Post-pandemic Asia Pacific: Taxation fast lanes and speed bumps

WTS Global at a glance

- Founded in 2003 by WTS Germany
- Locally rooted – Globally connected: Present in more than 100 countries with more than 3,500 tax professionals
- Tax-focused: Coverage of the entire range of tax advisory services
- Independent & free of conflict: No audit
- Quality assurance: Stringent quality reviews
- Diverse customer base: From multinationals to private clients
- Central management & coordination: Centrally managed global tax practice

About WTS Global

We are the leading independent non-audit tax practice worldwide with representation in more than 100 countries. WTS Global deliberately refrains from conducting annual audits in order to avoid any conflicts of interest and to be the long- term trusted advisor for its international clients. Clients of WTS Global include multinational companies, international mid-size companies as well as private clients and family offices.

The member firms of WTS Global are carefully selected through stringent quality reviews. They are strong local players in their home market who are united by the ambition of building a truly global practice that develops the tax leaders of the future and anticipates the new digital tax world.

WTS Global effectively combines senior tax expertise from different cultures and backgrounds and offers world-class skills in advisory, in-house, regulatory and digital, coupled with the ability to think like experienced business people in a constantly changing world.

For more information please visit: wts.com

Locally rooted – Globally connected

Why clients choose us

WTS Global is a leading global tax practice.

Full scope of tax services globally

Global services

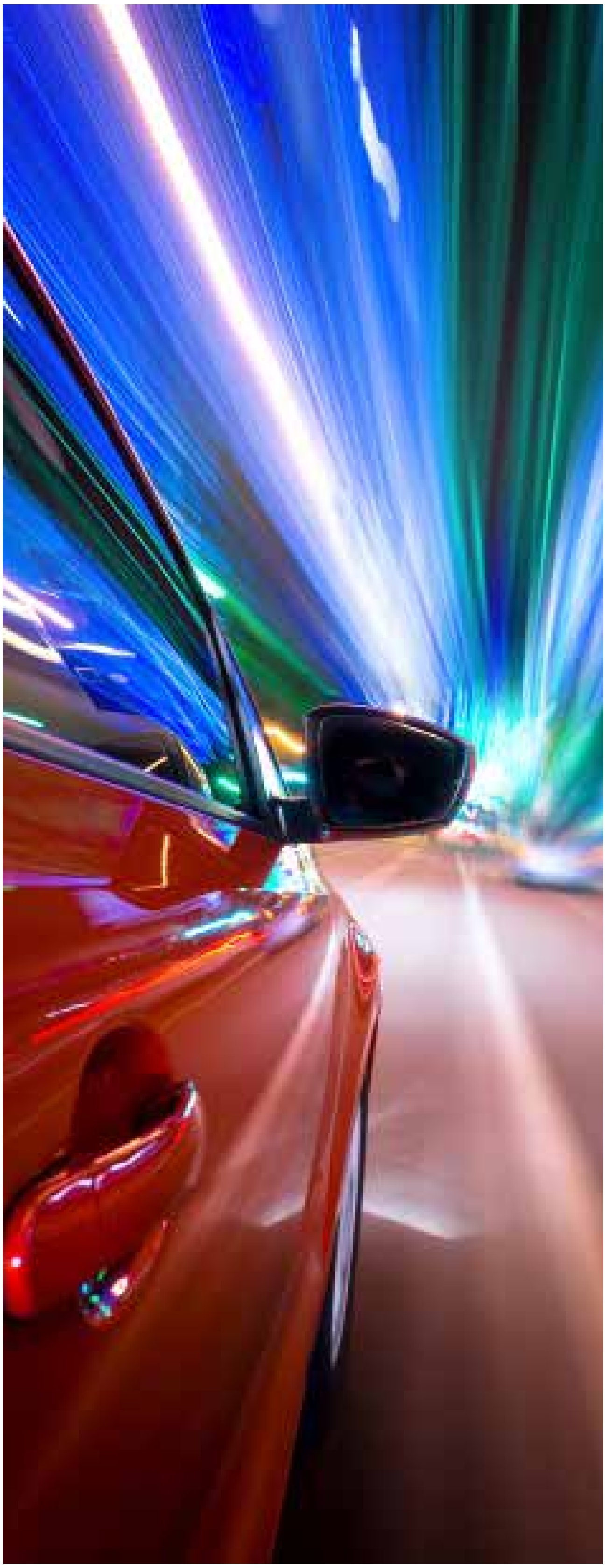
- International Corporate Tax
- Mergers & Acquisitions
- Transfer Pricing & Valuation Services
- Indirect Tax- Private Clients & Family Office Services
- Global Mobility
- Tax Controversy
- Customs

Additional cross-cutting services

- Financial Services
- Real Estate
- Tax Technology

Post-pandemic Asia Pacific: Taxation fast lanes and speed bumps

Post-Covid Asia Pacific recovery promises new opportunities for businesses. However, the need to replenish coffers, the changing international tax and geo-political landscape will pose challenges for tax regulators and tax leaders.



Economic projections in Asia Pacific show that recovery is to be expected in much of the region. However, sustainable recovery will take much longer to achieve. The effects of the pandemic, spiraling inflation and global commodity prices, rapidly rising interest rates, global supply chain vulnerabilities and geopolitical and trade tensions have contributed to an increasingly volatile post-pandemic global market.

In the latest outlook of the Asian Development Bank, the growth forecast for the region in 2023 has been downgraded to 4.9% from 5.3% with inflation further raised to 4% from its earlier projection of 3.5%.

