Regulations 2018 proclaimed

- Investment income reporting changes enacted on 29 March 2018
- Revenue Alert RA 18/01: Dividend Stripping ("RA 18/01") - Some Share Sales where Proceeds are at a High Risk of being Treated as a Dividend for Income Tax Purposes

- Republic Act No. 10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN Law) took effect from 1 January 2018.
- Various rules and regulations were released to implement the amendments introduced by the TRAIN Law.

- Singapore Budget 2018 tax updates

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Legislative developments

Revised Exposure Draft Legislation Addressing Hybrid Mismatch Arrangements Released

On 7 March 2018, Treasury released for public consultation a revised version of the Exposure Draft ("ED") legislation and Explanatory Memorandum to address hybrid mismatch arrangements.

Compared to the earlier ED issued on 24 November 2017 (covered in Issue 62 of this publication), the revised ED makes various refinements and includes new key measures which had been announced in November 2017.

One of the new measures is a targeted financing integrity rule, which can be applied to deny tax deduction for interest or derivative payments on financing arrangements which fall outside the scope of the hybrid mismatch rules but achieve similar outcomes. This includes cases where the lender or counter-party is a related party that is a resident in a jurisdiction with a corporate tax rate of 10% or less (e.g., the Cayman Islands) or with a territorial regime of tax (e.g., Hong Kong or Singapore). There is not proposed to be any grandfathering for existing structures.

There are exceptions to the application of this integrity rule, including:

- where a direct payment to the ultimate parent would not have produced a higher tax outcome; or
- where it is reasonable to conclude that the arrangement was not "designed to produce" the Australian and foreign tax outcomes.

Other relevant factors include whether the foreign entity undertakes a group financing function, is a regional holding company, and/ or has a substantial level of economic activity.

There has not been any further guidance regarding the timing of the introduction of the "imported mismatch" rule (as discussed in Issue 62 of this publication). This rule presents a significant compliance burden and can operate to deny tax deductions in Australia for any cross-border related party payment (including management fees) if there is a hybrid arrangement in the worldwide group, whether related to the Australian payment or not.

It is anticipated that the ED will take effect from 1 January 2019 (including to pre-existing arrangements).

Branch Hybrid Mismatch Arrangements – Release of Exposure Draft Legislation

On 7 March 2018, Treasury released for public consultation ED legislation to address branch hybrid mismatch arrangements. This measure will be of interest to financial institutions that operate through branches where cross-jurisdictional mismatches arise.

The provisions in the ED represent a limited scope response to the OECD's July 2017 report, "Neutralising the Effects of Branch Mismatch Arrangements" ("the Report"). The Report recommended that countries address double non-taxation outcomes which arise due to differences in the tax treatment of dealings within the same legal entity (e.g. dealings between a head office and a foreign branch) to bring the treatment of these arrangements in line with the treatment of hybrid mismatch arrangements.

The ED includes provisions to deny:

- the application of Australia's foreign branch exemption (in Section 23AH) to branch income which is not subject to tax in the foreign jurisdiction;
- tax deductions for deemed intra-branch payments from the Australian branch of a foreign bank where there is no corresponding income recognised for tax purposes in the other

jurisdiction (this appears to only apply to foreign bank branches operating in Australia that have not opted out of Australia's Part IIIB rules for intra-branch bank payments); and

- tax deductions for payments not taxed in either the branch or residence jurisdiction, payments where a tax deduction arises in more than one jurisdiction and imported mismatch branch payments.

These rules are expected to take effect at the same time as the general hybrid mismatch rules (i.e., 1 January 2019).

Tax Integrity Package Aiming at Stapled Structures And Foreign Investor Tax Concessions Released

On 27 March 2018, Treasury released details of a new tax integrity package to address the perceived sustainability and tax integrity risks posed by stapled structures and the broader tax concessions available to foreign investors.

The package will not have a direct impact on finance staples or on stapled structures in the commercial and retail property sectors to the extent that they generate rent from third parties. However, many foreign investors in these structures are likely to be affected by the changes to the broader tax concessions for foreign investors.

The key measures of the integrity package have been summarised as below:

- Foreign investors will be prevented from accessing the concessional rate of Managed Investment Trust ("MIT") withholding tax (generally 15%) in relation to active business income. Specifically, the rate of MIT withholding tax will be increased to the prevailing corporate tax rate (currently 30%) for income derived from cross-staple rental payments, cross-staple fund payments made under some financial arrangements such as total return swaps, or where the MIT receives a distribution from a trading trust. The higher rate will not apply to third party rental income, or cross-staple income that is less than a de minimis threshold.
- "New investment in economic infrastructure assets" approved by the Federal Government will be eligible for the 15% MIT withholding tax rate for 15 years.
- Rent from agricultural land will no longer qualify for MIT concessions.
- The withholding tax exemptions for foreign pension funds will be limited to interest and dividend income derived from an entity where the fund has a portfolio-like interest (i.e. an ownership interest less than 10% and no influence over the entity's key decision-making).
- Similarly, the sovereign immunity tax exemption for income from 'non-commercial' investments in an entity will be legislated but limited to situations where the sovereign investor has an ownership interest of less than 10% in the entity and does not have influence over the entity's key decision-making.
- Australian thin capitalisation regime will be amended for income years commencing on or after 1 July 2018 to prevent foreign investors from obtaining tax benefits by using 'double gearing' holding structures (e.g., by gearing at multiple layers of interposed flow-through entities such as trusts and partnerships in respect of the same underlying assets).

The proposed changes (other than the thin capitalisation measure) will take effect from 1 July 2019. Arrangements already in existence as at 27 March 2018 will have access to a transitional period of 15 years for existing economic infrastructure staples and 7 years for all other existing arrangements.

Bill to Implement The Financial Technology ("Fintech") Tax Incentive Introduced to Parliament

On 28 March 2018, the Federal Government introduced the Treasury Laws Amendment (Tax Integrity and Other Measures) Bill 2018 ("TIOM Bill") to Parliament. TIOM Bill seeks to implement the previously announced measures to ensure that the tax concessions for Australian venture capital investments are available for investments in fintech business.

Specifically, Early Stage Venture Capital Limited Partnerships ("ESVCLPs") and Venture Capital Limited Partnerships ("VCLPs") will become eligible to invest in entities that conduct any of the following activities as their predominant activities:

- developing technology in relation to finance, insurance or making investments (e.g. for use in a new product or service);
- activities that are ancillary or incidental to developing technology in relation to finance, insurance or making investments; or

- activities that are covered by a private or public finding from Innovation and Science Australia that it is a substantially novel application of technology.

