



Inside this issue:

Incentives & reforms

This mid-year issue of our 2015 APAC Newsletter looks at the measures by various governments in stimulating economies and implementing modernizing reform.

We begin with an article on mutual recognition of Hong Kong and Mainland China funds operative from July 2015. This represents one of the many steps to liberalise the China investment market and allow two-way-flows of investment capital.

Meanwhile, Hong Kong has initiated a bill to propose for profits tax exemption to (i) offshore PE funds and (ii) offshore funds in general in respect of income from transactions in PE investments.

In India, a bill has been introduced to reform GST, whilst updating changes are made to company laws and accounting regulations.

The Indonesian Government has launched new tax incentives to 143 industries to attract foreign investors and to create local job opportunities. The

incentives include accelerated depreciation and reduction in withholding tax on dividend.

Detailed guidelines have been released in Malaysia on the incentives relating to principal hub and capital allowances on automation.

Singapore has two articles, one on incentives to SME and another on the key features of her 2015 Budget.

Happy reading!

China	2
Hong Kong	2
India	4
Indonesia	10
Malaysia	12
Singapore	14

CHINA

Mutual Recognition of Mainland & HK Funds



Serving Hong Kong Since 1994

"...funds will be allowed for distribution in each other's market..."

Mutual Recognition

Commencing from 1 July 2015, international fund managers will have greater access to the mutual funds markets of China following the entering of a mutual recognition fund ("MRF") program between the securities regulators of Hong Kong and China. Under this new initiative, eligible Mainland and Hong Kong funds will be allowed for distribution in each other's market through a streamlined vetting process.

Up to now, a foreign fund manager wishing to reach Chinese investors has to enter into a joint venture with a local Chinese company. This is a costly and inefficient process,

particularly as the foreign investor is not allowed to hold more than 49% stake in such a joint venture.

Pursuant to the MRF program, fund managers already licensed in Hong Kong will not need to obtain a license to trade in China. A single license can thus access both markets.

Going forward, Mainland funds can apply for authorization to market in Hong Kong subject to fulfillment of the following key requirements:

- the fund is a publicly offered securities investment fund registered in the PRC;
- the fund has been

established for more than 1 year;

- the fund has a minimum fund size of not less than RMB 200 million;
- the fund must not primarily invest in the Hong Kong market; and
- the value of fund units sold to investors in Hong Kong shall not exceed 50% of the value of the fund's total assets

Hong Kong and China funds, their managers and stakeholders will benefit from the MRF program.

HONG KONG

HK Tax Exemption for Offshore Private Equity Funds



Serving Hong Kong Since 1994

"...extend HK profits tax exemption to offshore PE funds..."

HK Tax Exemption on Offshore PE Funds

To further promote Hong Kong as a fund/asset management hub, the Inland Revenue (Amendment) Bill 2015 was introduced in March 2015 to extend HK profits tax exemption to offshore private equity ("PE") funds.

Currently, under legislation enacted in 2006 (the "2006 Exemption"), offshore funds are exempted from profits tax in respect of Specified Transactions carried out through or arranged by Specified Persons.

Specified Transactions include transactions in

securities such as shares, debentures, options and other financial instruments issued by corporate or unincorporated bodies and governments but do not include securities in private entities. Specified Persons refer to persons licensed by the Securities and Futures Commission.

Offshore PE funds or transactions in private companies by eligible offshore funds are both outside the scope of the 2006 Exemption.

The 2015 Amendment Bill proposes the following key amendments to the 2006 Exemption:

- Extend the definition of Specified Transactions to include transactions in securities of certain offshore private companies (described in the Bill as EPC, i.e. Excepted Private Companies);
- Allow tax exemption to Qualified Funds ("QF") without requiring transactions be carried out through or arranged by Specified Persons; and
- Allow tax exemption on gains from disposal of an EPC or Special Purpose Vehicles (SPVs) formed solely for the purpose of holding (directly or indirectly) or administering private companies if the EPC or SPV is owned by a tax exempt fund.

How to qualify as an EPC

An EPC is a private company incorporated outside Hong Kong that satisfies all the following conditions at all times within the 3 years before

the transaction in the EPC is carried out:

- It did not carry on any business through or from a permanent establishment in Hong Kong;
- It did not hold directly or indirectly share in any private company carrying on business through or from a permanent establishment in Hong Kong (or if it held such share capital, the aggregate value of which is not more than 10% of the value of its own assets); and
- It neither held immovable property in Hong Kong nor held directly or indirectly share capital in any private company that holds immovable property in Hong Kong (or if it held such immovable property or share, the aggregate value of the holding of the property and capital is not more than 10% of the value of its own assets).

How to qualify as a QF

At all times after the closing of the fund, a QF should fulfill the following conditions:

- The number of investors exceeds 4;
- The capital commitments made by investors exceeds 90% of the aggregate

capital commitments; and

- The net proceeds arising out of the transactions of the fund to be received by the originator (and its associates) does not exceed 30% of the net proceeds.

These conditions are to ensure that the QF is a bona fide fund and is not a vehicle majority-owned by the fund manager.

How to qualify as a SPV

PE Funds may use multi-level holding SPVs to admit investors. The funds may participate in different investments via SPVs too. To facilitate PE Funds to use Hong Kong incorporated or resident companies as investment platform, the Bill provides for profits tax exemption in respect of profits derived from the disposal of an EPC or of an interposed SPV.