On the back of an uncertain economic backdrop, an evolving digital economy and the growing climate crisis, governments and businesses face interrelated challenges. Tax regulators in the region look to rebuild their tax and fiscal policies to maximise revenue generation, boost public finances and in some cases, repay loans from international organisations. Tax executives, meanwhile, are at the receiving end of stricter tax audits, compliance and other complex unilateral tax policies.

Despite being at the opposing ends of the tax spectrum, governments and businesses in the region need to strike a balance, for one without the other cannot result in a sustainable recovery. Here are the key themes at play in helping shape how soon economies and businesses can fully bounce back:

- Tax reliefs and subsidies for businesses have been part of a number of governments' recovery plan in the region to help spur economic activities. This is complemented with stricter tax audits and tax compliance requirements.
- Finetuning tax laws in preparation for alignment with Pillar One and Pillar Two in a number of OECD member countries in Asia Pacific. Any delay in the implementation of the two-pillar solution is likely to lead to a proliferation of unilateral tax measures, causing greater complexity to businesses operating internationally.
- A number of jurisdictions focus on developing their markets as hub for particular sectors and industries.

- Some jurisdictions enhance policies to boost skilled immigration and tourism while others impose higher taxes on high-income earners.
- Many jurisdictions open up to the digital economy by moving many tax services online and enabling e-invoicing, while moving to tax cross-border digital services and tightening their grip on cryptocurrencies.
- Green taxes and the phased implementation of sector-specific carbon taxes and disclosure requirements are beginning in some jurisdictions. These are expected to grow, although unevenly, as the true cost of energy externalities begins to be reflected, while policy-makers still seek to preserve local competitiveness.

Tax executives in need of long-term and conflict-free advisors who can cover multiple jurisdictions in developing collaborative approaches and responses in line with complex audit and compliance requirements of tax authorities can turn to WTS Global experts in Asia Pacific. We have the expertise and experience to provide global businesses with insights and advice to navigate an increasingly complex and changing tax and trade landscape in the region. We look forward to discussing our insights on the trends and outlook highlighted in our Asia Pacific brochure.

Eugene Lim
Asia Pacific Chief Operating Officer,
WTS Global

At WTS Global in Asia Pacific, we have worked with tax authorities and supported multinational enterprises in these challenging times. We draw our strength and expertise from our highly collaborative Asian network of tax experts with presence in 14 jurisdictions across the region, enabling us to assemble a team for all areas of tax including:

- Global value chains
- Transfer pricing
- International and regional tax planning
- International tax and permanent establishments
- Mergers & acquisitions
- Regional tax controversies
- Dispute resolution via competent authority processes (APA & MAP)
- Digital taxation
- Financial services
- Private equity
- Indirect tax
- International trade
- Private clients
- Tax technology

Transfer Pricing Litigations and Controversies in Asia Pacific

On the back of rising inflation and government deficits in many Asia Pacific economies, MNCs are at the receiving end of evolving government policies aimed at seeking a "fairer" share of global tax revenues. Tax executives face skeptical views and rigorous assessments from authorities on transfer pricing issues particularly in-country distribution and service provision transactions where outbound payments are involved.

During a recent public webinar on handling transfer pricing controversies, experts from WTS Global in Asia Pacific, including Australia, China, India, Indonesia, Malaysia, Singapore, South Korea and Vietnam noted that, aside from looking at OECD perspectives, different treatments across the region need to be considered. Approaches to controversy resolution depend on jurisdictions, with litigation being active in Australia, India and Indonesia, while it is rarely used in China, Malaysia, Singapore, South Korea and Vietnam.

For in-country distribution activities, controversies usually arise from treatment of losses with respect to strategic costs of market penetration. Cases relating to overseas manufacturers distributing through local subsidiaries are prevalent in jurisdictions such as India and China. Subsidiaries of foreign entities are being challenged by tax authorities to explain approaches to comparability and present a robust transfer pricing documentation.

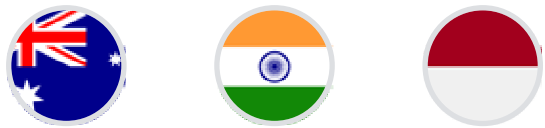
Meanwhile, for overseas manufacturers selling to different jurisdictions, an understanding of how authorities perceive risks based on its risk assessment tools or Practical Compliance Guidelines and the ability to collect robust and reliable evidence are key when dealing with Australia's revenue authorities. Other issues to look out for include dealing with profit and periodic adjustments in China where stricter rules on cross-border payments are imposed and Singapore's prescriptive rules on adjustments.

For service provision activities, issues such as diverging views on cost-plus method, lack of safe harbour rules in Southeast Asia except Singapore, evidential documentation requirements and VAT implications leave subsidiaries of foreign parent companies vulnerable to more taxes and penalties by regulators. WTS Global experts advise MNCs – whether their activity is an in-country distribution or service provision – to always go back to facts and look at the evidence when dealing with tax authorities.

Approaches to controversy resolution

Litigation vs. administrative procedures on controversies

Litigation is common and active



Australia **India** **Indonesia**

Litigation is available but non-active, still largely administrative

China **Korea** **Malaysia**

Singapore **Vietnam**

Tax challenges of global mobility in Asia Pacific

The recent trends in post-pandemic global mobility have thrust companies to an increasingly complex regulatory environment, affecting travelling executives, employment secondees and remote workers.

In a recent WTS Global webinar on the Tax Challenges of Global Mobility in Asia Pacific, tax experts from our network firms in Australia, China, Malaysia, the Philippines, Singapore, Thailand and Vietnam noted that jurisdiction-specific tax rules governing short- or long-term foreign assignments in Asia Pacific are diverse.

Some countries such as Malaysia and Singapore are quite relaxed, allowing income tax exemption for short-term business trips less than 60 days. However, risks can be high for foreigners on short-term business trips to certain countries.

