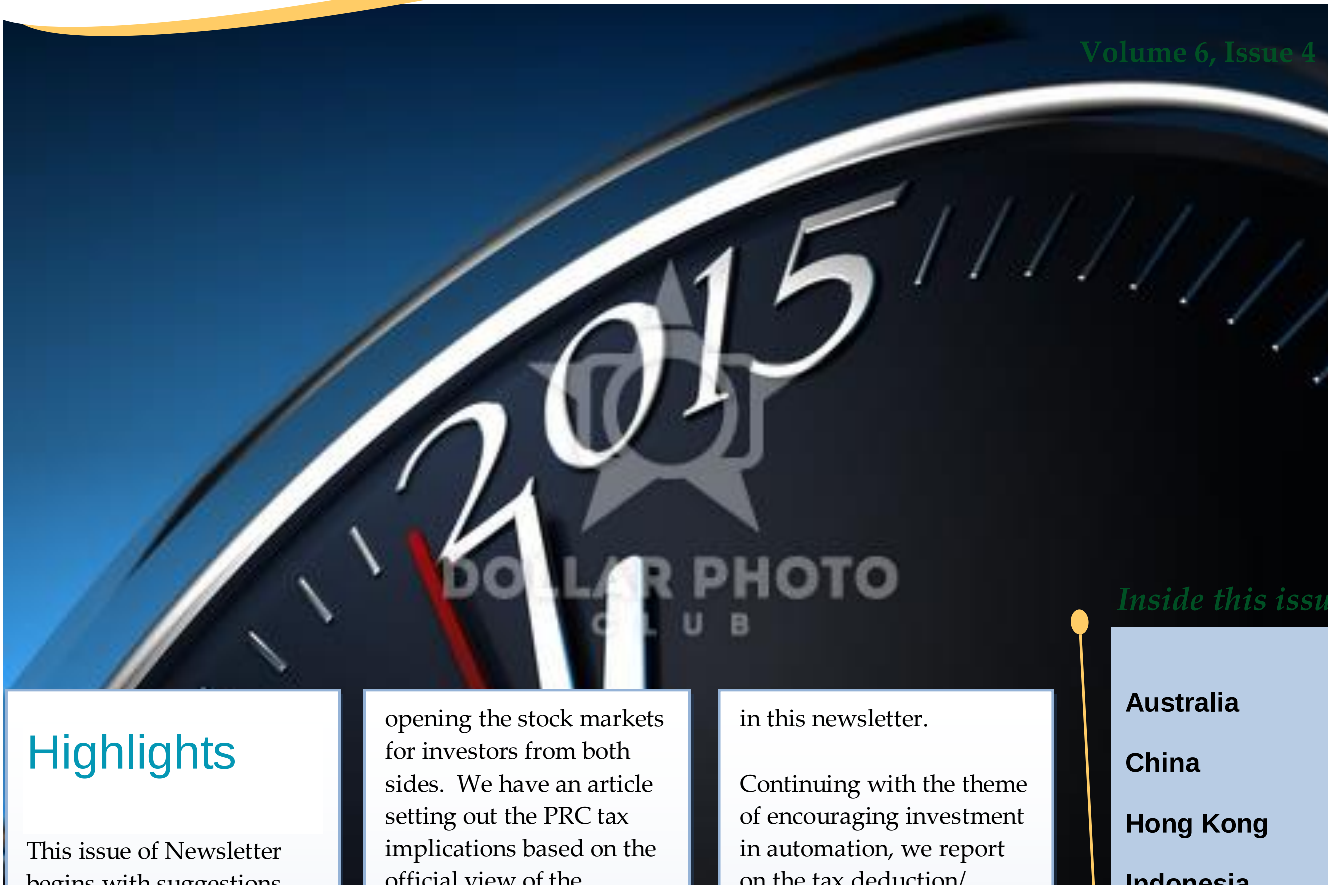
APAC News

31 December 2014

Volume 6, Issue 4



Highlights

This issue of Newsletter begins with suggestions from our Melbourne office making the best use of technology and formatting plan of the new year.

This is followed by an useful round-up from our China office on the eight new / revised accounting standards introduced in China during 2014.

The Shanghai-Hong Kong Stock Connect was launched in November 2014 and is a major step in opening the stock markets for investors from both sides. We have an article setting out the PRC tax implications based on the official view of the Ministry of Finance.

Indonesia has an article on the new audit standards applicable to SMEs following the country's adoption of international audit standards.