The proposed amendments have taken effect from 1 July 2018.

Bill to Adopt the Asia Region Funds Passport Introduced to Parliament

On 28 March 2018, the Government introduced to Parliament the Corporations Amendment (Asia Region Funds Passport) Bill 2018 ("ARFP Bill"), which proposes to implement Australian adoption of the Asia Region Funds Passport ("the Passport"). This follows public consultation on the ED versions of the legislation in the latter half of 2017 (reported in Issues 61 and 62 of this publication).

The Australian tax framework for the Passport has not been included in the Bill. Draft consequential amendments to the tax law are expected to follow in the coming months.

Announcements/circulars/determinations/rulings/practice statements issued by the Tax Departments

PCG 2018/1: the Australian Taxation Office ("ATO") Compliance Approach - Attribution of ADI Equity Capital and Controlled Foreign Entity Equity

On 24 January 2018, the ATO issued Practical Compliance Guideline PCG 2018/1 ("the PCG"), which sets out the ATO's compliance approach to calculating 'adjusted average equity capital' for an Australian authorised deposit-taking institution ("ADI") that is classified as an "outward investor" for thin capitalisation purposes. The PCG applies to income years commencing after 24 January 2018.

Specifically, the PCG provides a "suggested proxy" for the attribution of amounts to the Australian ADI's overseas permanent establishments ("PEs") in the context of calculating the ADI's 'adjusted average equity capital'. It also provides guidance regarding the relevance and appropriateness of a book of accounts maintained for an overseas PE for thin capitalisation purposes.

Taxpayer Alert 2018/1: Structured Arrangements that Provide Imputation Benefits on Shares Acquired on a Limited Risk Basis Around Ex-dividend Dates

On 13 February 2018, the ATO issued Taxpayer Alert 2018/1 ("the Alert") outlining the ATO's concerns regarding arrangements which are intended to provide imputation benefits to Australian taxpayers who are not the true economic owners of shares acquired on a limited risk basis. Such arrangements typically involves the use of securities lending arrangements together with repurchase agreements or derivative contracts to create a circular flow of shares.

Broadly, these arrangements involve an Australian resident taxpayer that:

- has an existing long position in Australian shares (e.g. shares in an ASX listed company);
- legally acquires, but has little or no economic exposure to, an additional parcel of the same shares;
- holds the additional parcel of shares over the ex-dividend date; and
- claims franking credits in respect of both the existing long position and the additional parcel of shares.

The ATO has indicated in the Alert that it is closely reviewing arrangements with the features noted above and taxpayers who implement these types of arrangements will be subject to increased scrutiny.

Other developments

Board of Taxation's Report on its Review of the Tax Treatment of Bare Trusts and Similar Arrangements

On 13 February 2018, the Government released the Board of Taxation's report dated June 2017 in relation to "Review of the Tax Treatment of Bare Trusts and Similar Arrangements".

In Australia, bare trusts and similar arrangements are widely used in the funds management sector, for example, in the context of custodial services, depository services, nominee arrangements, and financial service arrangements known as Investor Directed Portfolio Services ("IDPS").

The Board's main recommendations are as follows:

- The Government should legislate the long-standing administrative practice of the ATO and industry to provide a look-through approach for bare trusts and similar arrangements for certain income tax purposes;

- A characteristics-based approach should be used to define the qualifying trusts that will be subject to look-through treatment;
- Subject to further consultation, the core characteristics used to identify qualifying trusts should be the following:
  - the trustee has no, or only minor, active duties or powers;
  - the beneficiaries are entitled to the benefit of all of the assets and income of the trust; and
  - each beneficiary can demand the trustee to transfer trust assets to that beneficiary or at their direction;
- Certain features should be disregarded in identifying a qualifying trust (e.g., trustee indemnity, limited power of sale, right of trustee to lien over trust property, etc.)

The Government has announced that it will look to progress the Board's recommendations as part of the regulatory reform program. The Treasury will also undertake further consultation on the scope of potential legislative amendments, for example, in defining the core characteristics of a bare trust for taxation purposes.

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Hong Kong

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Hong Kong Enacts Two Tiered Profits Tax Rate – Effective from Year of Assessment 2018/19

On 29 March 2018, the Inland Revenue (Amendment) (No. 3) Ordinance 2018 ("the Ordinance") was gazetted to introduce a two-tiered profits tax rate regime.

Please refer to the link https://www.gld.gov.hk/egazette/pdf/20182213/es12018221313.pdf for the full context of the Ordinance.

The new regime applies to both corporations and unincorporated businesses. It will commence from the year of assessment 2018/19 (i.e., to a taxpayer's financial year ending between 1 April 2018 and 31 March 2019) as follows:

- For corporations, the first HK$2 million of profits will be taxed at one-half of the current tax rate (i.e., 8.25%) and the remaining profits will continue to be taxed at the existing 16.5% tax rate.
- For unincorporated businesses, the first HK$2 million of profits will be taxed at one-half of the current tax rate (i.e., 7.5%) and the remaining profits will be taxed at the existing 15% tax rate.

In order to avoid double-benefits, the following enterprises shall be excluded from the two-tiered profits tax regime:

- Enterprises electing the preferential half-rate tax regimes (e.g., professional reinsurance companies, captive insurance companies, corporate treasury centres and aircraft leasing companies); and
- The assessable profits for sums received by or accrued to holders of qualifying debt instruments as interest, gains or profits should already be taxed at half the rate (i.e., 7.5% or 8.25%, as the case may be).

There is an wide definition of "connected entity" in the legislation which is designed to ensure that a group of connected taxpayers can benefit from the one-half reduction only in respect of one of such connected taxpayers. For this purpose, the group will need to identity which entity will benefit and to make an election accordingly. The election, once made, is irrevocable in respect of a particular year of assessment.

Going forward, provisional tax calculations will assume the reduced rate will apply. For groups, this calculation will apply to the entity which applied the reduced rate in the prior year. For the first year (i.e., the year of assessment 2018/19), in calculating provisional profits tax, a group of connected entities will need to file an election process to nominate one of its members to take advantage of the reduced rate. This appears to be separate from the election in respect of the final tax.

For more details, please refer to the links below:

https://home.kpmg.com/cn/en/home/insights/2018/01/tax-alert-1-hk-introduces-two-tiered-profits-tax-rate.html

https://home.kpmg.com/cn/en/home/insights/2018/04/tax-alert-05-hk-two-tier-profits-tax-regime.html

Hong Kong Tightens up on Corporate Beneficial Ownership – Companies (Amendment) Ordinance 2018

Effective from 1 March 2018, all companies incorporated in Hong Kong (except listed companies) are required to obtain and maintain up-to-date beneficial ownership information through a Significant Controllers Register ("SCR").

