PRISM

Tax Newsletter

2nd Quarter 2014

- Cyprus: Five additional Double Taxation Avoidance Agreements (DTAA) ratified
- Germany: German Inheritance Tax Personal Allowances for Non- Residents Infringes EU Law
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China

Two cases of income tax in non-resident enterprises equity transfer

Recently, there are two cases posted on the homepage of SAT (State Administration of Taxation of the People's Republic of China) on transfer of share equity by the non-resident enterprises. This indicates that the SAT is paying attention to the issue of taxation of non-resident companies and also wish to manage and control transnational tax base better. Hence, the SAT could effectively mitigate the losses of tax revenue.

近期，在中国国家税务总局的网站新闻中有两个非居民企业转让股权补缴税款的案例，显示出中国国家税务管理机构对非居民企业税收的重视，希望通过提高非居民税收征管水平，更好管控跨国税源，从而有效地防止税收收入的流失。

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Cyprus

Cyprus enjoys the benefits of five additional Double Taxation Avoidance Agreements (DTAA) ratified and effective from 1 January 2014

The Cyprus Ministry of External Affairs and Ministry of Finance have announced that the internal procedures required for the ratification of the DTAAs with the following countries are completed and the DTAAs are considered effective as of 1 January 2014:

1. Portugal
2. Ukraine
3. Estonia
4. Finland
5. Kuwait

The DTAAs are based on the OECD Model Convention and are expected to further improve the business cooperation between Cyprus and the five abovementioned countries. The ratifications were well received by the local and foreign business communities and international investors and further enhance Cyprus' position as an international business center, since some of their provisions are deemed to be significantly favorable. The DTAAs main provisions are analyzed below.

塞浦路斯外交部和财政部宣布：和以下国家签订避免双重征税协定的内部程序已完成并已批准通过。这些避免双重征税协定于2014年1月1日起生效。

1. 葡萄牙
2. 乌克兰
3. 爱沙尼亚
4. 芬兰
5. 科威特

这些避免双重征税协定以经济合作和发展组织的税收协定范本为基础，预期将进一步提高塞浦路斯和上述5个国家之间的经济合作。这些避免双重征税协定的批准受到本土、外国商业组织和国际投资人的欢迎。协定中的一些规定被认为是非常优惠的，将由此进一步加强塞浦路斯作为国际商业中心的地位。

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Germany

German inheritance tax personal allowances for Non- Residents Infringes EU Law17.10.2013 - C-181/12

German inheritance tax law grants allowances depending on the degree of kinship between testator and heir given that at least one of the involved is German resident. For non residents, personal allowance generally amounts to EUR 2.000 which is only a fraction of the amount granted to residents.

Considering the Treaty on the functioning of the European Union in which the fundamental right of free movement of capital is embedded, the ECJ decides that there is no basis for applying different criteria to capital transfers between German residents and residents of a third state.

德国的遗产税法规定，只要所涉及的各方中至少一方是德国居民，根据立遗嘱人与继承人之间的亲属关系远近程度可享受相应的免税额度。对于非德国居民， 个人免税额一般2000欧元封顶，仅为德国居民可获额度的一小部分。

考虑到关于欧盟运行方式的条约中嵌入了资本享有自由流动的基本权利的规定，欧洲法院认定，没有任何理由对德国居民和第三国居民之间的资本转移适用不同的标准。

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Indonesia

The increase in turnover limits of small businesses

The annual turnover threshold of small businesses as a VAT-able Entrepreneur ("PKP") was raised to Rp4,8 billion from Rp600 million which is stipulated in MoF Regulation No.197/PMK.03/2013 implemented on December 20th, 2013 and became effective starting January 1, 2014.

印度尼西亚提高应纳增值税小型企业之起征点，起征点由一年多前的6亿印尼盾营业额提高至480亿印尼盾营业额。相关法规No.197/PMK.03/2013由印度尼西亚财政部颁布，于2013年12月20日实施，并于2014年1月1日生效。

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Malaysia

Estimate of tax payable for companies

With effect from YA 2014, SME first commences operation in a year of assessment and the SME has no basis period for that year of assessment and for the immediate following year of assessment, the SME is not required to furnished an estimate of tax payable in Form CP204 for that year of assessment and for the immediate 2 following years of assessments.

