



Highlights

This issue of Newsletter begins with news of the recent regional meeting of our network firms. This is followed by an enlightening analysis by Bruce Saward of our Melbourne office on the value of money over time.

For China, we report on the recent initiative by the

SAT to review payments of service fees and royalties by domestic enterprises to related overseas parties.

In Hong Kong, the changes in company law have opened up opportunities for court-free amalgamation and merger. The associated tax implications are discussed with reference to our research.

Indonesia have an article on the economic outlook following the July presidential election. Policies benefiting the growth of the country are expected to continue.

Commencing from July 2014, tax dispute in Malaysia can be processed through a newly set up Dispute Resolution Board. Our Malaysia office explains how it works.

Inside this issue:

News	1
Australia	2
China	4
Hong Kong	4
Indonesia	6
Malaysia	7

News of our regional firms

Mr. Alan Bezzant, CEO of Russell Bedford International (RBI), visited the Chinese Institute of

Certified Public Accountants (CICPA) on 6 August 2014. Dr. Chen Yugui, the Vice-chairman

and Secretary-general of the CICPA, met with Mr. Bezzant, Mr. James Ngai from Hong Kong office, Mr.



Wang Guoqi and Ms. Romona Zhao from Beijing office. Directors of 5 CICPA departments also attended the meeting. The two sides had a friendly, open, and frank discussion on various topics, including CPA's role in fighting against corruption and fraud, standards convergence, and RBI's development in China.

During Mr. Bezzant's stay in Beijing, he attended the Russell Bedford International Asia Pacific Meeting hosted by the RBI member firm Hua-Ander from 7 to 9 August 2014. He delivered a presentation about RBI and answered various

questions from the delegates during the meeting.

The host firm Hua-Ander is going to change its name to Russell Bedford Hua-Ander according to a partners decision recent made. The change reflects Hua-Ander's further

commitment to RBI strategy and confidence in further development within the RBI network.



Photo taken at Hua-Ander Office during Mr. Bezzant's visit in Beijing

AUSTRALIA

SAWARD / DAWSON
chartered accountants

"...the sooner you start with a strategy to harness the power of compounding the greater the benefit..."

Three lessons time has taught me

You can't begin too soon

One of the things that has struck me again recently is the power of compounding including compounding inflation. I saw a chart recently that showed how if \$10,000 had been invested in a basket of shares that mirrored the S&P/ASX All Ordinaries Index 30 years ago it would now be worth more than \$278,000 if all dividends

had been reinvested. When I set out to prove this with a bit of business maths I was struck by the power of compounding.

I then looked at what \$10,000 in 1984 would be worth today using the CPI - \$29,093 is the equivalent value today (the rate of inflation over the last 30 years has been 3.62%). Here is a table showing the power of compounding interest on

the basis of \$10,000 invested and all income reinvested (Chart 1) and \$1,000 invested every year also with income reinvested (Chart 2).

So the first thing I have learned is that the sooner you start with a strategy to harness the power of compounding the greater the benefits. For some people this will mean paying a small amount extra off their mortgage

AUSTRALIA

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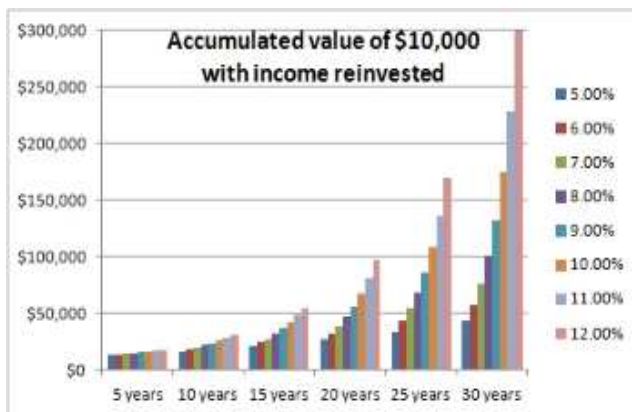


Chart 1



Chart 2

converse of this is that \$10,000 today is the equivalent of \$3,437, 30 years ago. In other words, inflation has eroded more than 65% of the value over 30 years.