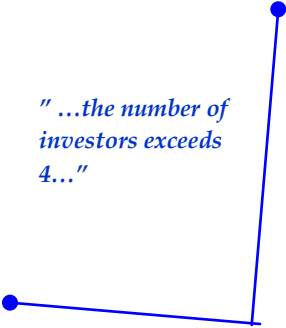
For this purpose, a SPV is defined to include a corporation, partnership, trustee or other entity in or outside Hong Kong that fulfills all the following conditions:

- It is wholly or partially owned by a non-resident person;
- It is established solely for the purpose of holding, directly or indirectly, and administering one or more EPCs; and

HONG KONG

(Continued)

"...the number of investors exceeds 4..."



HONG KONG

(Continued)

"...need not be wholly owned by an exempt fund..."

- It is incorporated, registered or appointed in or outside Hong Kong.

As a SPV needs not be wholly owned by an exempt fund, the profits of the SPV are only exempt in respect of the part attributed to the exempt fund.

Anti-avoidance provision

The 2005 Exemption is intended for non-residents only. To counter-act round-tripping of funds by Hong Kong residents, when a resident person (alone or jointly with his associates) holds a beneficial interest of 30% or more in an exempt fund, the resident person is deemed to have a corresponding proportion of the exempted profits of the

offshore fund. This deeming provision shall extend to the profits derived by a PE fund and its beneficial interest in a tax exempted transactions of EPC or SPV when the 30% ceiling of Hong Kong residents is exceeded. No tax exemption is allowed to the profits so attributed to the resident person.

INDIA

Sharp & Tannan
Chartered Accountants

"...subsumed to the GST and this will be the only central act that governs indirect taxation..."

There are major changes (and expected changes) in the provisions for Goods and Service Tax and Companies Act, 2013. This is in addition to changes in the accounting standards wherein the move to harmonize with International Financial Reporting Standards (IFRS) is almost complete. There are also certain accounting standards that are issued under the Income-tax Act, 1961.

This article gives the major changes/expected changes. The matters are covered in brief and give an overview of the amendments but should not be relied upon to disclose all matters.

Goods and services tax (GST)

At present, both the state and the central

governments are permitted to levy taxes on goods and services. This has led to a number of laws enacted at both the state as well as central government levels making the tax collection exercise both complex and costly. There are separate laws for central excise duty, countervailing duty and service tax. In addition there are state laws that govern value added tax, octroi and entry tax, luxury tax etc.

All these are to be subsumed to the GST and this will be the only central act that governs indirect taxation. However, before the GST can be introduced, the Constitution of India needs to be amended to introduce GST. The Lok Sabha (lower house of Parliament) has passed

the amendment on 6 May 2015 and the bill is now introduced in the Rajya Sabha (the upper house of Parliament).

The principal contention is the sharing of revenue between the central and state governments with the state governments being apprehensive of a loss of revenue. However, the modalities of sharing the revenue are being worked out and it will be ensured that the state governments will not lose out on revenue.

Companies Act, 2013

The Companies Act, 2013 ('the Act') replaces the earlier Act of 1956 and has brought in many changes. The principle changes in relation to accounts, auditors and other important matters are given in brief.

(Continued)

Format of balance sheet and statement of profit and loss

The Act provides the format for the balance sheet and the statement of profit and loss and the disclosures to be made (schedule III). This was also prescribed earlier but the current formats and disclosures are in line with the requirements of IFRS; further, the Act itself provides that the accounting standards will prevail in case of conflict with the requirements of the Act.

Consolidated financial statements

The Act also provides for consolidation of accounts; previously, all listed companies were publishing consolidated financial statements because the Securities and Exchange Board of India (SEBI) required this.

Corporate social responsibility

Every company fulfilling certain criteria has to spend 2% of its average net profits of the immediately preceding three years as corporate social responsibility (CSR). The Act provides for certain activities that would qualify as CSR; these are contained in schedule VII of the Act. Companies are encouraged to give preference to the localities in which they operate. The activities are

mainly for health care, education, empowerment of women, environmental stability, protection of national heritage, etc.

Rotation of auditors and certain disqualifications of auditors

One major change is that rotation of auditors is introduced. In the case of individuals the rotation period is after five years and in the case of firms the period is ten years. There is a transition period of three years before this comes into effect.

An auditor cannot be an auditor for more than twenty companies (excluding private limited companies which have paid-up capital of less than Rupees one billion).

There are also circumstances in which an auditor is disqualified from being appointed and one of the conditions is that he or his relative or his partner should not be holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company. However, a relative is permitted to hold shares having a face value of Rs. 100,000.

Statutory auditors are also prohibited from offering certain services to clients, *directly or*

indirectly, like accounting and book keeping services, internal audits, design and implementation of financial information services, actuarial services, investment advisory services, investment banking services, rendering of outsourced financial services, management services and any other kind of service that may be prescribed (none prescribed at present). It may be noted that these restrictions were always in place, not by law, but by the professional ethics promulgated by the Institute of Chartered Accountants of India (ICAI).

In the case of a firm, 'directly or indirectly' includes, *inter alia*, '(a firm)whose name or trade mark or brand is used by the firm or any of its partners'.

Further, the auditor may provide such other services (other than prohibited services) as are approved by the board of directors or the audit committee as the case may be.

Reporting on fraud

The auditor is required to report to the central government on any fraud perpetrated by the officers or employees of the company that he comes across during the course of his audit, if the

"...rotation of auditors is introduced..."

INDIA

(Continued)

"...exempt auditors from any consequences arising from reporting on fraud..."

fraud exceeds a specified limit. In case the fraud is below the specified limit, the matter will need to be reported to the audit committee and will also need to be included in the directors' report.