- Thailand require business visas even for foreigners attending business meetings or trade fairs.
- The Philippines considers income earned by foreign nationals as taxable.
- Vietnam imposes income tax on the first day of entry.

While many jurisdictions in the region require work visa for secondments from six months and beyond, their regulations for PE registrations and auto-apply mechanisms for DTAs and tax credits vary. Remote work which has evolved throughout the pandemic has seen countries like the Philippines having no clear definition of this work arrangement yet while others, such as Thailand and Indonesia, impose new regulations for digital nomads.

In this evolving global mobility landscape, WTS Global tax experts advise companies to be more aware of new risks and complex scenarios and to consult with tax specialists to minimise double taxation and other tax pitfalls.

Southeast Asia Tax Developments

Southeast Asia economies were severely impacted during the Covid-19 pandemic. However, many have begun to show signs of recovery. This economic recovery, combined with recent global tax developments like the G20/OECD's Base Erosion Profit Shifting ("**BEPS**") Project, has resulted in a rapidly changing tax environment across the region.

This commentary provides a summary of the panel led by WTS Global at the 2022 ITR Asia Tax Forum.

Regional Tax Trends

BEPS Implementation

The latest Two-Pillar solution addresses the tax challenges posed by today's digitalised economy. Notwithstanding considerable uncertainty around its potential economic impact, ASEAN members have been generally receptive to the BEPS Project. Singapore, Vietnam, and Indonesia have all expressly signalled readiness to accept the new rules, and the Philippines and Malaysia are considering its implementation.

However, tax authorities are cautious of BEPS 2.0's complexity and potential difficulties in administrability. It is clear that tax landscapes will change dramatically upon implementation, fundamentally changing the traditional rules and policies that governments are used to utilising. For example, Pillar 2 will likely severely reduce the effectiveness of tax incentives.

Digital Taxes

An increasingly digitalised global economy has resulted in quickly shifting tax bases. ASEAN members have been particularly proactive in implementing digital taxes, typically through indirect tax mechanisms. For example, Singapore and Thailand have implemented overseas vendor registration systems, and Indonesia and Malaysia have implemented digital services taxes. Philippines is in the process of passing similar regulations.

Nevertheless, although some ASEAN countries have attempted to include unilateral digital tax measures that seek to tax the profits of overseas digital services providers, the implementation of such measures has largely been held in abeyance pending the implementation of BEPS 2.0.

Carbon Taxes

The usage of carbon taxes remains relatively uncommon in ASEAN, although we expect this to change in the short to medium term. The notable exception is Singapore; the country has had a carbon tax of S$5 per tonne since 2019, and ambitious incremental rate hikes up to S$50-80 per tonne by 2030 are planned.

Other ASEAN members, while hesitating to tax emissions directly due to fears that it will further increase the cost of energy, are promoting environmental goals through alternative means. For example, the Philippines and Cambodia have tax incentives for certain green investments.

Tax Incentives

There is a growing shift in ASEAN towards providing directed and selective tax incentives to promote specific aims, instead of having widely applicable and generalised incentive programmes. For example, Vietnam has incentives targeted at high-tech projects and Malaysia has incentives for the relocation of investments back to the country. Singapore and Thailand have existing incentives to attract targeted industries and the Philippines has rationalised her incentive programmes to be more competitive.

Many ASEAN countries have also devised or amended their tax incentive regimes to be in line with the BEPS discipline on harmful tax practices. As a result, foreign investors need not worry about offending these rules.

Issues Facing Tax Directors

Aggressive Audits and Audit Management

The relatively lax audit environment experienced during Covid-19 is expected to end, as tax authorities attempt to recover lost revenue and finance the recent spending on economic stimulus. Although audits remain targeted, tax authorities will gradually become more aggressive – tax directors should be prepared and ensure a good tax governance framework is in place.

A more aggressive audit environment is particularly concerning, because tax directors have already been facing the difficulty of managing audits. While the adoption of technology in tax administration has increased, audits in ASEAN still can be inefficient, such as with requiring the submission of physical documents.

On the other hand, with increasingly digitalised tax administration, tax authorities will have much greater information on their taxpayers than ever before. This transparency, combined with potentially easier exchange of information between tax authorities, means it is increasingly important for tax directors to ensure that audits and controversies in multiple jurisdictions are viewed and managed holistically.

Harnessing Technology

One positive outcome post-Covid, was that it spearheaded the adoption of technology both among companies and tax authorities. Adopting technology enables greater efficiency and could give organisations a competitive edge. Governments and tax authorities too have begun to adopt digital systems, such as e-invoicing in Malaysia and the Philippines. In the latter, the Bureau of Internal Revenue hopes to implement a fully electronic tax reporting system within five years, spurred on by its new Commissioner Lilia Guillermo, who comes from an information technology background.

However, with digitalisation, tax authorities will have unprecedented amounts of information on their taxpayers. There is a risk that tax authorities may be able to gather more accurate information about the tax affairs of a taxpayer than that taxpayer itself. Therefore, taxpayers should also invest to ensure they have the necessary systems in place to manage the copious amount of taxpayer data, and pull them together accurately and quickly when requested by the tax authorities.

Transfer Pricing: Different Benchmarks Across ASEAN

Despite the prevalence of global corporate income tax initiatives like the BEPS Project, transfer pricing rules remain localised even across ASEAN – specifically with a greater insistence on local benchmarks. This has the effect of requiring different benchmarks for each Southeast Asian country for transfer pricing purposes, making it difficult for tax directors to use a consistent benchmark across the region.

The lack of regional harmonisation compounds the inherent difficulty tax directors face in attempting to implement more unified internal transfer pricing processes justifiable from a global perspective. As a result, local benchmarks remain the key focus for companies.