2014估税年起，若中小企业在营业的头一年与第二年，仍未到达会计年度，有关中小企业无需在首个会计年度的预估税务报表CP204内，预估税务。

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Russia

Payroll and personal income taxes in Russia

Not so long ago it was considered that labor taxes in Russia are the lowest among world's major economics. But the Government came up with the Strategy for the Long-term Development of the Russian Pension System with a view to gradually reforming it in order to increase pension contributions and strengthen the overall efficiency of the pension system. As part of the first phase of the strategy, a number of legislative amendments were adopted at the end of 2013. But some of these will take effect only in 2014.

不久以前，俄罗斯一般被认为是世界最大经济体之一中拥有最低劳动所得课税率。但政府已制定养老保险制度的长远发展策划，策划逐渐对养老保险制度进行改革以增加养老保险金并增强养老保险制度的整体效能。作为第一阶段的策划，一系列的相关法律修订已于2013年底进行，部份修订只于2014年生效。

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Singapore

Singapore Budget 2014 – Brief Highlights of Tax Changes for Business

The Singapore Budget in 2014 is targeted at transforming the economy, promoting economic growth and achieving a Fair and Equitable society. Brief highlights of tax changes for business includes: Productivity and Innovation Credit (PIC) Scheme, PIC+ Scheme; PIC benefits to training of individuals under centralised hiring arrangements; Research & Development Expenditure ; Tax Deduction Scheme for Registration Costs of Intellectual Property; Land Intensification Allowance (LIA) Scheme ; Withholding Tax Requirement for Payments made to Branches in Singapore; Treating Basel III Additional Tier 1 Instruments as Debt for Tax Purposes ; Recovery of GST for Qualifying Funds.

新加坡2014年财政预算案旨在深化经济转型，打造公平社会。重点企业税变化包括　生产力及创新优惠计划(PIC),PIC计划；集中安排招聘中的个人培训PIC优惠；研发费用；知识产权注册费用的扣税计划；土地集约化免税额；支付给成立在新加坡分公司预扣税方案；和合格基金的消费税返还。

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China

Two cases of income tax in non-resident enterprises equity transfer

Recently, there are two cases posted on the homepage of SAT (State Administration of Taxation of the People's Republic of China) on transfer of equity ownership of resident enterprises between the non-resident enterprises. This indicates that the SAT is paying attention to the taxation of non-resident companies and is also wishing to tighten management and control transactional tax on transfer of equity ownership by non-resident enterprises. Through the tightening of controls, the SAT would effectively prevent and mitigate the losses of tax revenue.

Before going into details of the two cases, let us refresh concept and related tax law governing the activities of non tax resident enterprises.

Tax Resident Enterprise ("TRE")

The new Corporate Income Tax(CIT) law effective from 1 January 2008 introduces Tax Resident Enterprise ("TRE") concept. TRE refers to an enterprise established according to the Chinese law or an enterprise established according to foreign laws but with its effective management located in China. TREs are subject to CIT on worldwide income while non-TREs only on China sourced income. Enterprise registered in China are always TRE. A foreign enterprise with effective management in China may also be regarded as a TRE. The standard CIT rate is 25%.

CIT of non-TRE

Withholding income tax ("WHT") will apply on passive income derived by Non-TREs. The WHT rate is 20% under the CIT Law and is reduced to 10% under the Detailed Implementation Regulations ("DIR") of the CIT Law. Under the DIR the unilaterally concessionary WHT rate is applicable to dividend, interest, rental, royalty, and other passive income such as the gains from the sale or transfer of real estate property, land use right and shares in a PRC company. Dividends distributed by a FIE out of its pre-2008 profit are exempted from WHT. WHT rates may be lower than 10% or exempted under certain double tax treaty. For gain on transfer of equity interests of a foreign owned TRE (e.g. WOFE), the applicable WHT rate is 10 %.

Case 1

Location: Kunshan Suzhou, Jiangsu Province

IRD: Suzhou local taxation bureau (China's tax administration)

The Non-resident, a company established in the British Virgin Islands, transferred its equity of a resident enterprise at book value. Both transferor and transferee are non-resident of China and the transfer and payment of the consideration are also outside of China. The local tax bureau questioned the transfer price and hence inspected the details of the transaction. However, the respondent objected the tax decision and the revised taxes proposed by local tax bureau. The tax officials enforced their judgement and decision with reference to the following rules: "Income Tax Law and Implementation Rules of the People's Republic of China", "The announcement on adjusting the scope of the new enterprise income tax collection and administration issues (new enterprise, established after 2009)", "Implementation Measures for Special Tax Adjustments (Trial)". Finally, Kunshan local tax bureau and the respondent agreed a valuation for the transfer of the equity based on "Risk identification model", which was approximately RMB106,000,000. The relevant taxable base for the transaction was therefore calculated on RMB106,000,000 after deduction of acquisition cost, and the final Income tax payable was approximately RMB6,416,900, and the interest charged was approximately RMB300,540.