Normally, auditors are constrained by professional ethics from reporting to any third party; the Act specifically exempts auditors from any consequences arising from reporting on fraud to the central government.

Note: the 'specified limit' has not yet been announced.

Reporting on internal financial controls

The auditors are also required to report 'whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls'. It is to be noted that the board of directors are also required to report on internal financial controls. This reporting is mandatory for the board of directors for accounting periods commencing 1 April 2014 and for auditors for accounting periods commencing 1 April 2015.

The term 'internal financial controls' is defined to include *inter alia* 'policies and procedures adopted by the company for ensuring the orderly and efficient

conduct of its business....' and is therefore a wide and all encompassing term.

Related party transactions

Related party transactions that are not on an arm's length basis are not permitted unless sanctioned by the board of directors and members of the company. All related party transactions are to be approved by the audit committee.

Indian Accounting Standards (Ind-AS)

At present, accounting standards issued by the Institute of Chartered Accountants of India (ICAI) are specified under the Companies Act. There are 28 standards [termed Accounting Standards (AS)] from AS-1 to AS-29 (AS-8 was replaced by another standard).

The accounting standards are applicable to all companies. There are certain standards (or parts thereof) that are not mandatory for small and medium companies as also for non-corporate entities.

The apex body for setting accounting standards is the ICAI. The central government had set up a National Advisory Committee on Accounting Standards (NACAS) under the Companies Act, 1956 which would advise the government on the formulation and laying

down of accounting policies and accounting standards for adoption by companies or a class of companies. This committee continues even at present. The accounting standards for companies are under the Companies (Accounting Standard) Rules, 2006.

The Companies Act, 2013 provides for the setting up of the National Financial Reporting Authority (NAFRA), which would have wider powers than NACAS. Apart from formulation and laying down of accounting standards, NAFRA would be tasked with:

- Providing for auditing standards
- Monitoring and enforcing compliance accounting and auditing standards
- Overseeing the quality of service of professionals and suggest measures required for improvement in quality of service
- Perform such other functions that may be prescribed.

It may be noted that NAFRA has not been constituted and the accounting standards promulgated under the aforementioned rules are still valid.

There has been a move in the past few years to converge the Accounting Standards (AS) with

"...whether the company has adequate internal control system..."

International Financial Reporting Standards (IFRS). Accordingly, ICAI has developed new standards that would converge with IFRS, with certain carve outs – these standards are called Indian Accounting Standards (Ind AS).

Implementation of Ind AS is voluntary from 1 April 2015 and mandatory from 1 April 2016 for specified companies viz.:

- (a) Companies whose securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of Rs. 5 billion or more.
- (b) Companies (other than those covered above), having net worth of Rs. 5 billion or more
- (c) Holding, subsidiary, joint venture or associate companies of the companies covered under (a) and (b) above.

Implementation of Ind AS is mandatory from 1 April 2017 for companies having a net worth of less than Rs. 5 billion.

However, companies whose securities are listed or in the process of being listed on SME exchanges shall not be required to apply Ind AS but may continue to apply AS.

Ind AS are not applicable to banking companies, insurance companies and non-banking financial companies (NBFC).

Departures from IFRS (The following are adapted from 'Indian Accounting Standards (Ind AS): Carve-outs from IFRS and Comparison with existing Accounting Standards' publication of the Institute of Chartered Accountants of India)

Property, plant and equipment

IFRS 1 provides that on the date of transition either the items of property, plant and equipment shall be determined by applying IAS 16 retrospectively, or they should be recorded at fair value.

However, there are many old companies in India and retrospective application of Ind AS 16 or fair values at the date of transition to determine deemed cost may not be possible for old assets. Accordingly, Ind AS 101 provides that entities may continue using the carrying values of property, plant and equipment on the date of transition in accordance with previous GAAP.

Bargain purchase gain arising on a business combination

When a business is acquired for a consideration that is less than the fair value of net assets, it results in a gain.

IFRS 3, Business Combinations, requires such gain to be recognized in the statement of profit and loss.

It is felt that recognizing such gains in the statement of profit and loss will result in recognition of unrealized gains, which may get distributed in the form of dividends. Moreover, such a treatment may lead to structuring through acquisitions, which may not be in the interest of stakeholders of the company.

Accordingly, these gains will continue to be accounted for as capital reserves in reserves and surplus and will not be available for distribution.

Classification of foreign currency convertible bonds (FCCBs)

The holder of an FCCB is entitled to convert the bond into equity. IAS 32 Financial Instruments: Presentation considers the equity conversion option as a derivative liability that is embedded in the bond. Gains or losses on account of change in fair value of derivatives are required to be recognized in the statement of profit and loss. The fair value of the option is dependent on the share price of the company. In case the share value falls, there is a gain and income will be recognized in the statement of profit and loss.

Many Indian companies

"...Ind AS 101 provides that entities may continue using the carrying values..."

INDIA

(Continued)

"...Investment property is to be measured at cost or fair value..."

are accessing foreign markets in order to take advantage of lower interest costs. It is felt that in the case mentioned above, there would be unintended volatility in the statement of profit and loss. Further, in case the share prices fall, the holder of the bond would not be inclined to convert to equity. Accordingly, Ind AS has amended the definition of financial liability to consider the conversion option in FCCBs as equity; and equity would not be required to be re-measured at fair value.

Fair value model for investment property

Investment property (i.e. property held to earn rental income or to gain capital appreciation) is to be measured at cost or fair value. In case the fair value model is used, unrealized gains or losses are to be recognized in the statement of profit and loss (IAS 40, Investment Property).