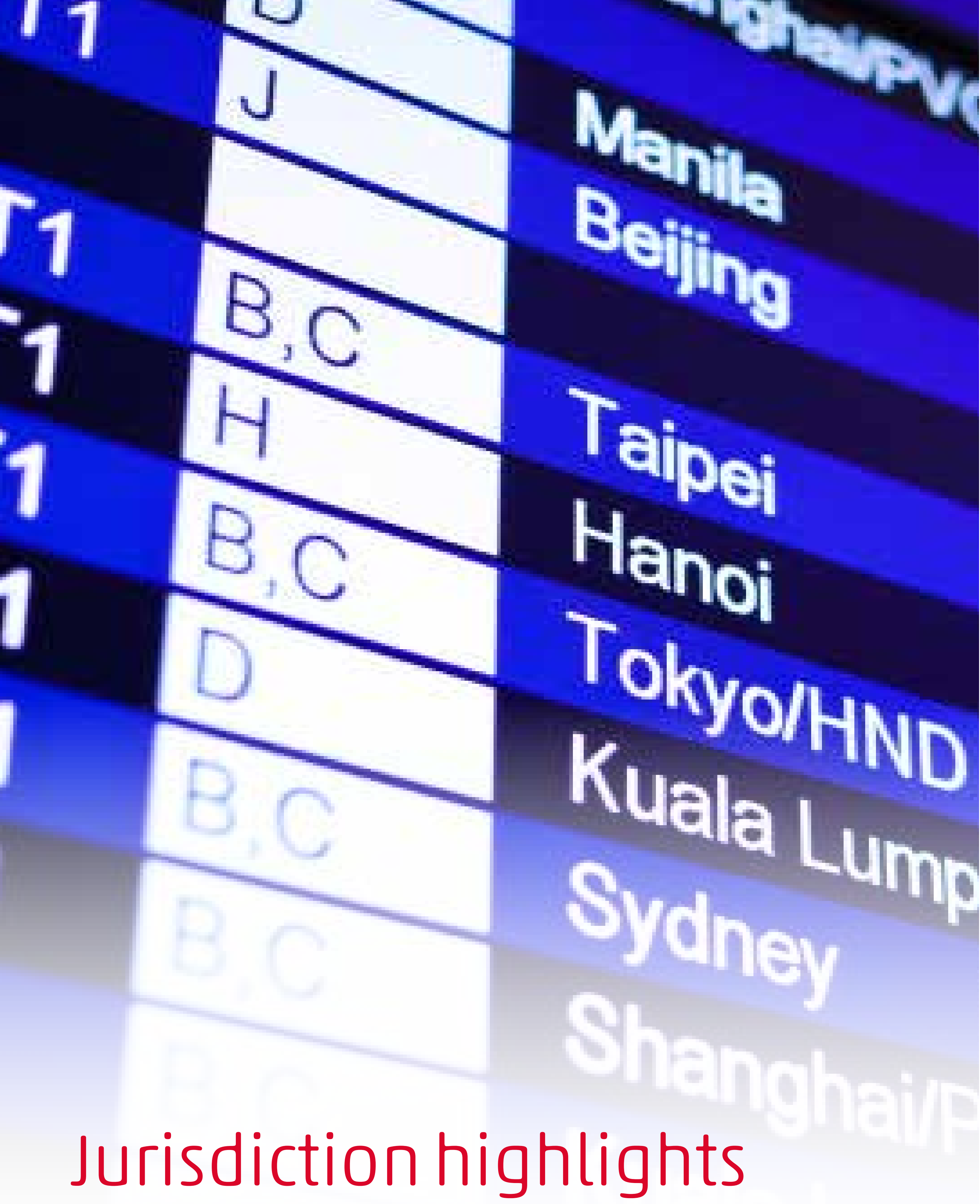
Conclusion

The tax climate post-Covid is changing and increasingly uncertain and complex. This is especially true with the implementation of BEPS 2.0, the adoption of taxes on novel tax bases like digital services and carbon emissions, and greater adoption of technology. Tax practitioners and managers should actively stay on top of these developments, to ensure their organisations are ready to adapt efficiently and competitively.

For tax directors, with increasingly aggressive audits, new global corporate income tax rules and technology that makes taxpayer activity more transparent, the tax risks of organisations are ever-expanding. There is a desire by tax directors for: (a) greater simplicity in tax administration; (b) acceptance of global transfer pricing benchmarks by local tax authorities; and (c) more clarity in dispute resolution mechanisms and processes. These changes will enable companies to streamline their companies' tax practices and have greater certainty in their global tax position and exposure.

Key Issues Facing Tax Directors in ASEAN

Aggressive Audit Environment	Audit Management	Harnessing Technology	TP: Different Benchmarks Across ASEAN
→ More aggressive audit environment observed in certain ASEAN countries → Higher risks especially after lax scrutiny during COVID-19 period Be prepared for more aggressive audits across the region. Consider internal reviews in high risk areas to identify vulnerabilities and adopt remediation actions.	→ Audits are often resource-intensive & require physical documents → Problem of having too much information/ data to process and manage → Enhanced requirement for consistency with greater tax transparency Consider bringing on board internal or external resources in the tax department to manage audits in the region. Tax audits across different jurisdictions will need to be better coordinated.	→ Positive outcome of COVID-19 period: increased use of technology → Future: the adoption of technological solutions will continue → Need to keep up with tax authorities who are also harnessing technology for revenue collection purposes Taxpayers need to adopt technology or risk tax authorities having better information on their tax affairs through use of technology.	→ Different ASEAN countries have different benchmarks for transfer pricing – difficult to comply with different rules in each country → No consistency of transfer pricing rules across ASEAN countries There will be greater pressure to use local benchmarks and companies will need to re-examine how their datasets are collated.