"Risk identification model" mentioned above is referred to "identification of risk on income tax of equity transfer". This is based on asset valuation and economic value with its key factors that may influence the value of equity transfer. The main index in the model includes:

First level index:

(1) Disparity in tax amount reported

Second level index:

(2) The Proportion of investors' equity holdings;

(3) The appreciation of land;

(4) The appreciation of building;

(5) The appreciation of construction in progress;

(6) The appreciation of inventory;

(7) The investment income recognized.

The above indexes serve as reference to detect the risk of income tax variation upon equity and share transfer by either non-resident individuals or enterprises. Tax officials, using this analysis and model, can determine the fair and equitable valuation for the equity transfer, especially in the circumstances of inactive market.

Case 2

Location: Yuhang Hangzhou, Zhejiang province

IRD: Yuhang SAT

Recently, an International Holding Group established in HKSAR paid income tax of RMB10,615,900 for an

equity transfer transaction. The case was Yuhang SAT's first case of collection of income tax of equity transfer from a non-resident enterprise, and it was also the first of its kind with collection of income tax over ten million RMB in respect of equity transfer in the Zhejiang Province.

In January 2012, Yuhang SAT found that 40% of the equity of a resident enterprise was sold by its parent company, a company established in the British Virgin Islands, and the transferee was also a non-resident enterprise. According to the Income Tax Law and Implementation Rules, and its related regulations, this transaction involved the transfer of equity ownership by foreign investor to a non-resident enterprise and therefore the relevant income tax of Equity Transfer should be accounted for according to the rules. After the Yuhang SAT inspected the details of the transaction, and two years of negotiation with the international holding group, finally the SAT and the tax payer agreed on the transfer price and its relevant cost, and the transferor agreed to settle income tax of RMB10,610,000.

In the year 2013, Yuhang SAT collected a total of RMB483,000,000 taxes from non-resident enterprises, which was 47.73% higher than last year. In order to obtain sufficient information on non-resident enterprises and to improve the tax collection from non-resident enterprises, Yuhang SAT carried out continuous exchange of information with the local Administration for Industry and Commerce and the local Administration for Foreign Trade and Economic. The SAT again effectively prevent and mitigate the losses of tax revenue from non-resident enterprises.

Cyprus

Cyprus enjoys the benefits of five additional Double Taxation Avoidance Agreements (DTAA) ratified and effective from 1 January 2014

The Cyprus Ministry of External Affairs and Ministry of Finance have announced that the internal procedures required for the ratification of the DTAAs with the following countries are completed and the DTAAs are considered effective as of 1 January 2014:

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The DTAAs are based on the OECD Model Convention and are expected to further improve the business cooperation between Cyprus and the five abovementioned countries. The ratifications were well received by the local and foreign business communities and international investors and further enhance Cyprus' position as an international business center, since some of their provisions are deemed to be significantly favorable. The DTAAs main provisions are analyzed below:

Permanent Establishment

The DTAAs follow the definitions of a Permanent Establishment as per the OECD model.

Dividends

Portugal: The withholding tax rate on dividend payments is set at 10%.

Ukraine: In cases where the investment of the beneficial owner in the company paying the dividend is at least 20% (of the total shares) or had a cost of at least €100,000, the withholding tax rate is set at 5%. In all other cases the withholding tax rate is 15%.

Estonia: No withholding tax on dividend payments.

Finland: The withholding tax rate is 5% of the gross amount of the dividends, if the beneficial owner is a company (other than a partnership) which controls directly at least 10% of the voting power in the company paying the dividends; 15% in all other cases

Kuwait: The withholding tax rate on dividend payments is set at 10%.

Interest

Portugal: The withholding tax rate on interest is set at 10%.

Ukraine: The withholding tax rate on interest was set at 2%.

Estonia: No withholding tax on interest payments.

Finland: No withholding tax on interest payments.

Kuwait: The withholding tax rate on interest is set at 10%, unless the interest is paid to any governmental organization, in which case it is 0%.

Royalties

Portugal: The withholding tax rate on royalties is set at 10%.

Ukraine: The withholding tax rate on royalties in respect of any copyright of scientific work, patents, trademarks, secret formula, process or information concerning industrial, commercial or scientific experience is 5% (10% in all other cases).

Estonia: No withholding tax on royalty payments.