It is noted that fair values of such property are unreliable. Further, using fair values may lead to distribution of unrealized gains as dividends. Accordingly, Ind AS 40 does not permit fair value model for investment property.

Uniform accounting policies in the case of associates and joint ventures

IAS 28 Investment in Associates requires that for the purpose of

applying equity method of accounting, uniform accounting policies should be used.

There are certain instances in India where the associate may not be in a position to apply Ind AS and accordingly, it has been decided to include 'unless impracticable to do so' to exempt such associates from applying Ind AS.

Translation of long-term foreign currency monetary liability

Foreign currency monetary liability is translated at the end of the period and the resultant profit or loss is recognized in the statement of profit and loss.

The existing accounting standard (AS-11 The Effects of Changes in Foreign Exchange Rates) gave an option to companies to either capitalize or defer the foreign exchange losses. This option was introduced at the time of the global financial crises as many companies were facing hardships owing to the volatility of the exchange rates. Those companies that opted for this concession will be permitted to continue this accounting for exchange difference on long-term loans existing on the transition date under Ind AS 101. For loans taken after that date, there will be no similar concession.

Amortization of certain intangible assets

The Companies Act, 2013 allows companies to use revenue-based amortization of intangible assets arising from service concession arrangements related to toll roads whereas Ind AS 38 Intangible Assets does not allow revenue-based amortization in all such cases.

In order to provide relief to entities that have already commenced amortization on the basis permitted by the Companies Act, 2013, Ind AS 101 First Time Adoption allows such companies to continue the amortization on the basis of revenue; however, those service concession arrangements arising after the transition period would have to follow the methods provided in Ind AS 38.

Classification of a loan liability in case of breach of loan conditions

Under IFRS if there is any breach of a condition of a long-term loan as at the balance sheet date it is presented as a current liability. This is so even if the breach is rectified after the balance sheet date but before the date of adoption of the accounts.

Under Indian conditions, there are many conditions governing loans – some are substantive (e.g. interest payments) and some are

procedural (e.g. inventory value to be submitted periodically). The loans are normally not recalled in case of a procedural breach that is subsequently rectified. Further, a concession is available under Ind AS 1 Presentation of Financial Statements whereby even in case of a material breach of conditions, if the lender has agreed, after the reporting date but before adoption of the accounts, not to demand payment as a consequence of the breach, the liability will be presented as long-term and not current.

Recognition of lease rentals

Many lease rentals in India contain inflationary clauses whereby the rents are increased every year. IFRS requires straight-lining of the amounts (i.e. charge to the statement of profit and loss account will be equal every year over the period of lease).

It is felt that since the increase is in line with expected inflation so as to compensate the lessor for expected inflationary cost increase, it would not be appropriate to straight-line the cost but would be more appropriate to charge it to the statement of profit and loss in accordance with the lease agreement.

Treatment of penalties included in the consideration

IFRS 15 Revenue from

Contracts from Customers provides that all penalties levied in the performance of the contract shall be considered in the nature of variable consideration for recognizing revenue.

Under Ind AS 115, it is provided that penalties will be accounted as per the substance of the contract. Where the penalty is inherent in determining the transaction price, it shall form part of the variable consideration, else transaction price will be considered as fixed.

The Income-tax Act, 1961

The government has issued a notification dated 31 March 2015 that all assesses following mercantile system of accounting and having income chargeable to income-tax under the head 'Profits and gains of business or profession' or 'Income from other sources' shall follow the income computation and disclosure standards ('ICDS') that are specified. These are to be followed for the purpose of computation of income under the above heads and are not for the purpose of maintenance of books of account.

The ICDS come into force for the financial year commencing 1 April 2015 (assessment year 2016-17).

The fundamental accounting assumptions

of going concern, consistency and accrual are to be followed.

The accounting policies selected should be such as to represent a true and fair view of the state of affairs of the business. The principle of substance over form is to be applied in all cases. Further, a marked to market loss or an expected loss shall not be recognized unless the recognition of such loss is in accordance with the provisions of any other ICDS. The accounting policies shall not be changed without reasonable cause.

The ICDS are issued for the following:

- Disclosure of accounting policies
- Inventories
- Construction contracts
- Revenue recognition
- Tangible fixed assets
- Effects of changes in foreign exchange rates
- Government grants
- Securities
- Borrowing costs
- Provisions, contingent liabilities and contingent assets

INDIA

(Continued)

"...a marked to market loss or an expected loss shall not be recognized unless..."



"...two categories: first, specific industries,... Second, specific industries and specific regions..."

As the effort to boost investment growth, the Government of Indonesia has recently issued another regulation to offer tax incentive to investors who have large scale investments in Indonesia or those who conduct exports, create a significant number of job opportunities, or use large portions of local content. The tax incentive provisions have been effective as of 6 May 2015, with the issuance of Government Regulation (GR) No 18 of 2015 on Income Tax Facility for Investment in Specific Industries and/or Specific Regions. An implementing regulation to this GR has also been issued by the Chief of Investment Coordinating Board (BKPM). To propose for this facility, investors can come to the Central One-Gate Services at BKPM and no longer need to make rounds to many ministries / institutions.

The tax incentive is made available for 143 industries classified into

two categories: first, specific industries, e.g.: beef cow-calf operations, geothermal, cosmetic ingredients and cosmetics including toothpaste, pharmaceutical ingredients, outer tires and inner tubes, metal and basic steel, semi-conductor and other electronic components, computer and/or computer assembly, wireless communication equipment, other communication equipment, and television and/or television assembly. Second, specific industries and specific regions: corn farming, soy farming, rice farming, tropical fruit farming, fish freezing, fish and water food products (non shrimp) canned preservation and processing, shrimp canned preservation and processing and other water food products freezing located in specific regions.