Jurisdiction highlights

Australia

Australia's shift to clean and renewable energy is gaining strong momentum. We're likely to see this shape tax policy over the next decade in the way of tax and similar concessions for appropriate investments and spending.

Mark Fancellu

As Australia recovers from the impacts of COVID-19, its focus will turn to rebuilding the economy while managing the $80bn cash deficit. From a tax perspective, this is likely to result in increased compliance action and debt recovery by the Australian Tax Office (ATO). This includes a less lenient approach to the imposition of penalties for non-compliance and late lodgement by significant global entities which attract fines of up to $550,000 per late lodgement.

Other areas of interest for the ATO include treaty shopping arrangements designed to obtain reduced withholding tax under a double tax agreement (DTA) in relation to royalty or dividend payments from Australia. Specifically, on 20 July 2022, the ATO published Taxpayer Alert TA 2022/2 which targets arrangements where the benefit is sought via the interposition of one or more related entities between an Australian resident the ultimate recipient of the royalty or dividend, where the interposed entity is a resident of a treaty partner jurisdiction. The ultimate recipient is generally located in a jurisdiction that either does not have a DTA with Australia or, where it is a treaty partner of Australia, the DTA provides a less favourable treaty benefit.

Interestingly, TA 2022/2 only addresses arrangements in relation to royalties and dividend payments and not payments of interest.

With regards to policy reform, the Labor Government (elected in November 2022) announced a number of multinational tax measures during its election campaign which include:

- Supporting the OECD Two Pillar solution
- Limiting debt related deductions by multinationals in line with the OECD approach
- Limiting the ability for multinationals to abuse Australia's tax treaties when holding intellectual property in tax havens
- Introducing various transparency and disclosure measures.

With a new Government in power, it's still unclear whether previous Government announcements and unenacted measure will be supported including Patents Box Regime and Tax Residency Reforms.

China

Read my lips: control your taxes, especially China taxes.

Martin Ng

Recovery from the COVID-19 pandemic and uncertainties in the global economy have brought challenges to Chinese businesses. Among the measures announced by the Chinese government in H1 2022 to reduce the tax burden and boost the economy include tax relief policies such as VAT refund, extra VAT deduction, and deferral of tax payment.

On the other hand, Chinese tax authorities have stepped up its efforts in tax inspection. A sophisticated e-tax system capable of automatic actions including collecting transaction information, analysing relevant financial data, identifying potential issues and generating risk lists for tax inspection is in place. This has made tax inspection more efficient.

Other notable developments in China include the setup of a green channel for foreign loans; China Customs' relaxation of voluntary disclosure rules; continuation of individual income tax benefits offered to expatriates for 1-2 years; and first mechanism for Chinese Customs and Tax Collaborative Transfer Pricing Management.

India

> *India has been able to leapfrog in terms of digitization, data-assimilation and use of artificial intelligence. The emphasis will continue to be on ensuring better compliance. Overall, the outlook for tax practitioners is extremely bullish.*
>
> **Dinesh Kanabar**

Among the key measures by the Indian government include the introduction of the Production Linked Incentives (PLI scheme) to incentivise **Made in India** products. This effectively subsidises large corporates of the cost of capital expenditure incurred in setting up new manufacturing ventures. On the introduction of Pillar One the Government's view validates its stand on source-based taxation. It is therefore turning more aggressive in wanting to tax MNCs on remittances out of India. Meanwhile, the Equalization Levy introduced as a digital tax continues to expand in its ambit and the provisions are broadly worded to encompass within their scope even in certain non-digital transactions.

India's stand on the implementation of Pillar One and Two will be watched with bated breath. From a domestic perspective, India is extensively looking at any attempt at tax evasion being part of money laundering and therefore subject to prosecution. A review petition has been filed in the Supreme Court on taxability of payments made for software. The outcome of these review petitions could have a far-reaching impact.

Indonesia

> *Indonesia is still an attractive destination for investors. Its 275 million population and the government's prudent monetary and fiscal policy create confidence to the market. Understanding and navigating regulatory and tax remain a key factor in entering the market successfully.*
>
> **Tomy Harsono**

The enactment of the harmonisation of the Indonesian tax law in 2021 has amended several tax regulations, including the general tax procedures law, income tax law, and value-added tax law. One of its implementing regulations is the introduction of voluntary disclosure program, which aims to increase taxpayers' compliance, voluntarily. This program is known as the second version of the previous 2015 tax amnesty program. Other developments include changes on personal income tax brackets, decreasing CIT rate, increasing VAT rate, and changes on administrative sanctions.

Other notable developments:
- Renegotiated tax treaties (Singapore, UAE).
- Updates on COVID-19 tax facilities in certain sectors
- Additional guidelines on CFC rules
- Changes on final income tax rates for construction service
- Introduction of final VAT regime for certain goods and services using designated percentage
- New tax treatment of crypto asset trading and fintech activities
- Changes on administration of VAT Invoice
- NIK as Taxpayer Identification Number

Indonesia has a positive commitment for the implementation of OECD Pillar One and Two. Although currently there is still legal foundation for digital service tax, it is expected to be abolished once Pillar One becomes effective. In order to accommodate Pillar Two, certain provision in current tax law has been amended to provide broader coverage of tax cooperation with other jurisdictions. However, further implementing regulations are expected.

While the regulation on carbon tax has already been available, its implementation is currently being postponed. Among other reasons, the postponement is due to the increasing energy price.

Furthermore, the tax audit environment in Indonesia is expected to remain aggressive. In addition, AEoI (automatic exchange of information) remains to be utilised by the Indonesian tax authority to assess tax compliance, particularly for individual tax residences.