Finland: No withholding tax on royalty payments.

Kuwait: The withholding tax rate on royalty payments is set at 5%.

Gains

The DTAAs follow the OECD model in relation to gains arising from disposal of shares and other movable or immovable properties. Some of them include highly favorable provisions in relation to taxing rights with respect to capital gains arising from a disposal of shares or any other movable property. Those rights in the case of the DTAA with Ukraine for example are granted to the country in which the person making the disposal is a tax resident irrespective of the underlying assets of the company in which the shares are being disposed of.

Important notes for tax planning

1. Cyprus unilaterally does not withhold taxes on outbound dividends and interest payments.
2. The continuously expanded network of DTAAs Cyprus has signed off and ratified and the application of the EU Directives (Parent-Subsidiary and Interest – Royalties) increase international investors' options for channeling investments in the most tax efficient way
3. A number of DTAAs await for ratification, such as the ones with Spain and Norway.

Germany

German Inheritance Tax Personal Allowances for Non- Residents Infringes EU Law17.10.2013 - C-181/12

In its judgement of 17 October 2013 the ECJ considers the imbalance between German residents and non-residents with regard to the allocation of personal allowances contrary to the European fundamental principle of free movement of capital.

According to German inheritance tax law, personal allowances vary according to the degree of kinship between testator and heir, which leads to considerable differences in the overall tax liability: Allowances for spouses amount to EUR 500 000 whereas allowances for transfers among unrelated persons account to no more than EUR 20 000.

The consideration of the degree of kinship, though, only applies to transfers in which either testator or heir is a German resident.

In any other case, when inheritance tax is imposed on German domestic assets held by non-residents, German tax authorities deduct a general allowance of EUR 2000 regardless of the degree of kinship.

Facing a considerably higher tax liability for being resident of a third state, a Swiss widower raises objection. The widower is the sole heir of his deceased wife who owned a piece of estate land located in Düsseldorf (Germany). His wife had been born in Germany but acquired Swiss nationality and residence.

The question propounded to the ECJ is whether the German regulation interferes with European law. Is German Inheritance tax law contrary to the European fundamental freedom of movement of capital, which would also affect Non-EU countries like, for instance, China or Singapore? Is the German government able to justify that personal allowances are substantially lower when testator and heir are residents of a third country?

The ECJ argues that the issue qualifies as movement of capital in the sense of Art. 56 TFEU, which bans "all restrictions on the movement of capital between Member States and between Member States and third countries". Given the fact that lower allowances lead to an impairment of the value of the estate, the difference in treatment between residents and non-residents clearly restricts the freedom of movement of capital.

The German government, however, states that a restriction of the movement of capital is legitimate under the prerequisites of Art. 57 (64) TFEU which claims that certain restrictions against third countries from before 1993 "involving direct investment – including in real estate –establishment, the provision of financial services or the admission of securities to capital markets" are justifiable.

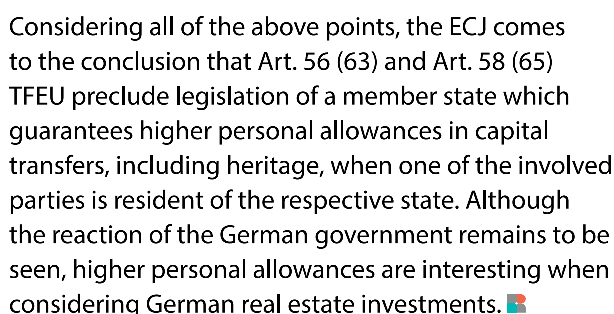
The ECJ opposes that inheriting real estate for private use does not fall within the scope of Art. 57 (64) TFEU and therefore is not a tolerable restriction of European fundamental law.

Secondly, the government refers to Art. 58 (65) TFEU which attributes the right to "apply the relevant provisions of their tax law which distinguish between taxpayers who are not in the same situation with regard to their place of residence or with regard to the place where their capital is invested" to the respective member country.

The German government attests a non-comparable situation of residents and non-residents: In the case of non-residents only domestic assets are taxable whereas residents' global assets are taxable under consideration of their overall position. The ECJ

does not share this view: Resident and non-resident taxpayers are generally "in the same situation" regarding the amount of inheritance tax payable on a German-based property. The amount depends on the value of the property and on the degree of kinship which both are independent of the involved parties' residence. The ECJ concludes that there is no basis for unequal treatment of transfers between non-residents and transfers between a resident and a non-resident.