The tax incentive being offered includes the income tax incentives

that consist of four facilities:

1. Deduction to net income

The deduction is offered in the amount of 30% (thirty percent) of the capital investment in the form of tangible assets, including the land used for the main business activities, allocated for 6 (six) years, of 5% (five percent) per annum, calculated as of commercial production;

2. Accelerated depreciation and amortization
The accelerated depreciation on tangible assets and accelerated amortization on intangible assets are offered to new investment and/or expansion, with the economic life and depreciation and amortization rates as follows.

Depreciation Rate - Tangible Assets

Tangible Assets	New Economic Life	Straight Line	Declining Method
Non building			
Group I	2 years	50%	100%
Group II	4 years	25%	50%
Group III	8 years	12,50%	25%
Group IV	10 years	10%	20%
Building			
Permanent	10 years	10%	-
Non permanent	5 years	20%	-

Amortization Rate - Intangible Assets

Intangible Assets	New Economic Life	Straight line	Declining Method
Group I	2 years	50%	100%
Group II	4 years	25%	50%
Group III	8 years	12,50%	25%
Group IV	10 years	10%	20%

INDONESIA

(Continued)

3. The imposition of income tax on dividends paid to foreign tax payers other than those of permanent business in Indonesia is at 10% or lower.
 - a. Additional 1 year of loss compensation period: for new investments in specific industries located in industrial districts and/or bonded zones;
 - e. Additional 2 years of loss compensation period: for the businesses that incur research and development expenditure in Indonesia for product development or production efficiency with the maximum period of five fiscal years, in the amount of minimum 5% of total capital investment;
4. The compensation for losses of more than five years but not more than 10 years. This compensation is given under the following provisions:
 - a. For fiscal loss in the fiscal year as of the commercial production on the investment out of the expansion of existing businesses;
 - b. The amount of fiscal losses shall be calculated based on the proportion of earning after tax reinvested on business expansion against the fiscal book value of all fixed assets at the end of the fiscal year when commercial production is commenced.
 - b. Additional 1 year of loss compensation period: for the new investments that incur expenditure for economic and/or social infrastructure of minimum Rp10 billion at their business locations;
 - c. Additional 1 year of loss compensation period: for the investments that use minimum 70% raw materials and/or components produced in Indonesia from their fourth year;
 - d. Additional 1 year of loss compensation period: for the businesses that employ minimum 500 Indonesian workers for five consecutive years; or additional 2 years of loss compensation period for businesses that employ minimum 1,000 Indonesian workers for five consecutive years;
 - e. Additional 2 years of loss compensation period: for the businesses that incur research and development expenditure in Indonesia for product development or production efficiency with the maximum period of five fiscal years, in the amount of minimum 5% of total capital investment;
 - f. Additional 2 years of loss compensation period: for the business expansion of the existing businesses in specific industries and/or specific regions whose financing sources are the earning after tax generated in one fiscal year prior to the issuance of the principle permit for capital investment expansion; and/or
 - g. Additional 2 years of loss compensation period: for the investments in specific industries conducted outside bonded zones that conduct exports of at least 30% of total sales.

"...compensation for losses of more than five years..."

The additional loss compensation period is given based on the following scheme:

New tax incentives in Malaysia on Principal Hub & Automation



"...a company needs to carry out at least 3 qualifying services..."

The Ministry of Trade and Industry has recently announced detailed guidelines of the following incentives which were proposed during the 2015 Budget:

- Principal hub incentive
- Capital allowance to increase automation in labour intensive industries

Principal Hub Incentive

A Principal Hub is defined as a locally incorporated company that uses Malaysia as a base for conducting regional and global businesses. The key functions of a principal hub include risk management, decision making, strategic business activities, trading, finance,

management and human resource.

The Principal Hub incentive was introduced in Malaysia to enhance Malaysia's position as the preferred location for Multinational Corporations ("MNCs") to locate their regional centres. The Principal Hub model will allow MNCs to improve its efficiency and effectiveness when operating from one central location.

This incentive will replace the existing incentives given to International Procurement Centers, Regional Distribution Centers and Operational Headquarters, as of 1 May 2015.

A Principal Hub company enjoys the

following incentives / facilities as depicted in Chart 1.

To qualify for the Principal Hub incentive, a company needs to carry out at least 3 qualifying services, of which one of the services must be under the strategic services cluster as listed in Chart 2.

Applications for this incentive must be submitted to the Malaysian Investment Development Authority from 1 May 2015 to 30 April 2018.