So the second thing I have learned is that you need to protect the value of your assets to prevent their value from being eroded. Living off the income instead of reinvesting it will mean that your investment is being constantly eroded.

Debt can be good

I once had a client say to me "debt is good". When

I asked why, he said that being forced to repay a loan meant that he had less to spend and he knew that without this, he would simply spend the surplus. So for many people, a negatively geared investment (where the interest cost exceeds the income generated) is a positive way for them to harness the power of their savings potential. By committing to service this debt and pay it off, they build up their equity. It is a most powerful tool for people who do not have the discipline to commit to a regular savings or investment plan. Equally,

or making more frequent payments to substantially reduce the term of the loan. For others it may be implementing an investment strategy so that they build up a pool of assets. Others may choose to contribute a small additional amount to superannuation each pay period. All of these should deliver benefits from the power of compounding.

The eroding power of inflation

I have also learned to recognise the eroding power of inflation. I demonstrated above that \$10,000, 30 years ago is now the equivalent of \$29,093 (based on inflation rate of 3%). The

the discipline of a formal plan is just what some people need to help them along.

The common theme with each of these is that you need to have a plan to make the most of your available resources. We all appreciate how quickly time passes and so to do nothing is another opportunity wasted. So why not talk to us about developing a strategy that will enable you to harness the power of compounding, to prevent the eroding power of inflation and to maximise the resources at your disposal.

"...a negatively geared investment ...is a positive way for them to harness the power of their saving potential..."

CHINA



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"...the relevant issues for intra-group payments would include (1) benefit test, (2) necessity test, (3)..."

Intra-group payments to overseas affiliates

The State Administration of Taxation (SAT) has recently issued Circular [2014] No. 146 alerting local tax bureaus to conduct tax review on significant outbound service fee and royalty payments by domestic enterprises to their overseas affiliates.

According to the circular, the review shall be focused on payments of the following nature:

- Service fees paid to shareholder for business strategy, management and supervision activities;
- Group management fees;
- Service fees for activities that may have been performed by the domestic enterprise itself or already been provided by a third party provider;
- Service fees not relevant to or not necessary for the business of the domestic enterprise;
- Service fees which may represent duplicate expenses as already formed a component of another payment transaction;
- Royalty payments to entities located in tax havens;
- Royalty payments to parties that have made little or no contribution;
- Royalty payments for use of intellectual property to which the domestic enterprise has made significant contribution;

- Royalty payments for use of intellectual property which has impaired in value.

The local tax bureaus are required to complete the review and report to the SAT by 15 September 2014.

Generally speaking, we consider that the relevant issues for intra-group payments would include (1) benefit test; (2) necessity test; (3) duplication test; (4) value creation test; (5) remuneration test; and (6) authentication test. These issues can be addressed by proper transfer pricing policy and documentation to justify the commercial rationale and the reasonableness of the intra-group payments.

HONG KONG



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New Companies Ordinance

Court-free amalgamation

The new Companies Ordinance (Chapter 622) came into effect from 3 March 2014. It aims to enhance corporate governance and caters for

modern business needs. Changes from the old laws include areas such as the adoption of shares with no par values, abolition of the memorandum of association, reduction of share capital without

court approval and introduction of a non-court sanctioned amalgamation.

Amalgamation is not defined in the new Ordinance. Based on its ordinary meaning, it is

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the legal process whereby the undertaking, assets and liabilities of two or more companies (commonly known as the amalgamating companies) merge and are brought under one of the original companies (the surveying entity or commonly known as the amalgamated company). Upon the amalgamation becomes effective, each amalgamating company will cease to exist and shares of the amalgamating companies will be cancelled. The shareholders of the amalgamating companies will become the shareholders of the amalgamated company.