Malaysia has recently released its 2015 Budget. Measures are proposed to ensure a balance between expanding the economy and care for the wellbeing of the people. Highlight of the Budget is included in this newsletter.

Continuing with the theme of encouraging investment in automation, we report on the tax deduction/ allowance under the Productivity & Innovation Credit Scheme that becomes effective from 2015 in Singapore.

2015 is the Year of the Ram under the Chinese Zodiac. Ram are creative, dependable and intelligent but a charging ram is best to be avoided. Stay claim and plan ahead is, as always, the best advice.

Inside this issue:

AUSTRALIA

Technology, Tax and Planning for 2015

" …the greatest risk is that data will be recorded incorrectly…"

Technology and Tax

The ATO has recently been spruiking about how improved technology will bring about red-tape reduction to business. Some may think that the future of accountants looks somewhat tenuous if improvements in technology enhance the ability of businesses to lodge their own tax returns and forms. We are actually supportive of the improved use of technology in the tax arena. We have for some time preached the benefits to business of adopting new technologies such as cloud accounting and automated data capture. The opportunity to streamline the way data is summarised and reported to the ATO should be of great assistance to business and reduce costs. By utilising software that is enabled for Standard Business Reporting (SBR) forms such as Business Activity Statements may be lodged directly with the ATO.

However, with these benefits also come risks. The greatest risk is that data will be recorded incorrectly and then incorrect information will be transmitted to the ATO.

This highlights a key benefit of engaging an accountant to oversee your accounting and taxation affairs. We don't just fill in forms. Nor do we simply collate information. We manage the risk of providing incorrect information either by overstating claims or by not claiming enough. Either way, we work to ensure that the information provided to the ATO is accurate and client's tax risks are appropriately managed.

As the process of collating and reporting data to the ATO is improved, our focus on ensuring the information is right won't shift. However, we will also have more time to assist clients with other important areas of business.

Planning for 2015

If you read the various media reports in Australia you will probably be confused as to what lies ahead in 2015. Will it be flat or buoyant? Will interest rates rise or fall? Opinions will differ but that is no excuse for any of us to feel powerless to plan ahead.

A New Year is another year of challenge and opportunity. And the Christmas – New Year period is a good time to stop, withdraw from the busyness of life and business, to reflect on the past and to look forward.

Having a plan is an essential part of building a successful business and for making adequate provision for your family. But formulating a plan in isolation rarely brings results. You need someone to listen to your dreams and help shape a plan that can set you on a course to success. Here are some general principles we have found helpful when formulating both business and personal plans:

- Understand and learn from the past
- Be realistic but stretch yourself
- Don't be unduly optimistic
- Provide for the unforseen
- Don't get bogged down in detail
- Develop the vision for where you want to be and then tailor the strategy to get there
- Involve all

stakeholders in the planning process

So why not take some time over this festive season to ponder and dream. Jot down the aspects of your plan you can formulate and any obstacles you see. Then speak with your accountant who is your trusted business adviser in the New Year to refine this into a plan that will move you ahead towards your goals.

AUSTRALIA

(Continued)

New and Revised Chinese Accounting Standards Released in 2014

CHINA

华安德会计师事务所
RUSSELL BEDFORD HUA-ANDER

In 2014, the China Ministry of finance issued eight new and revised accounting standards, marking the year as one of major release of accounting standards. Since the major release of a series of the Accounting Standards for Business Enterprises (ASBE) in February 2006, which comprise one basic standard and 38 specific standards, only 6 accounting standards interpretations and some provisions and replies regarding accounting treatments had been issued before the release in this year. The new and revised standards are basically consistent with relevant International Financial Reporting Standards (IFRS) or International Accounting Standards (IAS), maintaining the ASBE sustained convergence with the IFRS / IAS (as shown in the table below).

In revised ASBE 30, the concept of 'other comprehensive income' is introduced. The other comprehensive income section shall present line items for amounts of

"…issued eight new and revised accounting standards…"

Eight New and Revised ASBE with corresponding IFRS:

	New/Revised ASBE	Release Date	Corresponding IFRS/IAS
1	ASBE 39 - Fair Value Measurement	2014-1-28	IFRS 13 Fair Value Measurement
2	ASBE 30 - Presentation of Financial Statements (2014 Revision)	2014-1-28	IAS 1 Presentation of Financial Statements
3	ASBE 9 - Employee Benefits (2014 Revision)	2014-1-29	IAS 19 Employee Benefits
4	ASBE 33 - Consolidated Financial Statements (2014 Revision)	2014-2-21	IFRS 10 Consolidated Financial Statements
5	ASBE 40 - Joint Arrangements	2014-2-21	IFRS 11 Joint Arrangements
6	ASBE 2 – Long-term Equity Investment (2014 Revision)	2014-3-19	IAS 27 Separate Financial Statements IAS 28 Investments in Associates and Joint Ventures
7	ASBE 41 - Disclosure of Interests in Other Entities	2014-3-27	IFRS 12 Disclosure of Interests in Other Entities
8	ASBE 37 - Financial Instruments: Presentation (2014 Revision)	2014-7-11	IAS 32 Financial Instruments: Presentation IFRS 7 Financial Instruments: Disclosures

CHINA

(Continued)

"…ASBE 9 standardises the definition of fair value…"

other comprehensive income in the period, classified by nature and grouped into those that (a) will not be reclassified subsequently to profit or loss; and (b) will be reclassified subsequently to profit or loss when specific conditions are met.

The revised ASBE 9 introduces a clearer and wider definition of benefits, including short-term compensation, post-employment benefits, termination benefits, and other long-term employee benefits.

In revised ASBE 33, the principle of control is redefined and requirements on how to apply the control principle are set out. It also introduces the concepts of substantial control, investment entity, judgment of agency relationships, and control over separable part of investee.

A definition of long-term equity investment was added in the revised ASBE 2. For the investment that the investor does not have control, joint control or significant influence over the investee and the equity investment without active market quotation or whose fair value cannot be reliably measured, the revised ASBE 2 requires treatment according to ASBE 22 - Recognition and Measurement of Financial Instruments.

The revised ASBE 37 sets out disclosure requirements for classification of financial instruments, offsetting financial assets and financial liabilities, transfer of financial assets, and maturity analysis of financial assets and financial liabilities.

The new ASBE 39 standardises the definition of fair value, establishes a fair value hierarchy, and sets out specific disclosure requirements of fair value measurements. The contents of new ASBE 40 and 41 are consistent with those of IFRS 11 and 12. These new standards are basically synchronous releases of new IFRSs.

Except for the revised ASBE 37, which shall be implemented in preparation of financial report in 2014 and thereafter, all other revised and new standards took force as of 1 July 2014.

HONG KONG

Russell Bedford

Serving Hong Kong Since 1994

Tax implication on Shanghai-Hong Kong Stock Connect

"…providing a mutual market access…"

Shanghai-Hong Kong Stock Connect ("Stock Connect") is a securities trading and clearing links programme providing a mutual market access between Shanghai Stock Exchange ("SSE") and Stock Exchange of Hong Kong Ltd ("SEHK") released in late 2014. This connectivity creates a bridge for Hong Kong and overseas investors to trade in the designated securities listed on SSE via SEHK ("Northbound Trades") and simultaneously enables Mainland investors to trade in the designated securities listed on SEHK ("Southbound Trades") through SSE. Previously both sides of the investors would not be able to trade the listed stocks from the other side of the market directly.

On 14 November 2014, the Ministry of Finance, the State Administration of Taxation and China Securities Regulatory Commission jointly issued Caishui [2014] No.81 (Notice 81), on the China taxation rules in conjunction to the Stock Connect. The Notice 81 takes effect from 17 November 2014.

Northbound investors

According to Notice 81, northbound investors (i.e. Hong Kong and foreign investors) are provided with a blanket temporary tax exemption covering Corporate Income Tax ("CIT"), Business Tax ("BT") and Individual Income Tax ("IIT") on gains derived on the trading of A shares via the Stock Connect.

Dividend income derived from the A shares traded via the Stock Connect is subject to 10% income tax withholding on dividend payment to the northbound investors. This withholding rate applies to dividend payment to both foreign corporate and individual investors and the withholding obligation is imposed to the company distributing the dividend. If the recipient is entitled to a lower treaty rate, the recipient can apply to the in-charge tax bureau of the payer for a tax refund.

Southbound investors

On the other hand, for income derived by southbound investors (i.e. Mainland China investors) from investing in shares listed in Hong Kong through the Stock Connect, such income is subject to China tax based on the current Chinese tax regulations. In order to promote the Stock Connect, the southbound individual investors are entitled to temporary IIT exemption on the gains from the transfer of eligible shares listed on SEHK during the 3-year 'honeymoon' period.