Chart 1: Incentives / facilities A Principal Hub Company can enjoy

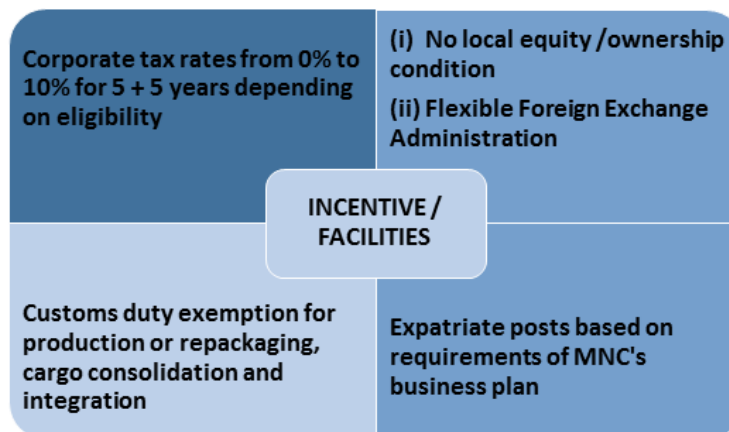


Chart 2: Qualifying services

MALAYSIA

(Continued)

Strategic services	Business services	Shared services
❖ Regional P&L / business unit management	❖ Bid and tender management	❖ Corporate training and human resource management
❖ Strategic business planning and corporate development	❖ Treasury and fund management	❖ Finance & accounting
❖ Corporate finance advisory services	❖ Research, development and innovation	❖ General administration
❖ Brand management	❖ Project management	❖ IT Services
❖ IP management	❖ Sales and marketing	
❖ Senior-level talent acquisition and management	❖ Business development	
	❖ Technical support and consultancy	
	❖ Information management and processing	
	❖ Economic / investment research analysis	
	❖ Strategic sourcing, procurement and distribution	
	❖ Logistics services	

Capital Allowances to Increase Automation in Labour Intensive Industries

In a bid to encourage manufacturing companies to shift from

high labour intensive to automation, automation capital allowance will be granted to eligible companies.

The incentives are divided into 2 categories.

Eligibility criteria

- Applicant company must be a manufacturing company incorporated under the Companies Act

"...to encourage manufacturing companies to shift...to automation..."

Category 1 : High labour intensive industries (rubber products, plastic, wood, furniture and textiles)

- Automation capital allowance of 200% will be provided on the first RM4 million expenditure incurred within the YA 2015 to YA 2017

Category 2 : Other industries

- Automation capital allowance of 200% will be provided on the first RM2 million expenditure incurred within the YA 2015 to YA 2020

MALAYSIA

(Continued)

"...automation equipment ... must be used directly in manufacturing..."

1965 and has been in operation for at least 36 months.

- The automation equipment in connection with the automation capital allowance must be used directly in manufacturing activities and should result in reduced man hours and increased output / productivity.

- The automation equipment adopts a technology that is more advanced than the technology currently used and must be verified by SIRIM.

With the roll out of this Principal Hub incentive, Malaysia is determined to position itself as part of the integrated global supply chain sector in the ASEAN region. The

automation incentive serves to reinforce the trust that manufacturing is still one of Malaysia's key dependent sector.

SINGAPORE

2015 Singapore Budget

STEVEN TAN RUSSELL BEDFORD PAC
Public Accounting Corporation

"special CIT rebate has been extended for another two years..."

The Minister for Finance presented the 2015 "Jubilee Budget" Statement on 24 February 2015. Overall, the tax measures introduced are aimed at building Singapore's future and strengthening social security.

BUSINESS TAX

Corporate Income Tax (CIT) Rebate for Years of Assessment (YA) 2016 and 2017

As announced in 2013 Budget Transition Support Package, a special CIT rebate has been granted to all companies (including registered business trusts) to help relieve business costs. The special CIT rebate is 30%

of tax payable, capped at S\$30,000 per YA for three years from YA 2013 to 2015.

This special CIT rebate has been extended for another two years (i.e. YAs 2016 and 2017), to allow companies to cope with the increasing operation costs during this restructuring period. However, the rebate is now reduced to \$20,000 per YA.

Productivity and Innovation (PIC) Bonus

The PIC bonus was introduced in 2013 to encourage businesses to take advantage of the main PIC Scheme.

The PIC Bonus gives businesses a dollar-for-

dollar matching cash bonus of \$5,000 per YA for YAs 2013 to 2015, subject to an overall cap of \$15,000 for all 3 YAs combined.

It was announced in Budget 2015 that the PIC Bonus will be allowed to expire after YA 2015.

The PIC Bonus is taxable.

Double Tax Deduction (DTD) for Internationalism Scheme

Companies can enjoy tax savings through DTD with a 200% tax deduction on qualifying expenditures for supported market expansion and investment development activities including overseas business

(Continued)

development trips and missions, trade fairs, master licensing and franchising etc.

In an effort of supporting businesses to venture overseas and creating more overseas working opportunities for Singaporeans, the scope of qualifying expenditure will be expanded to include manpower expenses incurred for Singaporeans posted to new overseas entities.

The amount of such qualifying manpower expenses to be allowed DTD under the scheme will be capped at \$1 million per approved entity per year, subject to conditions.

An application to International Enterprise (IE) Singapore would have to be made in order for companies to enjoy the DTD for qualifying manpower expenses incurred from 1 July 2015 to 31 March 2020.

International Growth Scheme (IGS)

The IGS aims to support high potential companies in their internationalism activities and provide opportunities for Singaporeans to gain greater international exposure, while continuing their key operation activities in Singapore.

It was announced that qualifying Singapore companies will enjoy a

concessionary tax rate of 10% for a period not exceeding five years on their incremental income from qualifying activities. Incremental income refers to the income in excess of the company's average of the last three years' income from the relevant qualifying activities such as headquarter functions and specific business lines.

MARITIME SECTOR

Enhancement of Maritime Sector Incentive (MSI)

The automatic withholding tax exemption, subject to conditions, will now cover qualifying payments in relation to finance leases, hire-purchase arrangements, and loans used to finance equity injection into wholly-owned Special Purpose Vehicles (SPVs) or intercompany loans to wholly-owned SPVs for the SPV's purchase/construction of vessels, containers and intermodal equipment.