Thirdly, the government prods to the arising difficulty of validating foreign death certificates, justifying lower personal allowances for non-residents in order to protect general public interest. This argument was rejected with reference to current jurisprudence.



Considering all of the above points, the ECJ comes to the conclusion that Art. 56 (63) and Art. 58 (65) TFEU preclude legislation of a member state which guarantees higher personal allowances in capital transfers, including heritage, when one of the involved parties is resident of the respective state. Although the reaction of the German government remains to be seen, higher personal allowances are interesting when considering German real estate investments.

Indonesia

The increase in turnover limits of small businesses

The annual turnover threshold of small businesses as a VAT-able Entrepreneur ("PKP") was raised to Rp4,8 billion from Rp600 million which is stipulated in MoF Regulation No.197/PMK.03/2013 implemented on December 20th, 2013 and became effective starting 1 January 2014.

VAT Law stipulates that a person who make a supply of Taxable Goods and/or Taxable Services except for those small entrepreneurs as defined by the MoF, shall declare his business as PKP and shall collect, pay and report VAT payable. As per this PMK, businesses with a turnover not exceeding Rp4,8 billion a year, may elect to be a "Non PKP", and hence not required to carry out its VAT obligations.

This MoF Regulation is to encouraging Taxpayers with a turnover not exceeding Rp4,8 billion, increase their tax participation using Scheme Final Income Tax ("PPh") as stated in GR No.46 Year 2013.

Further, with this increase in turnover threshold, small businesses which are "non- PKP" are no longer obliged to make a VAT Invoice and VAT monthly return. Hence, the cost of tax compliance will be lower.

Tax payers' compliance and obligation are much easier with these measures as mentioned above.

New Income Tax Provision on the Bond Interest

In order to encourage development of mutual funds in Indonesia, as well as enhancing the role of bond mutual funds to absorb and improve bond market liquidity, the Government made changes to Government regulation ("GR") No.16 Year 2009 on Income Tax Form Bond Interest. It sets out in the GR No.100 Year 2013 dated 31 December 2013.

The GR has changed the content of Article 2 and Article 3 GR No.16 in respect of the provisions of the Income Tax on bonds form, and the amount of income tax provisions of the Bond Interest. The interest income received and/or accrued by a taxpayer should be subject to Final Tax.

It does not apply in the case of a Bond Interest income recipients are:

a. The Pension fund in which the establishment or formation has been approved by the MoF and fulfill the requirements stipulated in Article 4 (3h) of Income Tax Law No.36 Year 2008;

b. Banks which are incorporated in Indonesia or a foreign bank branch in Indonesia.

The interest income received and/or earned by the pension funds and banks are not subject to the Final withholding tax. However, such interest income is subject to the general income tax rate in accordance with the Income Tax Law No.36 Year 2008.

The income tax rate is:

- Interest of bonds with a coupon (interest bearing debt securities) amounted to:

1) 15% for domestic taxpayers and permanent establishment, and

2) 20% or in accordance with the rates based on the approval of double taxation for foreign taxpayer other than a business still, from the gross amount of interest over the period of ownership (holding period) bonds.

- Bonds discount with a coupon: 15% for domestic taxpayers and permanent establishment, and 20% or in accordance with the rates based on the approval of double taxation for foreign taxpayer in addition to the permanent establishment. It is arrived at the difference between the sales price or its nominal value over the purchase price, but excluding accrued interest.
- Bonds discount without interest at:

1) 15% for domestic taxpayers and permanent establishment, and

2) 20% or in accordance with the rates based on double taxation avoidance agreement for taxpayers abroad as a permanent establishment, which is calculated from the difference between the selling price or the nominal value of bonds over the acquisition price.

- Interest and/or discounts received from bonds and/or mutual funds earned taxpayer listed on the Financial Services Authority amounted to:

1) 5% for the year 2014 until the year 2020, and

2) 10% for the year 2021 onwards.

This regulation was in effect from 31 December 2013.

Malaysia

Estimate of tax payable for companies

In Malaysia, every company is required to determine and submit in a prescribed form (Form CP204) an estimate of its tax payable for a year of assessment (YA) to the Inland Revenue Board of Malaysia (IRB) within 3 months from the date of commencement of operation and thereafter not later than 30 days before the beginning of the basis period.

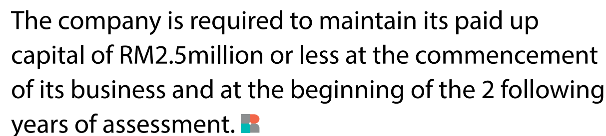
With effect from YA 2014, SME first commences operation in a year of assessment and the SME has no basis period for that year of assessment and for the immediate following year of assessment, the SME is not required to furnished an estimate of tax payable in Form CP204 for that year of assessment and for the immediate 2 following years of assessments.