"…the southbound individual investors are entitled to temporary IIT exemption…"

	Gain on transfer of eligible shares	Dividend income from eligible shares
Northbound corporate and individual investors	· Temporarily exempt from IIT / CIT · Temporarily exempt from BT · Stamp duty imposed to the seller	· 10% withholding tax imposed on dividend income · Tax refund may be applied by recipients entitled to a lower treaty rate
Southbound corporate investors	· Subject to CIT · Taxable / exemption under current BT rules	· Subject to CIT (CIT is exempted for dividends on H shares held for not less than 12 months) · Southbound corporate investors is required to make self-declaration and settle the tax payable
Southbound individual investors	· Temporarily exempt from IIT for the period from 17 November 2014 to 16 November 2017 · Temporarily exempt from BT based on current BT rules	· 20% IIT withholding tax imposed on dividend income · H share company is responsible for withholding IIT whereas China Securities Depository and Clearing Corporation is responsible for withholding the IIT from non-H shares. · The above mentioned IIT withholding rule also applies to dividend paid to southbound securities investment fund

INDONESIA

Audit Standards Implementation for SMEs in Indonesia

Syarief Basir & Rekan
Audit, Accounting, Tax, Legal, and Consulting

"…the IICPA has published manual in a form of Questions and Answers…"

In 2013 Indonesian Institute of Certified Public Accountants (IICPA) has decided to adopt the International Standards on Auditing (ISA) issued by International Auditing and Assurance Standards Board (IAASB)-IFAC. The adoption process of these auditing standards is implemented in two phases.

Two phases of implementation process

For listed companies, ISA should be implemented for the auditing of financial statements for the period starting on or after the 1st of January 2013.

For non-listed companies, ISA should be implemented for the auditing of financial statements for the period starting on or after 1st of January 2014. Such implementation in phases is meant to provide opportunities to public accountants and the non-listed companies to gain a better understanding of the new standards.

The adoption of ISA by IICPA is a step forward as it previously adopted the code of conduct and International Standard on Quality Control (ISQC) which was also issued by IFAC. So far the adoption of the code of conduct and ISQC has been running smoothly.

As the ISA-based Standards on Auditing (SA) will be effective for the auditing of financial statements of non-listed companies for the financial period starting on or after 1st of January 2014, including for the small and medium-scale enterprises (SMEs), IICPA tried to identify several things which are expected to be questioned by auditors in the implementation of the ISA-based SA on the auditing of SMEs. As a result of the identification, IICPA has published manual in a form of Questions and Answers (QA) on the implementation of SA on the auditing of SMEs throughout Indonesia.

The QA involves seven main issues which are most likely questioned by auditors on auditing SMEs. The main issues also cover how the SA deals with the fact that the nature of SMEs is significantly different with that of the larger scale or more complex entities; the workload of auditors when auditing SMEs; the requirement for the auditor to comply with the entire SA when auditing SMEs; and documentation on auditing SMEs.

The QA manual issued by IAPI are with reference to the provision issued by ISA. Therefore, the explanation is consistent to that of ISA as the origin of Indonesian auditing standards.

To explain the difference between SMEs and the larger scale or complex companies, QA refers to the SA which states the procedures of specific auditing to be implemented in order to achieve the goals of auditors can vary broadly, depending on the scale and complexity of the entity to be audited. Therefore, the provision of the SA focuses on the matters which require the attention of the auditors and it does not usually generate specific procedures upon which the auditors have to comply with. The right auditing approach to design and implement advance auditing procedures depends mainly on the risk assessment conducted by the auditors. The right thoughtful consideration is required in order to be able to realize a proper auditing. Therefore this QA explains that the differences between the nature of SMEs and those of larger scale or complex companies can be addressed with the

INDONESIA

(Continued)

implementation of the right approach, and application of professional judgment on the basis of the condition of each company to be audited.

Furthermore, in regards to the workload on SMEs auditing, the QA states that the SA recognizes the usually simple activities and business transactions of SMEs, meaning that auditing, in general, is relatively simple. For instance, although SA requires auditor to understand the entity and its business nature, given the simple processes and structures of SMEs, auditor might gain full understanding of the entity and its nature more easily and establish the documentation in a more simple way.

In terms of the application of the entire provision of SA on auditing SMEs, QA refers to the basic SA requirements in which the auditor must comply with the whole relevant provisions of SA for the auditing. A SA conforms to the auditing if such SA applies and contains provisions regulated by such SA. Any auditor is not allowed to declare compliance toward the SA in the audit report unless the said auditor has shown conformity toward the entire relevant SA for the audit. However, it is important to know that not the entire provisions of SA might be relevant for the audit – in which there might be no specific provision in the SA for its relevant binding. Hence, on the basis of this QA, auditor is required to implement the entire provisions of SA which is relevant on auditing SMEs.