The definition of qualifying ship management activities for the purpose of MSI-Shipping Enterprise (MSI-SRS), MSI-Approved International Shipping Enterprise (MSI-AIS) and MSI-Shipping-related Support Services (MSI-SSS) awards will be updated to keep pace with industry changes. Mobilisation fees,

demobilisation fees, holding fees, and incidental container rental income that are derived in the course of qualifying shipping operations will now be included as qualifying shipping income under the MSI-SRS and MSI-AIS awards.

In addition to the above, tax exemption will also be granted to qualifying profits remitted from approved foreign branches by MSI-AIS entities.

INDIVIDUALS

Personal Income Tax Rates

The new personal income tax rate structure for resident individual taxpayers will take effect from YA 2017. The changes to the tax rates are made to enhance progressivity of the personal tax rate regime and strengthen future revenues.

An individual will be treated as a Singapore tax resident for a particular YA if the person is:

- a foreigner who has stayed in Singapore for 183 days or more in the year preceding the YA; or
- a foreigner (who is not a director of a company) who has worked in Singapore for 183 days or more in the year preceding the YA

"...automatic withholding tax exemption...will now cover qualifying... finance leases..."

SINGAPORE

(Continued)

"...individual... who derives passive rental income ...can claim a specified amount of expenses..."

Otherwise, the individual will be treated as a non-resident for Singapore tax purposes.

Passive Rental Income from Residential Properties

With effect from YA 2016, an individual (excluding an individual through a partnership in Singapore and from a trust property) who derives passive rental income from the letting of residential property in Singapore can claim a specified amount of expenses as a proxy for the deductible expenses (i.e. determined based on 15% of the gross rental income derived from that residential property) instead of claiming the actual amount of deductible expenses incurred.

OTHER TAX CHANGES

Enhanced Tax Deduction for Donations

The tax deduction rate for qualifying donations made to institutions of a Public Character (IPC) and other qualifying recipients in 2015 will be increased from 250% to 300%. For qualifying donations made from 1 January 2016 to 31 December 2018 to IPCs and other qualifying recipients, the tax deduction will revert to 250%

Changes in CPF Salary Ceiling (All Ages)

The tax structure with effect from YA 2017 is set out as follows:-

	Chargeable income (\$)	Tax Rate (%)	Gross Tax Payable (\$)
On the first 20,000	20,000	0	0
On the next 10,000	10,000	2	200
On the first 30,000	30,000	-	200
On the next 10,000	10,000	3.5	350
On the first 40,000	40,000	-	550
On the next 40,000	40,000	7	2,800
On the first 80,000	80,000	-	3,350
On the next 40,000	40,000	11.5	4,600
On the first 120,000	120,000	-	7,950
On the next 40,000	40,000	15	6,000
On the first 160,000	160,000	-	13,950
On the next 40,000	40,000	18	7,200
On the first 200,000	200,000	-	21,150
On the next 40,000	40,000	19	7,600
On the first 240,000	240,000	-	28,750
On the next 40,000	40,000	19.5	7,800
On the first 280,000	280,000	-	36,550
On the next 40,000	40,000	20	8,000
On the first 320,000	320,000	-	44,550
In excess of 320,000	320,000	22	

With effect from 1 January 2016, the CPF salary ceiling will be increased from \$5,000 to \$6,000 to help middle-income Singaporeans accumulate more CPF savings during their working years.

CPF Contribution Rates for Older Workers

In 2016, the CPF contribution rates for employees:-

- Aged 50 to 55 years old will be increased by 2% (1% from employer and 1% from employee);
- Aged 55 to 60 years old will be increased by 1% (1% from employer); and
- Aged 60 to 65 years

old will be increased by 0.5% (0.5% from employer).

Wage Credit Scheme (WCS)

The current wage credit scheme of 40% of wage increases will be extended for 2016 and 2017, with Government co-funding at a reduced 20% of the wage increases given to Singaporean employees earning a gross monthly wage of \$4,000 and below.

Temporary Employment Credit (TEC)

TEC will be increased from 0.5% to 1% of wages in 2015 and extended for another two years to help companies with the increase in operating costs in relation to the increase of CPF salary

ceiling and contribution rates for older employees. Employers of workers earning above the CPF salary ceiling will receive TEC on CPF contribution rate up to the prevailing CPF salary ceiling.

Special Employment Credit (SEC)

To encourage voluntary re-hiring of older workers, the Government is providing companies with an additional SEC of up to 3% of wages for

workers aged 65 and above and whose monthly wages do not exceed \$4,000 in 2015. This is on top of the 8.5% wage offset that employers will receive in 2015.

SINGAPORE

(Continued)

Tax and Financial Support Schemes for small and medium-sized enterprises (SMEs) in Singapore

Singapore has many tax and financial support schemes to incentivise businesses to jump-start productivity and cut costs and to encourage Singapore businesses,

particularly SMEs, to venture overseas. The Budget 2015 proposed a host of support schemes for startups and SMEs in talent recruitment and retention.

Below is a summary of some of the support schemes currently available.

Support for SMEs and startups	
SCHEME	HOW IT HELPS
Workforce & Training Support	
WorkPro	Provides grants/allowances up to S\$300,000 for workplace improvement, job redesign and recruitment and retention of employees
Course Fee Funding	Funding up to 90% of full course fees for employees enrolled for certifiable courses supported by WDA or Academic Continuing Education and Training (CET) programmes at polytechnics and ITE
Absentee Payroll Funding	Funding of 80% of basic hourly salary at cap of S\$7.50/hr while the employee is away on training
Venturing Overseas	
Double Tax Deduction	Provides 200% tax deduction on qualifying costs for overseas expansion activities
Market Readiness Assistance (MRA) Grant	Funding up to 70% (capped at S\$20,000 per company per year) for overseas expansion activities including market assessment, market entry, marketing and PR, online marketing and participation in overseas tradeshow

"...a host of support schemes for startups and SMEs..."