Please refer to the link https://www.cr.gov.hk/en/publications/docs/es1201822053-e.pdf for the full content of the Bill.

This is a bid for Hong Kong to combat money laundering and terrorist financing by enhancing the transparency of corporate beneficial ownership. New Division 2A in Part 12 of the Companies Ordinance (Cap. 622) ("CO") and new Schedules 5A, 5B and 5C will be added to the CO.

Hong Kong companies are now required to undertake the following steps:

- Take reasonable steps to identify the company's significant controllers, including issuing notices and obtaining required particulars, as appropriate;
- Enter the required particulars of the company's significant controllers in the SCR and keep the SCR at the company's registered office or a prescribed place (the SCR must not be empty);
- Notify the Registrar of Companies of the place where the SCR is kept within 15 days after the SCR is first kept at that place, unless it is kept at the company's registered office or the same place where its Register of Members is kept and the company has already informed the Registrar of that location;
- Designate at least one person to assist law enforcement officers in relation to the SCR.

A person has "significant control" over a company if one or more of the following conditions are met:

(a) The person holds, directly or indirectly, more than 25% of the issued shares in the company (where the company has share capital); or the right to share in more than 25% of the capital or profits of the company (where the company does not have share capital)

(b) The person holds, directly or indirectly, more than 25% of the voting rights in the company;

(c) The person holds, directly or indirectly, the right to appoint or remove a majority of the board of directors of a company;

(d) The person has the right to exercise, or actually exercises, significant influence or control over the company;

(e) The person has the right to exercise, or actually exercises, significant influence or control over the activities of a trust or firm that is not a legal person, and whose trustees or members meet one or more of the conditions specified in (a) to (d) above.

If a company fails to comply with any of the above requirements, the company and each of its responsible persons would have committed an offence and be liable to a fine of HKD25,000 each. A daily fine of HKD700 for continuing offences may also apply. For companies which provide false, misleading or deceptive information in the SCR, a fine of up to HKD300,000 and a maximum custodial sentence of 2 years could apply.

Hong Kong Tax Implications Arising from the PRC's New Beneficial Ownership Requirements

Effective from 1 April 2018, Announcement 9 replaces Circular 601 and Announcement 30, both are key circulars setting out the rules for foreign investors claiming tax treaty benefits on their Chinese-sourced dividends, interest and royalties ("passive income").

Announcement 9 provides additional guidance for taxpayers to determine their beneficial ownership ("BO") status for the purpose of obtaining tax treaty benefits under China's double tax agreements ("DTA"). The key changes to the BO analysis have been summarised below:

Extended "safe harbor" rule

Announcement 9 extends the scope of the existing BO safe harbor rules for dividend income to include government bodies, listed companies and individuals who are direct recipients of Chinese-sourced dividends.

Where there is an indirect shareholding, all of the intermediate holding companies must be residents of the DTA country (region) where such government body, listed company or individual is resident. There is also a requirement that the recipient must have owned the shares of the Chinese enterprise for at least 12 months before receiving the dividend income.

Same jurisdiction rules for treaty benefits

Announcement 9 introduces the "same jurisdiction rule for treaty benefits". If the immediate recipient of the Chinese-sourced dividend income does not qualify as a BO, it could still qualify for treaty benefits provided that it meets either of the following two conditions:

- The investor who directly or indirectly holds 100% of the equity interest in the immediate recipient of the dividend is itself a qualified BO; or
- That investor is a tax resident in either the same jurisdiction as the immediate recipient of the dividend or in another jurisdiction that has a DTA with China that provides the same or more favourable treatment.

Changes to the negative factors

Announcement 9 makes some amendments to the 'seven negative factors' under Circular 601:

- The first negative factor has been amended to consider whether the investor (i.e., the DTA relief claimant) has an obligation to pay or distribute more than 50% of the dividend to a person who is resident in a third country (region) within 12 months after receiving the Chinese-sourced dividend. "Obligation to pay" has been defined to include both agreed obligations and situations where there are no agreed obligations but the income is actually paid by the DTA relief claimant to its shareholders or other parties resident in a third country (region).
- The second negative factor has been amended to refine the concept of whether the business activities undertaken by the applicant are "substantive activities". Substantive business activities include substantive manufacturing, trading and management activities and the functions and risks assumed by the DTA relief claimant in carrying out these activities.

  Where an applicant carries out both investment holding and management activities, the substance requirements for carrying on such activities will generally include preliminary study, assessment and analysis, investment decisions, implementation and post-investment management activities. Where the DTA relief claimant's investment holding, management and other business activities are considered insignificant, the DTA relief claimant would be regarded as not carrying on substantial business activities.

Tax residency certificate ("TRC") requirements – Hong Kong DTA relief claim

Specific requirements for TRCs for claiming tax treaty benefits have been amended as follows:

- Under the extended safe harbor rules, the Hong Kong DTA relief claimant, the ultimate and intermediate shareholders of the Hong Kong DTA relief claimant will each need to provide a Hong Kong TRC;
- Under the "same jurisdiction rule", both the Hong Kong DTA relief claimant and the shareholder that qualifies as the BO need to provide a Hong Kong TRC;
- Under the "same treaty benefit rule", the Hong Kong DTA relief claimant, the 100% shareholder of the Hong Kong DTA relief claimant that qualifies as a BO and all of the 100% intermediate holding companies all need to obtain a TRC from the relevant tax treaty jurisdictions.

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Key Highlights of the Union Budget 2018 Proposals

On 1 February 2018, the Union Budget for the financial year 2018-19 was presented to Parliament. The key proposals are highlighted below:

- Permanent Account Number ("PAN") is to be applied on all non-individual entities which enter into a financial transaction of an amount aggregating to INR 0.25 million or more in a financial year.

  To identify the link of the financial transactions with the natural persons, the managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer or any person competent to act on behalf of such entities (i.e. entities entering into a financial transaction) will also be required to apply for PAN.

- Long Term Capital Gains ("LTCG") arising from the transfer of equity shares, units of an equity oriented mutual fund or unit of a business trust will be taxed at 10% if the amount of such long-term capital gains exceed INR 0.1 million.

  The concessional rate of 10% is applicable only when the transaction for acquisition or transfer of equity shares, units of equity oriented mutual fund and unit of a business trust has levied the Securities Transaction Tax ("STT").

  The levy of STT is not necessary, if:

  - The transfer took place on a recognised stock exchange located in any International Financial Service Centre ("IFSC") and the transfer is in foreign currency;
  - The Central Government notifies the nature of acquisition of equity shares specifically.