In regards to the audit documentation, such as audit working papers, QA explains that audit documentation facilitates the entire process of auditing and provides notes that will be helpful for the party to supervise the audit. The SA requires the auditor to arrange the audit documentation in such a way that allows an experienced auditor, which is not involved in the previous process of the audit, to be able to understand specific matters. This sets the standards to guide the auditor to determine the contents and scales of audit documentation.

The SA requires the auditor to include significant matters that arise during the audit process and the significant professional judgment made to bring conclusions on such substantial matters.

Therefore, no matter how simple an audit is made on SMEs, the audit documentation must be made as requested in the SA.

" …QA explains that the differences between the nature of SMEs and those of larger scale or complex companies can be addressed…"

MALAYSIA

2015 Malaysian Budget Highlights

RUSSELL BEDFORD MALAYSIA

The 2015 budget which the Malaysian Prime Minister called it a "People's Economy" is formulated to strike a balance between ensuring that the Malaysian economy continues to expand at a strong pace and at the same time looking after the wellbeing of the people of Malaysia.

The Malaysian economy grew impressively by 6.3% in the first half of 2014, which is helmed as the highest amongst the ASEAN region. In terms of per capita income, Malaysia's gross national income per capita is expected to grow to RM37,486 in 2015 from RM34,682 in 2014 which is now nearer to the

"…Malaysian economy grew impressively… which is now nearer to the World Bank's threshold for high income economy…"

World Bank's threshold for high income economy of USD12,745 (RM41,250).

Some of the salient proposals tabled in the 2015 budget include:

(A) Changes affecting companies

1. Review of corporate income tax rates

As announced in the 2014 budget, the corporate tax rates will be reduced from Year of Assessment ("YA") 2016 (as shown on Table 1).

2. Review of special allowances for small value assets

Paragraph 19A(1) of Schedule 3 of the Income Tax Act 1967 ("ITA 1967") allows a person who incurs expenditure on assets with a value of not more than RM1,000 for each asset (small value asset) in a basis period for a year of assessment to claim 100% capital allowance (special allowance) on the asset. The total small value assets that qualify for special allowance is limited to RM10,000 in a year of assessment. However, such a limitation does not apply to a SME.

Effective from YA2015, it is proposed that:

i) The value of each asset be increased from RM1,000 to RM1,300; and
ii) The maximum limit of total small value assets be increased from RM10,000 to RM13,000 per year of assessment.

3. Extension of due date for monthly tax instalment

At present, the due date for payment of monthly tax instalments for a company, limited liability partnership, trust body or co-operative society under the self-assessment system is on the 10th of each month pursuant to Section 107C(12) of the ITA 1967. With effect from 1 January 2015, it is proposed that the due date for payment be extended to 15th of each month.

The extension **does** not apply for payment of Schedular Tax Deductions by employers.

4. Review of penalty for failure to furnish return or give notice of chargeability

Presently, under Section 112(1) of the ITA 1967, a person (company limited by liability, partnership, trust body or co-operative society) who without any reasonable excuse, fails to furnish a return or fails to give notice under Section 77 of the ITA 1967, shall be guilty of an offence and shall, on conviction, be liable to a fine of not less than RM200 and not more than RM2,000 or to imprisonment for a term not exceeding 6 months or to both.

It is proposed that the maximum fine of RM2,000 be increased to RM20,000.

This proposal is effective upon gazetting of the Finance Act.

Type of entity	Tax rate for YA 2016
(i) Company, limited liability partnership and trust body	24%
(ii) Small and medium size enterprise ("SME") - Paid up capital not more than RM2.5 million	• 19% for chargeable income up to RM500,000 • 24% on remaining chargeable income

(Table 1)

MALAYSIA

(Continued)

5. Additional capital allowance for automation in manufacturing

To encourage automation in the manufacturing activities, it is proposed that an incentive in the form of capital allowances be given to manufacturers in the following industries that incurred capital expenditure in automation:

a) High labour intensive industries (such as rubber products, plastics, wood, furniture and textiles) capital allowance of 200% on the first RM4 million qualifying expenditure incurred from years of assessment 2015 to 2017;

b) Other industries – capital allowance of 200% on the first RM2 million qualifying expenditure incurred from years of assessment 2015 to 2020.

The above proposal shall take effect from YA2015.