SINGAPORE

(Continued)

*"...matches S\$7
to every S\$3
raised by a first
time
entrepreneur..."*

Venturing Overseas	
Global Company Partnership (GCP) Grant	Funding up to 70% of qualifying costs for overseas expansion activities in areas of building internal capabilities, manpower development and gaining market access
International Growth Scheme	Qualifying companies will enjoy a concessionary tax rate of 10% for a period not exceeding five years on their incremental income from qualifying activities
Mergers & Acquisitions (M&A) Scheme	Tax allowance (capped at S\$5 million per year of assessment) for acquisition costs at 25% of the value of acquisition for share acquisitions of at least 20% shareholding in the target company
Restructuring & Productivity	
Innovation And Capability Voucher (ICV)	Provides a S\$5,000 voucher for each productivity improvement project
Increase SME Productivity With Infocomm Adoption & Transformation (iSPRINT)	Receive up to 70% grant for adopting infocomm technology
Information and Communication Technology (ICT) for Productivity & Growth (IPG)	Defrays up to 80% of qualifying costs on ICT solutions and qualifying pilot projects and subsidised fibre network subscription (at least 100Mbps) plus support to implement Wireless@SG
Productivity and Innovation Credit	Provides up to S\$60,000 in cash payout on total spending on productivity improvement or 400% tax deduction on up to S\$400,000 or S\$600,000 (for SMEs) on spending on each such activity
SkillsFuture Earn and Learn Programme	Funding up to S\$15,000 to provide fresh ITE and polytechnic graduates with structured on-the-job training
Capability Development Grant	Defrays up to 70% of qualifying project costs (capped at S\$30,000) such as consultancy, training, certification and equipment costs
Starting Up	
ACE Startups Grant	Matches S\$7 to every S\$3 raised by a first-time entrepreneur with a unique business idea for up to S\$50,000
Business Angel Scheme	Co-invests with business angel investors on a 1:1 matching basis for up to S\$2 million in local startups.
Early Stage Venture Fund	Invests S\$10 million on a 1:1 matching basis to seed venture capital funds that invest in Singapore-based early stage high-tech companies

SINGAPORE

(Continued)

"...40% of wages increasewill be Government funded..."

Starting Up	
IDM Jump-start and Mentor Programme	Provides up to S\$250,000 in seed funding for IDM (interactive digital media) startups
Micro Loan Programme	Loan up to S\$100,000 to finance daily operations or for automating and upgrading factory and equipment
Local Enterprise Finance Scheme	Loan up to S\$15 million to purchase JTC or HDB factory and business premises or for automating and upgrading factory and equipment
Technology Incubation Scheme	Co-invests up to 85% of investment (up to S\$500,000 per company) into Singapore-based startup
Technology Enterprise Commercialisation Scheme	Funds up to 100% (capped at S\$250,000) for each proof-of-concept projects, or up to 85% (capped at S\$500,000) for each proof-of-value project
SPRING Startup Enterprise Development Scheme (SPRING SEEDS)	Co-invests with independent third-party investor(s) on a 1:1 matching basis for up to S\$2 million
Wages	
Wage Credit Scheme	40% of wage increases (reduced to 20% of wage increases for 2016 and 2017) given to Singaporean employees earning a gross monthly wage of S\$4,000 and below will be government funded
Inclusive Growth Programme	Funding up to 50% for productivity improvement project that share gains with low wage workers



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

India

Shreedhar T. Kunte

stk@sharpandtannan.com

www.sharp-tannan.com

Singapore

Douglas Tan

douglas@stcsamasmgt.com.sg

www.strb.com.sg

Australia - Perth

Martin Michalik

mmichalik@stantons.com.au

www.stantons.com.au

Indonesia

Syarief Basir

sbasir@russellbedford.co.id

www.russellbedford.co.id

Taiwan

Arthur Lin

jsgcpa@russellbedford.com.tw

www.russellbedford.com.tw

Australia - Sydney

Greg Ralph

gralph@rbnsw.com.au

www.rbnsw.com.au

Korea (South)

Kiwun Suh

kws@qjac.kr

www.qjac.kr

Thailand

Prof. Kesree Narongdej

kesree@amt-asso.com

China - Beijing / Shanghai

Guoqi Wang

guoqi_wang@huaander.com

www.huaander.com

Malaysia

Loh Kok Leong

lohkl@russellbedford.com.my

www.russellbedford.com.my

Vietnam - Hanoi

Hung Duy Pham

hung.duy.pham@ktcvietnam.com

www.ktcvietnam.com

China - Hong Kong / Guangzhou / Shanghai

Jimmy Chung

jimmychung@russellbedford.com.hk

www.russellbedford.com.hk

Mauritius

Jaye C. Jingree

jaye.jingree@krossborder.mu

www.krossborder.com

Vietnam - Ho Chi Minh City

Van Anh Thai

van.anh.thai@ktcvietnam.com

www.ktcvietnam.com

China - Shanghai

Charles Wang

charles.w@jialiangcpa.cn

www.jialiangcpa.cn

Pakistan

Rashid Rahman Mir

rsrirlhr@brain.net.pk



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.*