  Foreign currency fluctuation benefit and indexation benefits shall not be considered when calculating the long-term capital gains.

  A cost step up by way of substitution of the actual cost of acquisition for the fair market value ("FMV") as of 31 January 2018 is provided. Where the fair market value as of 31 January 2018 is substituted for the cost of acquisition, the same cannot exceed the full value of consideration arising from the transfer.

  The above amendments will also be applicable for Foreign Portfolio Investors ("FPIs"), i.e. LTCG derived by FPIs from transfer of equity shares or units of an equity oriented mutual fund shall be taxed at the rate of 10% if the LTCG exceeds INR 0.1 million.

- Equity oriented mutual funds will have to pay additional income tax at the rate of 10% on any income distributed to their unit holders.

- If the transfer of the following assets are carried out on a recognized stock exchange located in IFSC by non-residents, the non-residents shall not be regarded as transferor when the consideration is paid or payable in foreign currency:

  - Foreign Currency Convertible Bond or Global Depository Receipts
  - Rupee Denominated Bond of Indian Company
  - Derivative

- Alternate Minimum Tax rate will be reduced to 9% of the adjusted total income to non-corporate units located in IFSC.

- Central Government will prescribe a new scheme for the purpose of making assessments to impart greater transparency and accountability by eliminating the interface between the Assessing Officer and the assessee, optimal utilization of the resources, and introduction of team-based assessment.

- The 2% "Education Cess on income-tax" and 1% "Secondary and Higher Education Cess on income-tax" will be discontinued. However, a new cess, "Health and Education Cess" shall be levied at the rate of 4% of income tax including surcharge wherever applicable.

Please refer to the link below for more details:

https://home.kpmg.com/content/dam/kpmg/in/pdf/2018/02/Union-Budget-2018-19.pdf

Central Board of Direct Taxes ("CBDT") issues Frequently Asked Question ("FAQs") on New Taxation Regime of LTCG Proposed in Finance Bill, 2018

CBDT, *inter alia*, clarified that the grandfathering provisions with respect to LTCG would also be applicable to Foreign Institutional Investors ("FIIs") and the capital gains will be determined in the same manner in the case of resident taxpayers. The provisions related to LTCG tax will be applicable from 1 April 2018, therefore the LTCG derived from transfers took place in the period from 1 February 2018 to 31 March 2018 will be exempted under the existing provisions of the Act. It has also been clarified that the holding period of LTCG computation will be counted from the date of acquisition.

Further, the FAQs clarify on the applicability of Tax Deducted at Source ("TDS") provisions on the new LTCG regime vis-à-vis resident as well as non-resident taxpayers. It also deals with set-off and carry forward of Short Term Capital Loss ("STCL") as well as tax treatment of bonus and right shares.

Please refer to the link below for more details:

http://www.in.kpmg.com/TaxFlashNews-INT/KPMG-Flash-News-CBDT-FAQs-on-new-taxation-regime-LTCG-Finance-Bill-2018-1.pdf

CBDT Issues Instruction with Respect to the Conduct of Assessment Proceedings in Scrutiny Cases Electronically

CBDT has issued an instruction stating that, in accordance with the procedure outlined in revised 143(2) notice(s) for conduct of assessment proceedings electronically, pending scrutiny assessments shall be conducted only through the 'E-Proceeding' functionality in Income Tax Business Application ("ITBA")/ e-filing except search-related assessments proceedings.

The instruction provides guidance for shifting manual assessment proceedings to e-assessment proceedings. The e-governance initiative was introduced by the government to facilitate the conduct of assessment proceedings is a simple way of communication between the tax department and taxpayer without the necessity of visiting the Income-tax office. This is a taxpayer-friendly measure and could substantially reduce the compliance burden for the taxpayer. The initiative helps in curbing corruption.

Please refer to the link below for more details:

http://www.in.kpmg.com/TaxFlashNews-INT/KPMG-Flash-News-CBDT-Instruction-on-e-assessment-1.pdf

Proposed Amendments to the Finance Bill, 2018

On 29 March 2018, the Finance Bill, 2018 received the President's assent. The key amendments of relevance to FPIs are highlighted as follows:

- Step up benefit extended to unlisted shares as on 31 January 2018 which get subsequently listed – for determination of FMV of such shares, the taxpayer will be allowed to consider the benefit of indexation of acquisition cost of such unlisted equity shares
- Exclusion of long-term capital gains up to INR 100,000 from total income
- PAN requirement limited to only non-individual residents
- Definition of equity oriented fund expanded to cover scenarios which a fund invests in units of another fund.

Please refer to the link below for more details:

http://www.in.kpmg.com/TaxFlashNews-INT/KPMG-Flash-News-Proposed-amendments-to-the-Finance-Bill-2018-1.pdf

Tax court case summaries

Advance Authority Ruling ("AAR") Dealing with the Taxability of Capital Gains under the India-Mauritius Tax Treaty

India-Mauritius tax treaty benefit available

The AAR in the case of AB Holdings, Mauritius-II held that investments made by the applicant in Indian entity were not for tax avoidance purposes to take away the benefit of the tax treaty since the investments were made through proper banking channels.

The inflow and outflow of directors in Mauritius at different times did not mean that the control and management of the company was not in Mauritius, or that it was with the holding company. Therefore, the capital gains on transfer of shares of an Indian company by a Mauritian company are not taxable under the tax treaty.

India-Mauritius tax treaty benefit denied

The AAR in the case of AB Mauritius held that the Applicant was not acting as an independent company to make decisions on its own and could not be treated as the owner of shares upon perusal of SPA, minutes from board of directors meeting, etc..

The US holding company took key decisions regarding purchase of the Indian company's shares. The SPA shows that the ownership of the shares was also with the US company. Therefore, the AAR denied the India-Mauritius tax treaty benefit to the applicant and held that the capital gains are taxable in the hands of US company under the India-US tax treaty.

Please refer to the link below for more details:

http://www.in.kpmg.com/TaxFlashNews-INT/KPMG-Flash%20News-AB-Holdings-Mauritius-II-1.pdf

The Tax Treaty Rate would Apply in Case of Conflict Exists between Tax Rate Prescribed in Section 206AA of the Income Tax Act, 1961("Act") and that in a Tax Treaty

The Delhi High Court, in the case of Danisco India Private Limited, held that the provision in Section 206AA of the Act has to be read down to mean that where the non-resident deductee conducts its operation outside India, and where the government has entered into a tax treaty with India, the rate of taxation would be governed by the provisions of the tax treaty.