Japan

"In Japan, preparations are underway for the legal development and implementation of Pillar One and Pillar Two. Developments in the proposed tax reform for 2023 will be closely watched.

Eiichi Takao

The 2022 tax reform bill was passed by the ordinary Diet session on 22 March 2022, and promulgated on 31 March 2022. The main items of tax reform in 2022 are as follows:

Corporate tax

→ Revisions to tax measure for promoting wage increases

A blue return filing companies which have increased the total payroll of "continued employees" by more than certain percentage are allowed to take a tax credit (15% of the increased amount).

→ Upgrade to tax incentive for promoting open innovation.

The requirements will be relaxed as follows.

- Shorten the minimum period of holding start-ups' shares required for companies making an investment in order to claim an income deduction (25% of the shares' value obtained) from the current 5 years to 3 years
- The eligible requirement for R&D start-ups will be relaxed from within 10 years after their establishment to within 15 years.

International tax

→ Expansion of the scope of earning stripping rules.

The earning stripping rules will be applicable to foreign corporation without PE in Japan in the case that they have Japan sourced income subject to corporate income tax.

Regarding the electronic preservation system in Japan, for the transaction information that is sent and received electronically on or after 1 Jan 2022, preservation is required in the form of the electromagnetic record (i.e., electronic data). However, it makes possible for the preservation obligor to preserve the hard copy format of the electromagnetic record related to transaction information sent and received electronically for a period from 1 Jan 2022 to 31 Dec 2023.

A new invoice system for Japanese consumption tax will be implemented on 1 October 2023. Under the new system, in order to claim input consumption tax credits, the taxpayer will be required to keep "qualified invoices" issued by "qualified invoice issuer" who are registered as taxable enterprises by applying to the district director.

Based on the revision of the OECD Transfer Pricing Guidelines, etc., the National Tax Agency (NTA) published administrative guidelines reflecting the transfer pricing guidance for financial transactions.

Malaysia

> *In today's ever-changing business and tax dynamic, having onboard a tax advisor at strategic level is vital for every corporation's success and risk management.*
>
> **Thenesh Kannaa**

Malaysia was on an effective 'territorial scope' of taxation for decades until 1st January 2023 where it decided to re-introduce also impose taxation on foreign income remitted by its residents.

Following industry consultation, broad exemptions has been announced for individuals. Also, exemptions are offered for companies deriving foreign dividend income. These exemptions are subject to meeting specified conditions.

Malaysia has over 70 tax treaties in place, and hence any Malaysian taxation on remittance of foreign income would be 'net of' bilateral credit in respect of foreign taxes suffered.

In relation to Pillar Two / GLoBE rules, Malaysia has also released a public consultation paper in August 2022. At this juncture, the draft is in line with OECD's model.

The 2023 Budget announcement is set on 7th October. Further developments may be available afterwards.

In the pre-Budget statement for 2023, the Ministry of Finance has indicated that Pillar One and Pillar Two are expected to be implemented 'starting 2023'. While it is hoped that Malaysia would synchronise itself with the other key economies with implementation in 2024, this is a space to watch out.

Currently, Malaysia is undertaking a revamp of tax incentive regime and this may also present new opportunities in the next year.

Malaysia has announcement commitment to implement electronic invoicing (e-invoicing). Given that Malaysia does not have a multi-stage indirect tax regime such as VAT/GST, the e-invoicing initiative is championed by the authority entrusted with administration of direct taxes.

Pakistan

> *Amidst all the challenges the Pakistan's economy is currently facing, there are lucrative opportunities for investors in the technology space of the country. The foreign investors should take benefits of ten-year tax holiday for Special Technology Zone enterprise and Zone Developer. The tax exemption extends to dividends and long-term capital gains of Venture Capital Funds investing in the zone enterprise.*
>
> **Muzammal Rasheed**

The Federal Government has introduced Super Tax on high-earning persons ranging from 1% to 10% (1% to 2% for Small Companies) payable in addition to the corporate tax. The tax rate for banking companies has been increased from 35% to 39% while Super Tax is also applicable. Other significant developments include:

- Initiatives for documentation of economy and broadening of tax-base have been taken which include mandatory requirement for Tier-1 retailers to integrate their Point of Sales (POS) terminal with tax authority's system and enhanced withholding tax rates for transactions involving non-filers.
- Tax rates on digital services payment to non-residents have been increased from 5% to 10%. Previously exempt IT Exports are now taxable at the rate of 0.25% of gross receipts.
- Introduction of 1% tax on the deemed income of residents arising from certain capital assets located in Pakistan and Capital Value Tax on certain foreign assets of resident Pakistani citizens.

Pakistan is currently challenged by the unprecedent floods that have affected all provinces of the country. In the wake of this calamity coupled with tough IMF programme, the additional revenue measures are imperative for relief operation and large scale rehabilitation work. The tax authority is expected to focus on the informal markets such as Tier-2 retailers to tap revenue leakage. The aggressive tax audits are also expected while the possibility of imposing new solidarity taxes cannot be ruled out.

As regards the measure to impose tax on the assets of residents, the determination of residential status of individual is important especially due to recent amendment in the definition of resident individual. According to this amendment, now Pakistani citizens who are not tax resident elsewhere despite physical presence of less than one hundred and eighty days in Pakistan in a tax year shall be considered tax residents in Pakistan.

Philippines

"The Philippine government is pursuing further reforms to help the economy recover. Part of the fiscal reforms are legislations that would broaden the tax base and improve tax administration, including digitalization of the tax administration . With the easing of the barriers to entry of foreign investments, together with the continuing fiscal reforms, the Philippines is poised for a strong economic rebound.