Potential tax implications

Amalgamation is not unheard of in Hong Kong in that under the regime of the previous Companies Ordinance (Chapter 32) it is possible to proceed with amalgamation with court approval. However, amalgamations were few and far in between in the past and there is no specific provision in the Inland Revenue Ordinance and no published guidelines by the Inland Revenue Department concerning the tax consequences of amalgamation. When

considering amalgamation, Hong Kong businesses would typically be concerned with tax implications such as:

- Whether the amalgamating companies are deemed to cease business and balancing calculations have to be made on their depreciating plants and machineries and trading stock is deemed to be realized at market value;
- Whether the investing intention (long term / short term) over the assets held by the amalgamating companies have to be re-established following vesting of the assets to the amalgamated company;
- Whether the tax loss of the amalgamating companies can be transferred to the amalgamated company;
- Whether stamp duty is chargeable on vesting of the assets of the amalgamating companies to the amalgamated company.

Our research on past

court-approved cases indicates that the vesting of properties to the respective amalgamated company was not deemed to be a sale or disposal of or a change in the nature of the relevant properties and that the tax loss could be transferred over to the amalgamated company. On the other hand, no bracket approval of stamp duty exemption was given for the vesting of assets in these past cases. Exemption would need to be considered on an individual basis..

That said, we are pleased to report that we have recently assisted a client to successfully obtain approval of stamp duty exemption for vesting their Hong Kong assets in a court-free amalgamation. In light that a favourable outcome can generally be achieved, amalgamation is expected to be an useful tool for group re-structuring in the future.

"...no bracket approval of stamp duty exemption was given..."

INDONESIA



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

One Economic Outlook of the New Government

"...massive number of foreign investors to Indonesia, ...is Indonesia's stable politics..."

Indonesia just held its most recent presidential election in July 2014. The safe and well-managed election was warmly appreciated by the majority of the people of Indonesia. They are now expressing many expectations, after the Constitutional Court confirmed the election winner who will lead Indonesia in the next 5 years, from 2014 to 2019. The new president, who will take office in October 2014, besides being expected to continue the development which has resulted in the annual economic growth of 5-6% in the previous period, is also expected to create new policies that will accelerate Indonesia's economic development.

In the 10-year period under the leadership of President Susilo Bambang Yudhoyono, Indonesia has successfully overcome the economic crisis. Despite the recession in the global economy, Indonesia still managed to record positive economic growth with the rate of 5-6% per year. Domestic and foreign investments have also showed significant improvement during the period. The recent data released by Indonesia Investment Coordinating Board (BKPM) shows that in January-June 2014, foreign investment in

Indonesia realized 5,285 projects with the total investment value of USD14,287 billion. Out of this foreign investment, the investment from Singapore ranked the highest with the value of USD 3,393 billion, followed by Japan with USD1,541 billion. It is perceived that, the reason for the massive number of foreign investors to Indonesia, especially from Japan, is Indonesia's stable politics – besides Indonesia being the largest market in ASEAN with a total population of 250 million or 41% of the total ASEAN population of 612 million.

Japanese company Mitsubishi Motors Corporation is planning to build car factories in Indonesia in 2015, with a total investment of USD600 million. Other than for the domestic market, Mitsubishi's automobile products will also be sold in the export market. The initial production capacity is planned to be 160,000 units per year, before being increased to 240,000 units. Besides Mitsubishi Motors Corporation, in mid-2014, as many as 20 other Japanese investors are interested in investing in the food and beverage sector, according to data published by the Ministry of Industry.

Entering the new administration era under the leadership of president-elect Joko Widodo, various elements of Indonesian society are actively voicing their inputs to the upcoming government, especially for coping with the challenges that will arise. Among the elements is the Indonesian Employers Association (Apindo), which together with the communities of various backgrounds such as business, academia, international development agencies, ambassadors, as well as the chamber of commerce, have submitted comprehensive inputs formulated into an economic map. The president-elect has received the inputs and will take them into consideration in formulating economic policies. Apindo's inputs focus on creating 3 million jobs per year within 2014-2019. This number has been calculated based on the consideration to provide employment for 7.2 million unemployed people in 2013 and 8.3 million additional workforce within the next 5 years. The five economic development sectors expected to grow rapidly are food and agriculture, energy, manufacturing, services,

and financial.