6. Changes in treatment of Reinvestment Allowance ("RA")

The RA provisions have been clarified to state that:

(i) RAs which are clawed back be treated as part of statutory business income in the basis period for the YA in which the asset is disposed of; and

(ii) RA will only be allowed to be set off against 70% of statutory income in respect of qualifying project (expansion, modernization, diversification and automation projects) within a business rather than the business as a whole.

The proposal will take effect from YA2015

(B) Changes affecting individuals

1. Reduction in income tax rates

As announced in the 2014 Budget, the tax rates for resident individuals will be reduced by 1% to 3% and non-residents by 1% effective from YA 2015.

2. Monthly tax deduction as a final tax

Currently, individuals employed by the same employer for at least 12 months in that YA and receive only employment income (excluding benefits-in-kind and accommodation), can elect not to submit the annual income tax returns.

With effect from YA 2015, this restriction has been removed and the election will be applicable regardless of the period of employment with the company and whose employment income includes benefits-in-kind and accommodation.

(C) Real Property Gains Tax ("RPGT")

1. Amendment to Section 21B of RPGT Act 1976
Amount retained by acquirer

It is proposed that with effect from 1 January 2015, the acquirer of real property or shares in real property company is required to withhold either the whole amount of money received or 3% (previously 2%) of the total value of the consideration, whichever is the lower and remit the sum withheld to the tax authority within 60 days from the date of disposal.

2. Amendment to Paragraph 12 Schedule 2 of RPGT Act 1976
Gifts of property between spouses, parents and children and grandparents and grandchildren

"…incentive in the form of capital allowances be given to manufacturers… that incurred capital expenditure in automation…"

"…acquirer of real property or shares in real property company is required to withhold…"

MALAYSIA

(Continued)

At present, an asset disposed of by way of a gift is treated as a no gain/no loss transaction and the recipient is deemed to acquire property at the donor's acquisition price.

It is proposed that where the donors are Malaysia citizens or permanent residents and the gift is made 5 years from the donor's acquisition date, the recipient's acquisition price will be taken to be the market value of the asset at the time of donation rather than the donor's acquisition price.

This proposal is effective from 1 January 2015.

SINGAPORE

STEVEN TAN RUSSELL BEDFORD PAC
Public Accounting Corporation

"...enhanced deduction / allowance is available..."

Tax deduction/ allowance under Productivity and Innovation Credit ("PIC") scheme

The PIC scheme was introduced in Budget 2010 to encourage increase in productivity and innovation activities in Singapore.

Under the PIC scheme, enhanced deduction/ allowance is available from Year of Assessment ("YA") 2011 to YA 2018 on the first $400,000 of each qualifying activities incurred per YA in addition to deduction and/or allowance currently allowable. It was further announced in Budget 2014 that PIC+ scheme will be introduced for YAs 2015 to 2018 to support businesses who are trying to transform their business through more substantive investments.

<u>PIC scheme</u>

The six qualifying activities are as follows:-

1) Acquisition or leasing of PIC IT and automation equipment;

2) Acquisition and in-licensing of intellectual property rights ("IPRs") with legal and economic ownership;

3) Registration of IPRs (i.e. patents, trademarks, designs and plant varieties);

4) Research and development activities;

5) Training of employees ^/+ ; and

6) Approved design projects primarily done in Singapore *.

^ Applicable to qualifying in-house training (i.e. certified by Singapore Workforce Development Agency certified or Institute of Technical Education) and all external training. With effect from YA 2012, the certification requirement is removed for qualifying in-house training expenditure incurred up to $10,000 per YA.

\+ From YA 2014, individuals deployed under a centralised hiring arrangement will be regarded as employees of the business where these individuals are deployed, subject to the following qualifying conditions:

- The claimant is able to produce supporting documents on the recharging of employment costs by a related entity, in respect of employees working solely in the claimant entity;

- The corporate structure and centralised hiring practices are adopted for bona fide commercial reasons; and

- The employee whose cost has been recharged will not contribute to the requisite headcount of the related party (which bore the upfront manpower costs).

* Businesses which wish to enjoy enhanced deduction on qualifying design expenditure must submit an application to the Design Council Singapore ("DSg") for approval at least 2 months before the commencement of the design project. You should therefore ensure that the application to DSg is made on time to qualify for enhanced deduction for design expenditure. For details of the qualifying conditions and application procedure, please refer to DSg's website www.designsingapore.org.

Other than design expenditure which requires prior approval from the DSg, no prior approval is required for the other five categories of expenditure to qualify for enhanced deduction / allowance. Businesses may claim enhanced deduction / allowance on qualifying expenditure incurred in their tax returns for the relevant qualifying YAs.