Benedicta du-Baladad

Three laws were recently issued to liberalise foreign investments by opening up certain industries reserved to Filipinos, easing up the required capital investment and equity restrictions to attract more foreign investments into the country.

The Philippines just elected a new President. A new commissioner of the tax administration has been appointed and based on her credentials and pronouncements, the focus of her administration will be to digitalize tax collection and administration. It has started implementing the mandatory use of e-invoicing and reporting for specified group of taxpayers (taxpayers engaged in the export of goods and services, taxpayers engaged in electronic commerce and those classified as large taxpayers). The use of e-invoicing for other types of taxpayers is optional.

Pending legislative measures which are expected to be passed by end of this year are the VAT on digital transactions, uniform land valuation and the passive income tax reform.

The Philippine's new administration has just unveiled its socioeconomic agenda which, according to the government's economic team, will "steer the economy back to its high growth trajectory". Part of the framework are measures that are aimed at enhancing fairness and efficiency in the tax system. These include reforms in tax administration through the digitalization of internal revenue and custom processes.

The Philippine government is also pushing for the passage within the year of the remaining packages of the Comprehensive Tax Reform Program, specifically the:

- Real Property Valuation and Assessment Reform Bill - The proposed law seeks to promote the development of just, equitable, impartial and nationally consistent real property valuation system.
- Passive Income and Financial Intermediary Taxation Bill – This proposed law seeks to redesign the taxation of passive income and financial intermediation services by making it simpler, fairer and more efficient.

Other significant pending tax legislations are bills on:

- the imposition of VAT on digital transactions;
- imposition of excise taxes on single use plastics; and
- modernization of tax administration and improvement of tax compliance through the Ease of Paying Taxes Act.

Singapore

Singapore's GST, personal income tax and carbon tax rate hikes have come at a time of global inflation, exponential energy price increases and recessionary pressures. These challenges coupled with the much-anticipated announcement of the top-up tax regime mean that businesses must reassess their tax position and strategies in Singapore. However, Singapore is likely to also benefit from the political situation in Northeast Asia, specifically the U.S.-China trade relations and Taiwan Straits developments. We expect more MNCs to relocate their regional headquarters to Singapore as well as an increase in ultra-high-net worth individuals and their families moving their wealth to Singapore, given her political and economic stability.

Eugene Lim

On **BEPS**, Singapore has signalled its readiness to accept the Two-Pillar solution.

The Goods and Sales Tax (GST) rates are set to increase to 8% in 2023 and 9% in 2024. Beginning in 2023, it will be applied to all imported goods, including for low-value goods below $400 (currently not subject to GST). GST will also be applied on imported non-digital services starting 2023.

Carbon Tax. As Singapore continues to demonstrate leadership in this region on decarbonisation, Carbon Taxes will begin to rise after 2023: to $25 per tonne in 2024/2025; $45 in 2026/2027; and $50-80 by 2030.

Personal Income Tax: Singapore will increase the top marginal income tax rate to 23% for income over S$500,000 and 24% for income over S$1,000,000.

Tax Incentives for Single Family Offices

Conditions for tax incentives for Single Family Offices (SFOs) tightened were on 18 April 2022. SFOs must now commit to increasing Assets under Management to S$20 million within 2 years. Other new requirements include having to hire at least 2 investment professionals.

METR

→ Singapore considering the introduction of a top up tax to achieve a minimum effective tax rate of 15% for MNEs with revenues of at least €750 million.

Energy and Carbon Taxes

→ Taxes on pollution likely to increase while tax incentives may promote green initiatives.

Inbound Investments from Northeast Asia

→ Singapore is likely to continue its trend of attracting inbound private wealth investments, relocations, and migrations, especially among Chinese expatriates.

Audits

→ The relatively lax audit environment experienced during COVID-19 is expected to end, as tax authorities attempt to recover lost revenue and replenish the public coffers depleted from the recent unprecedented spending on economic stimulus.

Cryptocurrency

→ Tighter regulatory oversight on cryptocurrency expected and may trigger tax-related amendments to discourage cryptocurrency investments.

Transfer pricing

→ IRAS to begin applying new penalties/surcharges arising from transfer pricing adjustments.

South Korea

> *The new Korean administration actively highlights on relieving heavy tax burden on companies while facilitating incentives for skilled foreign workers. Notwithstanding this, The Korean National Tax Service may remain very aggressive to replenish its coffer after a series of extensive government fiscal spending due to COVID-19. It is highly likely that the Korean National Tax Service will go after companies that have benefited from the pandemic such as financial institutions and companies in e-commerce industry. Additionally, it is noteworthy for many foreign investors that the Korean courts tend to take In dubio pro fisco (when in doubt, in favour of government) stance during this kind of economic circumstance and, therefore, it would be necessary for taxpayers to watch out for this trend.*
>
> **Ok Hyun Ma**

A new president was elected in 2022 and he stressed the government's role as a supporter of private sector (i.e., laissez-faire economic policy). Against this backdrop, a tax law amendment bill was submitted to the National Assembly in September 2022 and it reflects the new administration's economic policy—the overall focus is on easing the heavy tax burden on companies and supporting them to enhance their competitiveness. Another pillar that new government considers important is the continued and even aggravated low-birth rate, which will ultimately lead to a decrease in population in the next decades. As a counter-measure, the government tries to adopt more foreigner-friendly immigration and tax policy to secure enough workforce within the country.

The new law established Global Minimum Tax rate of 15% in Korea from Pillar Two within the OECD/G20 Inclusive Framework which will apply from the business year beginning on January 1, 2024. As part of the foreigner-friendly policy by the Korean government, special flat rate tax of 19% for foreigners will be reinstated without any limit on applicable period. Also, in line with the foregoing foreigner-friendly policy, the tax reduction for foreign engineers will be extended from 5 years to 10 years. The new law introduces an application of 95% DRD for dividends from foreign subsidiaries where a domestic company has shareholding of 10% or more and held for at least six months.