Please refer to the link below for more details:

http://www.in.kpmg.com/TaxFlashNews-INT/KPMG-Flash-News-Danisco-India-Private-Limited-2.pdf

Other developments

India Signs Tax Treaty with Hong Kong

On 19 March 2018, India and Hong Kong signed a tax treat to streamline the taxability rights of various income:

Interest, royalties and fees for technical services

Taxable in India. However, if the beneficial owner of the income is a resident of the other State, then tax on the income will be restricted to 10% on gross basis.

Capital Gains

Gains from transfer of an Indian company's shares shall be taxable in India.

Gains from transfer of other securities (e.g., debt securities, derivatives, etc) shall be taxable in India.

Other Income

Taxable in both India and Hong Kong.

Miscellaneous Rules

Anti-abuse provisions have been included in the treaty.

Please refer to the link below for more details:

http://www.in.kpmg.com/TaxFlashNews-INT/KPMG-Flash-News-Highlights-of-the-tax-treaty-between-India-and-Hong-Kong-2.pdf

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New Regulation on Corporate Income Tax Deduction Issued

The Minister of Finance issued Regulation No. 35/PMK.010/2018 regarding Corporate Income Tax deductions aiming to boost economic growth by encouraging more direct investment in pioneering industries throughout Indonesia.

Corporate taxpayers engaging in new investments in pioneering industries may secure tax deductions for income derived from the business activities of the relevant pioneering industries which are being invested in. This tax deduction has now been set at a flat rate of 100%.

The tax-deduction period varies, based on the relevant investment amount, as detailed below:

- 5 fiscal years - investment plans with values of between IDR 500 billion and IDR 1 trillion;
- 7 fiscal years - investment plans with values of between IDR 1 trillion and IDR 5 trillion;
- 10 fiscal years - investment plans with values of between IDR 5 trillion and IDR 15 trillion;
- 15 fiscal years - investment plans with values of between IDR 15 trillion and IDR 30 trillion; and
- 20 fiscal years - investment plans with values > IDR 30 trillion

Further, after the abovementioned income-tax deduction period has elapsed, taxpayers will also be granted a 50% income-tax deduction for the following two years.

In order to be entitled to a tax deduction, a taxpayer must satisfy certain criteria, such as:

- Must be engaging in business activities in a pioneering industry
- Must be engaging in new investments
- Must have an investment-plan value of more than IDR 500 billion
- Must meet the required debt-equity ratio of 4:1
- Must not have had any previous tax-deduction applications rejected
- Must be a legal entity incorporated in Indonesia

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2018 Revised Tax Provisions

New Top Tax Bracket and Corporate Income Tax Rate

Prior to the enactment of the new tax bracket, the income earned by a Korean company had been subject to corporate income tax at three tier progressive rates. For the purpose of ensuring equality in taxation of a corporation, the newly amended tax rates as listed below became effective for the fiscal year commencing on or after 1 January 2018.

Tax Base	Current Rates	Amended Rates
KRW 200 million or less	10%	10%
KRW 200 million ~ KRW 20 billion	20%	20%
KRW 20 billion ~ KRW 200 billion	22%	22%
More than KRW 200 billion		25%

Restriction on Deduction of Interest Expense for Mismatched Hybrid Financial Instruments

As recommended in BEPS Action 2, a new provision was enacted to restrict the deduction of expenses related to international transaction of hybrid financial instruments to prevent tax avoidance by using hybrid financial instruments.

The hybrid financial instruments refer to financial instruments having both debt and equity features (e.g., profit participating bonds) which are treated as debt in one jurisdiction but treated as equity in the other jurisdiction.

Under the newly enacted provision, if the interest expense incurred on a hybrid financial instrument is paid by a domestic company to a foreign related party and part or all of such payment is not subject to tax in the other country for a prescribed period (i.e., until the end of the recipient's fiscal year commencing within 12 months after the end of the payer's fiscal year), the domestic taxpayer is not allowed to deduct the interest expense corresponding to the amount not taxable in the recipient's jurisdiction.

This new rule took effective from the fiscal year commencing on or after 1 January 2018.

Restriction on Deduction of Interest Expense for Multi-national Company

As recommended in BEPS Action 4, a new provision was enacted to restrict the deduction of interest expense for a multi-national company.

The new provision provides that in the case where a domestic company has transactions with a foreign related party, if net interest deduction claimed by the domestic financial company exceeds 60% of the adjusted taxable income (i.e. taxable income plus depreciation expense for fixed assets and net interest expense), the excess amount may not be deductible for tax purposes.

This new regulation will take effective from the fiscal year commencing on or after 1 January 2019.

Sunset of the Unappropriated Earnings Regime

The 2018 Tax Reform removed the existing unappropriated earnings regime under the Corporate Income Tax Law after FY 2017 and enacted the tax system to promote investment and coexistence and cooperation under the Tax Incentives Limitation Law for business years beginning on or after 1 January 2018.

Similar to the previous unappropriated earnings regime, the newly enacted tax system provides an election of a taxation method either to include or exclude investment amount in computing the amount of tax.

The major change in a new regime is that the dividend was excluded from deductible items in computing the income of the current year.

Recent Advance Rulings

Recent administrative and advance rulings clarify the application and interplay of the Corporate Income Tax Law and the Tax Incentives Limitation Law in relation to the unappropriated earnings regime.

Utilization of Unappropriated Earnings

In a recent administrative ruling, the Ministry of Strategy and Finance stated that the reserve for appropriation of future earnings is available for FY2017. Such reserve can be utilized in the following year by excluding the reserve from the unappropriated earnings of the following year for corporate income tax reporting purposes on the unappropriated earnings as prescribed under Article 56 of the Corporate Income Tax Law.

Pursuant to the ruling, the corporate tax is imposed in current year on the unappropriated earnings reserve from prior year over any over-appropriated earnings in current year.

Election of Methods to Compute Unappropriated Earnings

A recent advance ruling states that the elected method to compute unappropriated earnings should remain unchanged for the period prescribed under the Corporate Income Tax Law even though the new unappropriated earnings regime is provided under the Tax Incentives Limitation Law.

Choices are available for a corporation to compute unappropriated earnings. One is to include the investment amount and the other is not to include the investment amount.

The advance ruling is clear that the election made in FY2017 should be maintained as prescribed under the Corporate Income Tax Law even after the unappropriated earning regime is moved to the Tax Incentives Limitation Law.

Consequently, in the case where the computation method to include the investment amount has been elected in FY 2017, such method should remain unchanged until FY 2019. If the computation method that does not include the investment amount is elected in FY 2017, however, a corporation may elect the same method or change to the other method.