The enhanced deduction/allowance under the PIC is subject to an expenditure cap:-

a) YA 2011 and YA 2012 – a combined expenditure cap of $800,000 applies for _each_ category of activity; and

b) YA 2013 to YA 2015 – a combined expenditure cap of $1,200,000 applies for _each_ category of activity.

c) YA 2016 to YA 2018 – a combined expenditure cap of $1,200,000 applies for _each_ category of activity.

PIC+ Scheme

From YA 2015 to YA 2018, qualifying SMEs# which incur qualifying PIC expenditures in the above six qualifying activities will be entitled to an additional $200,000 expenditure for each of the qualifying activity per YA. This brings the PIC expenditure cap for qualifying SMEs from $400,000 to $600,000 per qualifying activity per YA.

\# Qualifying SMEs are sole-proprietorships, partnerships and companies carrying on a trade or business and whose (a) revenue is not more than $100 million or (b) employment size is not more than 200 employees. This criterion will be applied at the group level if the business is part of a group.

The enhanced deduction/allowance under the PIC and PIC+ Scheme is subject to the following expenditure cap:-

a) YA 2013 to YA 2015 – a combined expenditure cap of $1,400,000@ applies for _each_ category of activity.

b) YA 2016 to YA 2018 – a combined expenditure cap of $1,800,000 applies for _each_ category of activity.

@ The combined expenditure cap of $1,400,000 is only applicable for YA 2015 as the additional expenditure cap of $200,000 ($600,000 - $400,000) is not available for YAs 2013 and 2014.

Other features of PIC and PIC+

The enhanced deduction/allowance will be granted net of any government grant and subsidy. Expenditure incurred in excess of the expenditure cap would continue to qualify for normal tax deduction or allowance.

Claw-back provisions will apply to the

"The enhanced deduction/ allowance under PIC is subject to an expenditure cap…"

" …have the option to make an irrevocable election to convert …tax deduction… into non-taxable cash payout…"

enhanced allowance/ deduction and/or cash payout/ PIC bonus if the following minimum ownership period requirement is not met:-

- PIC IT and automation equipment is owned for at least one year from the date of purchase to the date of its disposal/leasing out.
- For registration of IPR, it is owned for at least one year from the date of filing to the date of its disposal.
- For acquisition of IPR, it is owned for at least one year from the date of acquisition to the date of its disposal.

The claw-back provisions can be waived for PIC IT and automation equipment under certain circumstances. In respect of acquisition of IPR, any balance of enhanced allowance not drawn down will also be forfeited if a 5-year ownership is not met.

For businesses whose income is subject to more than 1 tax rate, the enhanced allowance or deduction will be deducted from income taxed at the highest tax rate first and any balance will be deducted against income taxed at the next highest tax rate, until the expenditure cap is reached.

The income tax treatment for unutilised enhanced allowance or deduction is the same as that for unabsorbed tax losses or capital allowances.

<u>Cash payout option</u>

For YA 2011 to YA 2018, eligible businesses which have at least 3 local employees (i.e. Singapore citizens or Singapore permanent residents with Central Provident Fund contributions) have the option to make an irrevocable election to convert up to $100,000 (subject to a minimum of $400) of tax deductions from all six qualifying activities into non-taxable cash payout for each qualifying YA at a conversion rate of 30% for YA 2011 and YA 2012; and 60% for YA 2013 to YA 2018. For YA 2011 and YA 2012, the expenditure cap can be combined into a cap of $200,000 over these two YAs (i.e. cash payout of up to $60,000 over two YAs). The combined expenditure cap does not apply to YA 2013 to YA 2018 (i.e. cash payout of up to $60,000 per YA).

Once a qualifying deduction or allowance is converted into cash, the same amount shall no longer be available for tax deduction/allowance. With effect from YA 2012, the cash payout option is also available for PIC IT and automation equipment on hire purchase where the repayment schedule straddles over 2 or more financial years.

From YA 2016, to qualify for cash payout on PIC IT and Automation equipment, businesses will need to show that the equipment is in use by the business at the point when the business elects for the cash payout.

<u>Application for cash payout option</u>

An eligible business may apply for cash payout as follows:-

- For YA 2011 and YA 2012 - any time after the financial year end, but not later than the income tax filing due date for that YA.
- For YA 2013 to YA 2018 - after the end of each quarter or combined consecutive quarters in the financial year, but not later than the statutory income tax filing due date for each YA.

To apply for cash payout, a prescribed form "PIC Cash Payout Application Form" and the relevant annexes have to be completed and submitted to the Comptroller. The cash payout will be made by the Comptroller within 3 months from the date of receipt of the original application form.