Taiwan

> *Taiwan is in the spotlight for technology and its growing alternative energy market. Now, with growing government calls to bring more foreign talent, keeping up to date with local tax laws and avoiding non-compliance is as essential as ever*
>
> **Michael Werner**

The COVID-19 pandemic reached a peak in Taiwan in May 2021, disrupting business operations and prolonging stays for many expatriate employees. In response, the Taiwan tax authorities released a series of tax relief measures, including:
- Taking relative relaxed measures when determining a foreign individual's tax resident status.
- Granting employers 200 percent of salary expenses paid during employee "disease prevention childcare leave" or vaccination leave as a corporate expense deductible from income.

Furthermore, the Taiwan government announced that controlled foreign company (CFC) rules will come into force in 2023 in response to Pillar Two of the OECD's Global Anti-Base Erosion (GloBE) Proposal. Taiwan's CFC rules were introduced in 2016 for corporations, and in 2017 for individuals but have since been pending an implementation date from the Executive Yuan. And now for the purpose of being complied with Pillar Two, Taiwan will also formally enforce the CFC rules starting from January 1, 2023.

Due to the COVID-19 pandemic along with the booming offshore wind industry, it is foreseeable that tax matters related to global mobility will increase dramatically in the coming years. In this regard, we predict the following will increase in importance in Taiwan:
- Whether having an employee stay in Taiwan would lead to PE establishment
- Tax preferences available for foreign entities under domestic law and/or tax treaties and how to apply them
- Tax preferences for foreign professionals

Thailand

> *Despite foreign investment being restricted in many areas, Thailand remains an attractive hub due to its good infrastructure, high-quality work force and comprehensive tax and non-tax incentives for projects in various industries.*
>
> **Till Morstadt**

Non-resident providers of digital services must register for VAT since September 2021.

The new long-term resident visa offers a 10-year visa to 4 groups of foreigners: wealthy global citizens, wealthy pensioners, work-from-Thailand professionals, and highly-skilled professionals.

Transfer pricing remains in the focus of audit teams.

Thailand signed the MLI in February 2022, which will enable closer exchange of information with other treaty members and lead to increased scrutiny by tax authorities. MNEs should be aware of their international taxation duties, in particular in the field of transfer pricing. The Thai tax authorities are pursuing a stricter approach to increase tax revenue.

Vietnam

> *Vietnam is developing fast. The next and important step is developing high-end services with affection to perfection. Not all service providers are aware of this. The tax authorities will implement electronic systems to check compliance which will increase professionality. Also, for some foreign invested companies that will be challenging.*
>
> **Wolfram Gruenkorn**

Key developments in the Vietnamese market include Vinfast's forage into the world market as a producer of cars in the e-mobility with plans to put up factories in the US and Germany; the Vietnamese government's continued fight against corruption – most notable of which was the arrest of a government minister; and the government's stricter tax compliance policies aimed at increasing revenues.

Vietnam has stable relationships with practically all countries, including Russia, the US, and Europe, and has Free Trade Agreements with 53 countries. This brings Vietnam into the position of a major trading hub and place for production. The logistics sector is developing fast and increasingly includes added services like quality control and sourcing. The fight against corruption and for tax compliance will continue.

UAE

"With various events presenting conflict, stress and disruptions globally, the UAE with its strong ecosystem of attracting global businesses, investments, skilled workers, ease of doing business, dynamic changes on the tax and regulatory front and with its strong network of bilateral trade agreements is one of the brightest spots in the world economy. It is growing at more than 6% and indeed, it can be said that UAE holds all the aces now.

Nimish Goel

UAE is going through multiple changes on the tax and regulatory front. In about five years of introduction of VAT and excise tax, UAE has announced introduction of Corporate Tax effective from financial year starting on or after 1 June 2023. UAE is a signatory to the BEPS Inclusive Framework and introduction of corporate tax at 9% in the UAE is a testimony to the commitment. For MNE's covered by Pillar Two provisions, a different tax rate would be introduced.

Some notable developments:
- Public Consultation Document on the Corporate tax law was issued inviting comments from the stakeholders. The law along with the rules and regulations are awaited.
- With the introduction of corporate tax, other measures including transfer pricing regulations are expected to be introduced.
- New Commercial Company Law came into force on 2 January 2022 replacing the earlier Commercial Company Law of 2015. It recognised two new corporate vehicles viz. SPACs and SPVs, apart from certain amendments to the earlier provisions governing Joint Stock Companies and Limited Liability Companies.
- In a major shift, to retain talent and attract investments from HNIs, UAE would be granting citizenship to certain class of expats.
- In one of the significant changes, albeit not on the tax and regulatory front, UAE adopted a 4.5 day work week and a Saturday-Sunday weekend.
- New labour law came into effect on 2 February 2022 with a key focus on improving the employee's rights and providing flexibility at work and at the same time protecting employers rights.

The major thing to watch out for in the coming months is the fine print of the Corporate tax law and its implementation. Considering the past experience of VAT implementation, both the industry and the government are better prepared. However, businesses need to understand and evaluate the impact of corporate tax sooner and plan for its implementation.

UAE is witnessing a strong demand for FDI. Ease in travel restrictions post COVID-19 coupled with multiple positive changes in the visa regulations, has led to a growth in the tourism and hospitality sector, a key contributor to the GDP of the country.

Increase in the oil production and crude prices, a strong US Dollar and the government initiatives to double the size of manufacturing sector by 2031 would be significant economic growth drivers. (The UAE Dirham is linked to the US Dollar).

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