SMEs are defined as companies with a paid-up capital in respect of ordinary shares of RM2.5million and below at the beginning of the basis period for the relevant years of assessment. In order to further assist our SMEs, the government allows them to be waived from paying the tax instalments at the beginning of both years of assessment.

If a SME first comply with the requirement but subsequently exceeded the threshold, strictly the tax payer is required to furnish an estimate, one month before the beginning of the basis period.

However, since the time to furnish the estimate has lapsed, the taxpayer is required to furnish an estimate of tax payable for that basis period to the IRB to enable the IRB to issue a direction. If there is no direction issued by the IRB, the case will be treated as a case of "no estimate furnish" and will subject to the penalty of 10% of the tax payable for that basis period. In addition, the failure to furnish an estimate, is an offence under income tax act.

The company is required to maintain its paid up capital of RM2.5million or less at the commencement of its business and at the beginning of the 2 following years of assessment.



Russia

Payroll and personal income taxes in Russia

Not so long ago it was considered that labor taxes in Russia are the lowest among world's major economics. But the Government came up with the Strategy for the Long-term Development of the Russian Pension System with a view to gradually reforming it in order to increase pension contributions and strengthen the overall efficiency of the pension system. As part of the first phase of the strategy, a number of legislative amendments were adopted at the end of 2013. But some of these will take effect only in 2014.

The base for calculation of payroll tax is earnings of each individual. It's calculated on cumulative basics starting from the beginning of the year. Payroll taxes are accrued on top of earnings. It means these taxes are not withheld from a person's salary. The obligation to pay tax is on the enterprise. Current payroll tax rate in Russia is 30%. But the scale of tax is not flat. It's regressive and depends of cumulative earnings of individual. That is a complex tax which consist of payments to pension fund (22%), payments to social security fund (2.9%) and payments to medical fund (5.1%). For each part of tax there are some exceptions and special rates for certain categories of individuals.

Cumulative earnings of individual starting from the beginning of year	Pension fund tax rate	Social security fund tax rate	Medical fund tax rate
Up to RUR624,000 (approx. $18,000)	22% *	2.9%	5.1%
Over RUR624,000 (approx. $18,000)	10%	0%	0%

*Additional contributions for certain categories of workers may apply

For example, if cumulative earnings of individual for the year is RUR1,000,000 the tax amount will be 624,000 * 30% + 376,000 * 10% = RUR224,800 (equals to 22.4%).

Additional pension insurance contributions will apply to workers employed in unsafe, hazardous and difficult conditions. E.g. for employees working in underground or high-temperature conditions, the rates were set at 6% in 2014 and 9% in 2015. It means that for such categories of workers pension fund tax rate will increase from 22% to 28% (22 +6) in 2014 and 31% (22+9) in 2015.

Each year the Government will change the limit for regressive scale of payroll tax. This increased from RUR 463.000 in 2011 to RUR 624.000 in 2014 due to inflation. The strategy of long-term development of Russian pension system includes future indexation of this amount till year 2021 (see table below).

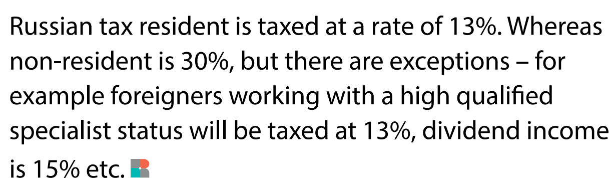
	2015 year	2016 year	2017 year	2018 year	2019 year	2020 year	2021 year
Indexation ratio for payroll tax regressive scale limit	1.7	1.8	1.9	2.0	2.1	2.2	2.3

The scale means that in 2015 the regressive scale limit will increase from RUR624,000 to RUR1,060,800 at least. Additional increase can happen due to inflation.

Recent changes in payroll taxation includes the introduction of tighter criteria for foreigners without highly qualified specialist status who are employed under fixed-term employment agreements in Russia and wish to qualify for exemption from pension contributions. Previously, foreigners without highly qualified specialist status who stayed temporarily in Russia and employed under an employment agreement less than six months were exempted from pension contributions on their earnings. As a result, in order to avoid pension contributions, a lot of back to back short-term employment agreements were made on this respect. Currently the payment requirement will apply to employees whose employment agreements add up to a combined total of over six months in one calendar year.