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Malaysia

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Legislative developments

Labuan Business Activity Tax (Automatic Exchange of Financial Account Information) Regulations 2018 ("the Regulations")

The Regulations provide the CRS obligations to be followed by the reporting Labuan Financial Institutions for automatic exchange of financial accounts under the CRS regime and are deemed to have come into operation on 1 July 2017.

Stamp Duty (Exemption) Order 2018

The Exemption Order provides that a contract note executed during the period from 1 March 2018 to 28 February 2021 for the sale and purchase transaction of shares of a medium and small capital company listed on the Bursa Malaysia Securities Berhad (i.e. the Kuala Lumpur Stock Exchange) are exempted from stamp duty.

Announcements/circulars/determinations/rulings/practice statements issued by the Tax Departments

Malaysian Inland Revenue Board ("MIRB")'s Public Ruling

1/2018: Disposal Of Plant And Machinery Part II - Controlled Sales

This Public Ruling explains:

- meaning of "control" for a company and a partnership; and
- tax treatment on the disposal and the acquisition of an asset between two parties that are related in term of control.

The full texts of the Public Ruling is available at http://www.hasil.gov.my.

MIRB's Practice Note

The MIRB issued a Practice Note to provide guidance for withholding tax ("WHT") on income from digital advertising provided by a non-resident ("NR"). The tax treatment on payments to a NR in relation to digital advertising would be determined by assessing the facts of the case and the Income Tax Act, 1967 ("ITA").

Based on the Practice Note, where the NR has no permanent establishment ("PE") or business presence ("BP") in Malaysia, the following tax treatment shall apply, depending on the facts of each case:-

Purpose of Payment	Tax Treatment
Purchase or use of an application ("APP") by the payers that allows them to create their own advertisement campaign	Treated as royalty income of the NR and subject to WHT of 10% under the Section 109 of the ITA. The preferential withholding tax rate under the relevant Double Taxation Agreement ("DTA") with Malaysia shall be considered.
Does not involve the purchase or use of an APP but merely a provision of service by the NR where the payers solely rely on the service provider to deal with all aspects of digital advertising	Treated as special class of income of the NR under Section 4A of the ITA and subject to WHT of 10% under Section 109B of the ITA. Where services are considered to be performed outside Malaysia, WHT under Section 109B is not applicable, except for services performed during the period from 17 January 2017 to 5 September 2017. The preferential withholding tax rate under the relevant DTA with Malaysia shall be considered.

In the case where the NR has a PE or BP in Malaysia, the digital advertising payment received will be treated as a business income of the NR and subject to tax in Malaysia. The NR should fulfil its tax compliance obligations under the ITA including filing of tax return.

The full texts of the Practice Note is available at http://www.hasil.gov.my.

Tax Audit Framework 2018 (Amendment 1/2018)

The MIRB has issued the Tax Audit Framework 2018 (Amendment 1/2018) ("Framework"). The Framework, effective from 1 April 2018, will replace the Tax Audit Framework 2017 (Amendment 1/2017) dated 1 May 2017.

The amendments made under the Framework, amongst others, are the extension of audit coverage to companies or related business controlled by taxpayer (replacing the extension of audit coverage to companies or related business with common directors) and the inclusion of voluntary disclosure paragraph to encourage taxpayers to voluntarily disclose their failure to comply with the law at any time before an audit commences.

The notable changes in the Framework also include the following:

- Period of completion for tax audit reduces from 4 months to 3 months;
- Shorter time frame for taxpayer to respond to the MIRB's request for documents and information (i.e. 14 days instead of 21 days); and
- Shorter time frame for taxpayer to respond to the audit adjustments made by the MIRB (i.e. 18 days instead of 21 days).

The full text of the Framework is available at http://hasil.gov.my.

Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting ("BEPS")

On 24 January 2018, Malaysia signed the Multilateral Convention to implement tax treaty-related measures to prevent BEPS ("MLI").

There are 73 Tax Treaties that Malaysia wishes to be covered by the MLI. The Malaysia's provisional MLI position may affect the application of Tax Treaties concluded.

Given that the implementation of the MLI may have significant consequences for multinational enterprises ("MNE") with cross-border operations, it is crucial for MNE to understand the Malaysia's provisional MLI position and determine the potential tax impact on its operation structure.

Mutual Agreement Procedure Guidelines

The MIRB released the updated Mutual Agreement Procedure Guidelines. A taxpayer may present a case to Ministry of Finance for treaty related disputes, irrespective of the remedies provided by the domestic law.

Information on Cross Border Transactions – Form MNE [Pin 1/2017]

Further to the updates and changes to the 2012 Transfer Pricing Guidelines in July 2017, the MIRB has updated the Form MNE (latest version being [1/2017]), which aims to collect certain information from selected taxpayers related to their cross border transactions for transfer pricing risk assessment purposes.

Application for Bi-Monthly Taxable Period via Taxpayer Access Point ("TAP")

A request for a bi-monthly taxable period (i.e. 2 months) can now be made via TAP, subject to the following conditions:-

- Applicable for registrants with a monthly taxable period only;
- Registrants under cash basis industries such as retailing are not allowed to apply; and
- All applications will be subject to the Director General's approval and conditions as he deems fit.

Application for Remission of Late Payment Penalty via TAP

Goods and Services Tax ("GST") registrants may now apply for remission of late payment penalty via TAP. The applicant must furnish a reason for such request.

Guide on Accounting Software Enhancement towards GST Compliance revised on 8 March 2018

The revised guide provides further clarification on the treatment of transactions under the respective tax codes to be furnished under the amended Item 15 of the GST-03 Return – "Total Value of Other Supplies".

A copy of the Guide is available at http://gst.customs.gov.my.

Other developments

Malaysia GST Compliance Assurance Programme ("MyGCAP")

The Royal Malaysian Customs Department introduced MyGCAP, a compliance initiative to encourage GST registered businesses to voluntarily conduct a holistic risk-based review on the effectiveness of their internal controls to enhance the overall level of GST compliance.

Amongst others, to participate in MyGCAP, the business must be a Public Listed Company, Government Linked Company or a company with an annual turnover of at least RM100 million and which has been registered for GST for at least 2 years.

Businesses who are eligible to participate in MyGCAP are required to appoint an accredited MyGCAP Reviewer to conduct an independent review of their internal control framework from a GST compliance perspective, including verification of their GST Returns.