Because Indonesia deals with many foreign investors, a current issue that must be continued by the new government is: bridging the interests of labors and the interests of employers. This must be done to avoid counterproductive impact out of the conflicting interests of labors and employers. One of the initiatives toward this end has been done in West Java, the home to more than 50% investors from South Korea. The Governor of West Java has recently met with South Korean Ambassador for Indonesia, who was accompanied by labor attaché of the Korean Embassy and the chamber of commerce of South Korea. The meeting discussed the issues surrounding the

expectation that labors should not disturb operations / productions and create damage when voicing their demands. The demonstration way of voicing demands is perceived to be disruptive against business activities, so this must be avoided and there must be better ways for labors to address their demands.

For strengthening corporate entities, the new government has indicated its intention to strengthen various types of business entities, especially municipal enterprises – business entities owned by provincial and/or district/city governments. Indonesia currently has 34 provinces and 511 districts/cities, while each municipal government can have a number of municipal enterprises. Because of their local

characteristics, these entities are distinct forces that can form a major driver of economic growth in their respective region.

Only few municipal entities have become global entities through forming a partnership with foreign companies. New President-elect has expressed his commitment that during his administration, these enterprises will be encouraged to develop, to collaborate with foreign entities and take the collaboration as a learning tool, that will enable municipal enterprises to take a greater role in Indonesia's economic development***

INDONESIA

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"...bridging the interests of labors and the interests of employers..."

Dispute Resolution – A Way Forward

Governed with the intention of providing taxpayers at large a more equitable and cost effective way of dealing with disputes raised as a result of a tax audit, a Dispute Resolution Department ("DRD") was set up under the purview of the Director

General of the Inland Revenue Board of Malaysia ("DGIR"). This new mechanism is mainly aimed at resolving disputes without going through a judicial process.

Generally, the appeal procedures laid under

Section 99 of the Income Tax Act 1967 ("ITA") grants taxpayers the right to appeal against an assessment by bringing the appeal to the Special Commissioners of Income Tax ("SCIT") within one month from the date of assessment by submitting a Form Q.

MALAYSIA



RUSSELL BEDFORD MALAYSIA

MALAYSIA

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"...suitable for DRB are appeals involving mainly questions of facts ..."

With effect from 1 July 2013, before a dispute is brought to the SCIT for a judicial hearing, the appeal will be passed to the DRD within 30 days from receipt of the Form Q. In the DRD, the appeal will first of all go through an Appeal Review Panel ("ARP"). In the course of review, the ARP will decide whether to allow the appeal, propose for the appeal to go through a Dispute Resolution Proceeding ("DRP") or forward it to the SCIT. Appeals which are suitable for DRP are appeals involving mainly questions of facts or when there is a misunderstanding over how the facts are ought to be weighted in deciding a certain issue. Currently, out of 131 appeal cases received by the DRD, 38

cases have been directed for DRP.

The DRP panel, comprises, 3 legally qualified officers, are entrusted to analyse the issues and facts presented and explore settlements on the issues raised. During a DRP, the taxpayers are required to present and elaborate on the issues and facts under appeal, produce relevant documents, submit relevant case laws and cases and propose any settlement (if applicable). The possible outcome of a dispute resolution proceedings are:

- Panel agrees fully with the appeal
- Taxpayer agrees to withdraw the appeal
- Panel / taxpayer agree partly on the issue

- Panel fully disagrees with the appeal

If the DRP panel partly agree or fully disagree with the appeal, the appeal will be forwarded to the SCIT within 12 months from the receipt of the Form Q. If the DGIR fails to forward the appeal to the SCIT within the 12 month period, the appeal would be deemed accepted by the DGIR. This new route provided by the DGIR is in a way enhancing the taxpayers' rights which are fundamental as Malaysia moves towards a more developed tax system and progresses towards achieving the high income status by 2020.



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.

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