<u>Recovery of cash payout upon disposal of investment within a specified period</u>

The cash payout received would be fully/partially recoverable by the Comptroller if the relevant PIC IT and automation equipment is disposed of within a year; or within a specified period, the relevant IPR comes to an end, is sold, transferred or assigned, or the eligible business has ceased to trade.

A prescribed form "Disposal of Qualifying Assets Form" is required to be submitted to the Comptroller within 30 days from the date of the abovementioned events. The cash payout is required to be repaid to the Comptroller within 30 days from the receipt of a "PIC Cash Payout Recovery" notice to be issued by the Comptroller. Late penalties may be imposed if the notification requirement and/or repayment of cash payout are not made on time.

<u>Abuse of PIC</u>

The Inland Revenue Authority of Singapore takes a serious view of taxpayers who defraud the government. Offenders convicted of PIC fraud will have to pay a penalty of up to four times the amount of cash payout fraudulently obtained, and a fine of up to $50,000 and/or imprisonment of up to five years. This includes any person who willfully assist another person to obtain a cash payout or PIC bonus which he is not entitled to.

A PIC arrangement is abusive if:

- it makes use of artificial, contrived or fraudulent step(s) to obtain PIC benefits;

- the arrangement results in the payment of goods/ services for an amount that exceeds the open market value without a bona fide commercial reason; or

- there is no bona fide commercial reason for entering into the arrangement, apart from getting the PIC benefits.

SINGAPORE

(Continued)

"…cash payout received would be fully/ partially recoverable…if the relevant PICIT and automation equipment is disposed of within a year…"

Disclaimer

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

Business consultants with a global perspective

Russell Bedford Asia Pacific Offices Contacts

Australia - *Melbourne*
Bruce Saward
bruce@sawarddawson.com.au
www.youraccountant.com.au

Australia - *Perth*
John Van Dieren
jvdieren@stantons.com.au
www.stantons.com.au

Australia - *Sydney*
Greg Ralph
gralph@gouldralph.com.au
www.gouldralph.com.au

China - *Beijing / Shanghai*
Guoqi Wang
guoqi_wang@huaander.com
www.huaander.com

China - *Hong Kong / Guangzhou / Shanghai*
Jimmy Chung
jimmychung@russellbedford.com.hk
www.russellbedford.com.hk

China - *Shanghai*
Charles Wang
charles.w@jialiangcpa.cn
www.jialiangcpa.cn

India
Shreedhar T. Kunte
stk@sharpandtannan.com
www.sharp-tannan.com

Indonesia
Syarief Basir
sbasir@russellbedford.co.id
www.russellbedford.co.id

Korea (South)
Kiwun Suh
kws@cjac.kr
www.cjac.kr

Malaysia
Loh Kok Leong
lohkl@russellbedford.com.my
www.russellbedford.com.my

Mauritius
Jaye C. Jingree
jaye.jingree@krossborder.mu
www.krossborder.com

Pakistan
Rashid Rahman Mir
rsrirlhr@brain.net.pk

Philippines
Marcelino Mercado
info@mcjcpas.ph
www.mcjcpas.ph

Singapore
Douglas Tan
douglas@stcsamasmgt.com.sg
www.strb.com.sg

Taiwan
Arthur Lin
jsgcpa@russellbedford.com.tw
www.russellbedford.com.tw

Thailand
Prof. Kesree Narongdej
kesree@amt-asso.com

Vietnam - *Hanoi*
Hung Duy Pham
hung.duy.pham@ktcvietnam.com
www.ktcvietnam.com

Vietnam - ***Ho Chi Minh City***
Van Anh Thai
van.anh.thai@ktcvietnam.com
www.ktcvietnam.com

Russell Bedford 30 1983-2013

MEMBER OF THE FORUM OF FIRMS

Russell Bedford International
3rd Floor, Paternoster House
65 St Paul's Churchyard
London EC4M 8AB
United Kingdom

marketing@russellbedford.com

www.russellbedford.com

Russell Bedford International is a global network of independent firms of accountants, auditors, tax advisers and business consultants.

Ranked as one of the world's top accounting networks*, Russell Bedford International is represented by some 600 partners, 5000 staff and 290 offices in more than 100 countries in Europe, the Americas, Middle East, Africa, Indian Sub-Continent and Asia-Pacific.

**Ranked by global revenues in International Accounting Bulletin World Surveys. Networks defined in accordance with IFAC Code of Ethics.*