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Legislative updates

Country by Country ("CbC") Reporting

The Income Tax (Country-by-Country Reporting) Regulations 2018 ("the Regulations") were proclaimed on 22 February 2018, applying to Multinational Enterprises ("MNE") groups who have both consolidated group revenue of at least EUR 750 million (approximately MUR 30 billion) in the Fiscal Year immediately preceding the Reporting Fiscal Year and 2 or more group member enterprises which are tax residents in different jurisdictions.

The Regulations require a CbC report to be filed in Mauritius not later than 12 months from the last day of the Reporting Fiscal Year of the MNE group, when either the MNE group's Ultimate Parent Entity ("UPE") is a tax resident in Mauritius or the MNE group nominates an entity which is tax resident in Mauritius as the Surrogate Parent Entity ("SPE").

The CbC report format set out by the MRA is in line with that proposed by the OECD under BEPS Action 13.

The Mauritius Revenue Authority ("MRA") should be notified that whether or not the Mauritius tax resident entity of the MNE group is the UPE or the SPE of the MNE group not later than 12 months from the last day of the Reporting Fiscal Year of the MNE group. Where the Mauritius tax resident entity of the MNE group is neither the UPE nor the SPE of the MNE group, it should provide a written notice to the MRA on the identity and tax residence of the UPE or the SPE of the MNE group.

The Regulations will be effective for the Reporting Fiscal Years beginning on or after 1 July 2018. Failure to comply with the Regulations will entail a fine not exceeding MUR 5,000 and imprisonment for a term not exceeding 6 months.

Announcements/circulars/determinations/rulings/practice statements issued by the Tax Departments

The List of Reportable Jurisdictions for CRS has been Finalised

The list of reportable jurisdictions for CRS in respect of 2017 accounts was finalised at the end of 2017 with 88 countries signing in.

Please refer to the link below for the list of reportable jurisdictions:

http://www.mra.mu/download/jurisdictions.pdf

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New Zealand

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Legislative developments

Taxation (Annual Rates for 2017-18, Employment and Investment Income and Remedial Matters Act) 2018 enacted

The Taxation (Annual Rates for 2017-18, Employment and Investment Income and Remedial Matters Act 2018 was enacted on 29 March 2018. Details of the proposed changes to investment income reporting requirements were provided in Issue 60 of this publication.

There are a variety of implementation dates for different sections of this Act. Most amendments are effective from 1 April 2020, although some provisions took effect from 1 April 2018. Please contact KPMG in New Zealand if you have any specific queries.

Announcements/circulars/determinations/rulings/practice statements issued by the Tax Departments

Revenue Alert RA 18/01: Dividend Stripping ("RA 18/01") - Some Share Sales where Proceeds are at a High Risk of being Treated as a Dividend for Income Tax Purposes

Inland Revenue has issued RA 18/01 warning taxpayers that some corporate restructuring transactions where transfer value to shareholders may be considered dividend stripping tax avoidance.

While dividend stripping traditionally involves a taxable dividend being converted into a capital sum in the hand of a shareholder, RA 18/01 suggests that Inland Revenue is now taking a more hard-line and broader approach. The focus is primarily on company restructures which do not result in a meaningful change in ownership of the corporate group. However, Inland Revenue has suggested that, notwithstanding a meaningful ownership change, avoidance may still exist where the stated commercial reasons for the restructure do not adequately explain the rationale for undertaking the restructure.

RA 18/01 is accompanied by a basic Q&A which notes that Inland Revenue is unlikely to allow imputation credits to be retrospectively attached to a dividend assessment, so up to a 33% withholding tax liability could be imposed.

Standard Practice Statement SPS 17/03: Loss Offset Elections between Group Companies

Inland Revenue released an updated Standard Practice Statement for accepting loss offset elections between group companies. It also sets out the consequences of specific events that can impact on a loss offset and how these should be addressed. This statement applies from 14 December 2017.

Standard Practice Statement SPS 18/02: Requests to Change a Balance Date

Inland Revenue has released an updated Standard Practice Statement for considering requests for approval to change a balance date for income tax purposes. The standard New Zealand balance date is 31 March. This statement applies from 1 April 2018.

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Legislative developments

Republic Act No. 10963 or the Tax Reform for Acceleration and Inclusion Act ("TRAIN Law") took effect from 1 January 2018

The TRAIN Law is the first package of the comprehensive tax reform program ("CTRP") which generally includes reforms on individual taxation, VAT, excise tax and other procedural provisions including relaxation of bank secrecy for fraud cases.

Passive Income

Tax on interest income from expanded foreign currency deposit system for individuals and domestic corporations has been increased to 15% (formerly 7.5%).

Withholding Tax

The deadline for filing the return and payment of final and creditable withholding taxes shall be not later than the last day of the month following the close of the quarter during which the withholding was made.

Percentage Tax

The filing and payment of percentage tax returns of certain taxpayers (including banks, non-bank financial intermediaries and finance companies and life insurance companies) was changed to a quarterly basis from the previous monthly filing and remittance.

Stock transaction tax (applicable to sale of shares traded in the local stock exchange) is increased to 0.6% of the gross selling price (formerly 0.5%).

Documentary Stamp Tax ("DST")

The DST rates on certain transactions were doubled except for the following:

- Debt instruments – PhP 1.5 on each PhP 200 (formerly PhP 1 on each PhP 200) of the issue price;
- Life insurance policies are now subject to graduated DST rates; and
- Deeds of sale and conveyances of real property which remain unchanged but now include donations. Donations exempt from donor's tax under Section 101(A) and (B) of the Tax Code shall be exempt from DST.

Compliance Requirements

For any unpaid amount of tax, the 20% interest penalty is to be adjusted at the rate equivalent to double the legal interest rate for loans or forbearance of any money in the absence of an express stipulation as set by the Bangko Sentral ng Pilipinas ("BSP") (the central bank of the Philippines), provided that deficiency and delinquency interest shall not be imposed simultaneously.

Tax court case summaries

BSP v. Commissioner of Internal Revenue, CTA Case No. 8810, 08 January 2018

The provision under Revenue Regulations ("RR") No 02-98 on the withholding of percentage tax or Gross Receipts Tax ("GRT") on banks was revoked or repealed for being inconsistent with the provision re-imposing GRT on banks under Republic Act (RA) No. 9238, as amended, and with RR no. 09-04. The two laws provide different GRT rates and different terms of maturity period on which the applicable rates of percentage taxes would be based. Also, RA No. 9238 imposes percentage tax on net trading gains which is not included in the provision under RA No. 8424. The amount to be reported in the monthly GRT return under RR No. 9-04 considers the deduction of net trading loss on net trading gain to arrive at the total monthly gross receipts tax due. The provisions in RR No. 9-04 also specify the composition of gross receipts in finance and operating lease. These items are not included and considered in the provision imposing final withholding of GRT on interest payments to banks under RR No. 2-98. The new rule implementing RA No. 9238

specified the time and venue for the filing and payment of GRT and this does not include the withholding of the said GRT at source.