Personal income tax in Russia is at a flat rate depend on individual tax resident status. A tax resident is a person who spent at least 183 calendar days in Russia over 12 consecutive months. Under certain exceptional circumstances, the tax residency status is not lost due to short-term visits abroad.

Russian tax resident is taxed at a rate of 13%. Whereas non-resident is 30%, but there are exceptions – for example foreigners working with a high qualified specialist status will be taxed at 13%, dividend income is 15% etc.



Singapore

Singapore Budget 2014 – Brief highlights of tax changes for business

The Singapore Budget in 2014 is targeted at transforming the Economy, Promoting Economic Growth and Achieving a Fair and equitable society.

Corporate Tax Rate

The Corporate tax rate remains at 17%.

Tax Changes

Productivity and Innovation Credit (PIC) Scheme

Six qualifying activities:-

- Acquisition/lease of PIC Information Technology and automation equipment

- Training of employees

- Acquisition and in-licensing of Intellectual Property Rights

- Registration of patents, trademarks, designs

- Investment in approved design

- Research & Development

Current:

Maximum $400,000 of expenditure per YA per activity, or $1.2 million of expenditure per activity over YA 2013 to YA 2015

$100,000 of expenditure may be converted to cash payout of $60,000 per YA, subject to meeting the 3-local-employee condition.

Extension of Productivity and Innovation Credit (PIC) Scheme

The PIC scheme will be extended for three years till YA 2018.

For enhanced tax deductions, the expenditure cap of $400,000 per qualifying activity per YA can be combined across YA 2016 to YA 2018 (i.e. $1.2 million per qualifying activity).

For PIC cash payout, the expenditure cap of $100,000 per YA for all six qualifying activities cannot be combined across the three YAs, as is the case currently.

PIC+ Scheme

The PIC+ Scheme is introduced to provide support to Small and Medium Enterprises ("SMEs") who are making more substantial investments to transform their businesses.

[An entity qualifies as an SME if its annual turnover is not more than $100 million or employment size is not more than 200 workers (criterion applied at group level). Businesses will self-assess their eligibility]

Under the PIC+ scheme, the expenditure cap for qualifying SMEs will be increased from $400,000 to $600,000 per qualifying activity per YA. This means that these SMEs that invest beyond the current combined expenditure cap of $1.2 million for each qualifying activity can claim 400% enhanced tax deduction on an additional $200,000 of qualifying expenditure.

PIC+ will take effect for expenditure incurred in YA 2015 to YA2018. The combined expenditure cap will be up to $1.4 million for YA 2015, and up to $1.8 million for YA 2016 to YA 2018.

PIC benefits to training of individuals under centralised hiring arrangements

With effect from YA 2014, the PIC scheme will be enhanced to allow businesses to claim PIC benefits on training expenses incurred in respect of individuals hired under centralised hiring arrangements.

Research and Development (R&D) Tax Measures

To continue encouraging private R&D and to give certainty to businesses, the additional 50% tax deduction will be extended for ten years till YA 2025.

To attract businesses to conduct large R&D projects in Singapore, the further tax deduction accorded will be extended for five years till 31 Mar 2020.

In line with the above extensions, businesses can continue to claim tax deductions/ allowances on R&D expenditure incurred for R&D in areas unrelated to their existing trade or business as long as the R&D is conducted in Singapore.

Businesses can also continue to claim a further deduction of up to 300%, on qualifying R&D expenditure up to $400,000 under the PIC scheme, which has been extended till YA 2018.

Research & Development Expenditure

To build Singapore as an IP hub, the writing Down Allowance (' WDA") will be extended for five years till YA 2020. The accelerated WDA for Media and Digital Entertainment ("MDE") companies will be extended for three years till YA 2018.

Tax Deduction Scheme for Registration Costs of Intellectual Property

To encourage businesses to protect their intellectual property, the 100% tax deduction will be extended for five years till YA 2020.

Land Intensification Allowance (LIA) Scheme

To encourage businesses to optimise land use, the LIA scheme will be extended for five years till 30 Jun 2020.

The LIA will be extended to:

a) Logistics sector, in recognition of the close nexus between this sector and qualifying activities supported by LIA and

b) Businesses carrying out qualifying activities on airport and port land.

A new condition requiring existing buildings that have already met or exceeded the GPR (Gross Plot Ratio) benchmark to meet a minimum incremental GPR criterion of 10% will be introduced. This is to encourage businesses, especially those already in the top quartile of the relevant GPR benchmark, to continue intensifying their land use.