Moog Controls Corporation-Philippine Branch vs. Commissioner of Internal Revenue, CTA Case No. 9077, 22 February 2018

The provisions of the TRAIN Law will apply on the imposition of interest but only in so far as that portion of interest which will run starting from 1 January 2018 onwards. Section 249 under the Tax Code will apply on the interest charged from the date of payment up to the time prior to the effectivity of the train law, i.e., 1 January 2018. The provisions of the TRAIN law will apply on the interest charged from its effectivity on 1 January 2018 up to the full or complete payment of the unpaid amount.

Announcements/circulars/determinations/rulings/practice statements issued by the Tax Departments

RR No. 4-2018 provides the rules and regulations implementing the DST rate adjustment under TRAIN Law.

RR No. 6-2018 revokes RR No. 12-2013 and reinstates the provisions of RR No. 14-2002, as amended, allowing, the deduction of an expense where no withholding of tax was made in certain cases.

RR No. 11-2018, as amended by RR No. 14-2018, implements the amended provisions on withholding of Income Tax.

Revenue Memorandum Circular No. 19-2018 clarifies the basis for the computation of Capital Gains Tax and DST in sale transactions of real property which have previously been mortgaged at a value higher than their zonal or fair market value.

Other developments

The Second Package of the CTRP has been filed with Congress and is set to be deliberated. This package will mostly cover corporate income taxation and standardization of incentives of qualified projects/ activities in the Philippines. The target implementation date is 1 January 2019.

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Singapore

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Legislative developments

Singapore Budget 2018 Tax Updates

The 2018 Budget Statement was tabled in the Parliament on 19 February 2018. The following highlights are relevant to the Singapore financial services sector:

1	Singapore Variable Capital Companies ("S-VACC")	S-VACCs are new vehicles designed to support collective investment schemes and will offer asset managers a broader scope of asset classes and investment strategies. A specific tax framework for S-VACCs will be introduced to complement the S-VACC regulatory framework as follows: • An S-VACC will be treated as a company and a single entity for tax purposes; • Tax exemption under Section 13R and 13X of the Singapore Income Tax Act ("SITA") will be extended to S-VACCs; • 10% concessionary rate under the Financial Sector Incentive – Fund Management ("FSI-FM") Scheme will be extended to approved fund managers managing incentivised S-VACCs; • The conditions under the existing Section 13R, Section 13X and FSI-FM remain unchanged.
2	Enhanced Tier Fund Scheme (Section 13X)	The tax exemption under the Enhanced Tier Fund Scheme, under Section 13X of the SITA, is currently available to all companies, trusts and limited partnerships, subject to meeting qualifying conditions. The Enhanced Tier Fund Scheme has been broadened to cover all fund vehicles constituted in all forms. This will take effect for new awards approved on or after 20 February 2018. This enhancement would include Singapore's latest fund vehicle offering, S-VACCs, as well as other similar collective investment vehicles, mutual funds, etc. to maintain Singapore's position as a premier hub for fund and fund management activities.
3	Financial Sector Incentive ("FSI") Scheme	Currently, the FSI Scheme accords concessionary tax rates of 5%, 10%, 12% and 13.5% on qualifying income. The FSI Scheme will be extended till 31 December 2023. Further, the scope of trading in loans and in their related collaterals has been expanded to include collaterals that are prescribed infrastructure assets or projects. The change will apply to income derived on or after 1 January 2019 for new and renewal awards approved on or after 1 June 2017.
4	Insurance Business Development – Insurance Broking Business ("IBD-IBB") and Insurance Business Development – Specialised Insurance Broking Business ("IBD-SIBB") Schemes	Currently, qualifying income under the IBD-IBB scheme would enjoy concessionary tax rate of 10%, while qualifying income under the IBD-SIBB scheme would enjoy concessionary tax rate of 5%. Both schemes were due to lapse after 31 March 2018. It was announced that the IBD-IBB scheme will be extended to 31 December 2023, while the IBD-SIBB scheme will be allowed to lapse after 31 March 2018. However, the specialised insurance broking and advisory services which was covered under the IBD-

		SIBB scheme will be incentivised under the IBD-IBB scheme going forward, at the concessionary tax rate of 10%.
5	Tax deduction for impairment and loss allowance	Under Section 14I of the SITA, banks and qualifying finance companies can claim a tax deduction on the following: • Impairment losses on non-credit impaired loans and debt securities made under FRS 109; and • Any additional loss allowances as required under Monetary Authority of Singapore ("MAS") Notices 612, 811 and 1005, subject to a cap. To promote the overall robustness and stability of Singapore's financial system, the abovementioned tax deduction will be extended until YA 2024 (for banks and qualifying finance companies with a December financial year-end) or YA 2025 (for banks and qualifying finance companies with a non-December financial year-end). All other conditions of the scheme will remain the same.
6	Qualifying Debt Securities ("QDS") and QDS+ Schemes	Currently, the QDS Scheme grants a concessionary tax rate of 10% and tax exemption for qualifying non-residents and qualifying individuals on qualifying income from QDS, while the QDS+ Scheme grants tax exemption for all investors on qualifying income derived from QDS that are debt securities (excluding Singapore Government Securities) with an original maturity of at least 10 years, and Islamic debt securities. Both schemes are due to lapse after 31 December 2018. It was announced that the QDS Scheme has been extended to 31 December 2023, while the QDS+ Scheme will be extended to 31 December 2018. Debt securities and Islamic debt securities issued after 31 December 2018 which were previously covered under the QDS+ Scheme can still enjoy the tax concessions under the QDS Scheme if the conditions are satisfied.
7	Withholding tax exemptions for financial sector	Currently, there is a range of withholding tax exemptions for the financial sector applicable to different financial institutions for different types of financial transactions. The following exemptions will be withdrawn effective for payments made under agreements entered into or after 1 January 2019: • Interest from approved Asian Dollar Bonds; • Payments made under over-the-counter financial derivative transactions by companies with FSI-Derivatives Market awards that were approved on or before 19 May 2007; In addition, as part of ongoing review to ensure the relevance of these withholding tax exemptions, a review date of 31 December 2022 has been set to re-evaluate existing exemptions. Some of the existing exemptions to be reviewed include payments made under certain types of swap transactions and specified payments made under securities lending or repurchase agreements by specified institutions. Exemptions for certain types of interest on margin deposits will be legislated and a review date of 31 December 2022 will be set.

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