EDB will release the implementation details by end May 2014.

Withholding Tax Requirement for Payments made to Branches in Singapore

Payers will no longer need to withhold tax for interest, technical fees, management fees and royaltieon sections made to Permanent Establishments ("PEs") that are Singapore branches of non-resident companies.

These branches in Singapore will continue to be assessed for income tax on such payments that they receive and will be required to declare such payments in their annual tax returns.

This change will take effect for all payment obligations that arise on or after 21 Feb 2014.

For Financial Sector

Tax Changes - Summary

Treating Basel III Additional Tier 1 Instruments as Debt for Tax Purposes

Singapore-incorporated banks which issue Basel III Additional Tier 1 instruments, such instruments other than shares, will be treated as debt for tax purposes. Hence, distributions on such instruments will be deductible for issuers and taxable in the hands of investors, subject to existing rules.

The tax treatment will apply to distributions accrued in the basis period for YA 2015 and thereafter, in respect of such instruments issued by Singapore-incorporated banks (excluding their foreign branches) that are subject to MAS Notice 637.

Recovery of GST for Qualifying Funds

As a concession, qualifying funds that are managed by a prescribed fund manager in Singapore are allowed to claim GST incurred on expenses at a fixed rate.

This concession will be extended for five years till 31 Mar 2019.

The Monetary Authority of Singapore (MAS) will release further details of the change by end March 2014.

Other Tax Incentives for Businesses

Tax Changes -Summary

Allowing the Investment Allowance (IA) Scheme for Aircraft Rotables to Lapse

As the scheme is assessed to be no longer relevant, the IA scheme for aircraft rotables will be allowed to lapse after 31 Mar 2015.

Extending and Refining Tax Incentive Schemes for Qualifying Funds

The tax exemption scheme will be extended for five years till 31 Mar 2019 and will be refined as follows:

a) The scheme will be expanded to include trust funds with resident trustees with effect from 1 Apr 2014;

b) The investor ownership levels will be computed based on the prevailing market value of the issued securities on that day instead of the historical value. This will take effect from 1 Apr 2014; and

c) The list of designated investments will be expanded to include loans to qualifying offshore trusts, interest in certain limited liability companies and bankers acceptance. This will apply to income derived on or after 21 Feb 2014 from such investments.

Other existing conditions of the schemes remain unchanged.

MAS will release further details of the changes by end May 2014.

Enhancing the Foreign-Sourced Income Exemption Scheme for Listed Infrastructure Registered Business Trusts (RBTs)

To accord listed infrastructure RBTs in Singapore greater tax certainty, thereby facilitating the listing of more infrastructure assets in Singapore, the foreign-sourced income exemption for listed infrastructure RBTs will be enhanced as follows:

a) The specified scenarios will be expanded to cover dividend income originating from foreign-sourced interest income so long as it relates to the qualifying offshore infrastructure project/ asset and qualifying conditions are met for all specified scenarios; and

b) Interest income derived from a qualifying offshore infrastructure project/ asset will automatically qualify exemption provided certain conditions are met.

IRAS will release further details, including the effective date of these enhancements, by end May 2014.

Refining the Designated Unit Trust (DUT) Scheme

The DUT scheme will be streamlined and rationalised through the following changes:

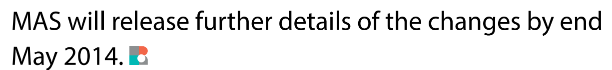
a) The scheme (such that specified income is not taxed at trustee level but in the hands of certain investors) will be limited to unit trusts offered to retail investors with effect from 21 Feb 2014. Non-retail unit trusts may consider other fund schemes;

b) Existing non-retail unit trusts that were approved under the scheme prior to 21 Feb 2014 may continue to retain their DUT status; and

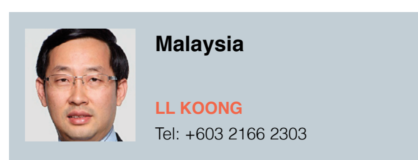
c) From 1 Sep 2014, subject to the fulfilment of conditions, unit trusts do not have to apply for the DUT scheme to enjoy the benefits of the scheme.

Other existing conditions of the DUT scheme remain unchanged.

MAS will release further details of the changes by end May 2014.



International Tax Panel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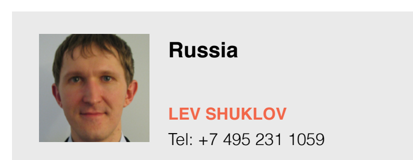
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