

PRISM

Tax Newsletter

4th Quarter 2017

Malta: Malta as a destination for expatriates

Nepal: Brief analysis on 'Transfer Pricing' and 'Income Splitting' provisions of Nepal

Pakistan: Important amendments made in 2017 in the Income Tax Ordinance, 2001

**UAE: A new tax regime in UAE from 1st January 2018
Value Added Tax (VAT)**

In this issue:

Malaysia

Common Reporting Standard (CRS) for the automatic exchange of financial account information

The Organisation for Economic Co-operation and Development (OECD) has introduced Common Reporting Standard (CRS) to put a global model of automatic exchange of information into practice for the purpose of tax compliance. It sets out the financial account information to be exchanged, the financial institutions required to report, the different types of accounts and taxpayers covered, as well as common due diligence procedures to be adhered to by financial institutions.

为确保纳税人遵守税务法规，经济合作与发展组织(经合组织)制定了“共同申报准则”，将全球自动税务情报交换模式纳入实践中。相关准则列出须交换的财务账目信息、需要互换信息的金融机构、所涉及的不同类型账目及纳税人，以及金融机构必须采取的一般尽职调查程序。

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Malta

Malta as a destination for expatriates

Malta is the smallest Member State in the European Union and is located in the Mediterranean Sea, between Sicily and North Africa. According to the Wall Street Journal, Malta ranked as the third best country for expatriates to live in.

There are 3 types of residence programs:

- a. IIP (Individual Investor Program)
- b. MRVP (Malta Residence & Visa Program)
- c. GRP (Global Residence Program)

Through these programs:

1. Tax is charged only on income remitted to Malta or arising in Malta
2. No tax is charged on money transferred to Malta
3. No tax is charged on Capital gains that arise outside Malta.
4. Tax on Maltese company profits can effectively vary from 0 to 10%

马耳他是欧洲联盟最小的成员国家，它位于地中海西西里岛和北非之间。根据华尔街日报，马耳他列为外籍人士移居的第三个最好的国家。有 3 种类型的住宅项目：

- a. IIP (个人投资者项目)
- b. MRVP(马耳他移居签证项目)
- c. GRP(全球移居项目)

通过这些项目：

1. 只对汇入马耳他或来源于马耳他的收征税
2. 对汇入马耳他的汇款不征税
3. 不对在马耳他以外产生的资本利征税。
4. 马耳他公司所得税的有效税率可能只有从 0 到 10%。

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Nepal

Brief analysis on 'Transfer Pricing' and 'Income Splitting' provisions of Nepal

'Transfer Pricing' means any arrangement among the related parties or group of related companies/entities/persons or any enterprises while dealing in international transaction and any foreign branch of such enterprises or any foreign permanent establishment, with the objective to reduce tax liability. Any arrangement among the related parties with the objective of reducing tax incidence or planning of the transaction in such a way that the price of asset or service shifted to another related party resulting into tax liability, is 'Transfer Pricing'.

“转让定价”是指在处理国际交易中的关联方或相关公司/实体/个人或任何企业之间的任何安排，这些企业或任何外国常设机构的外国分支机构，以减免税务责任。关联方之间的任何安排，旨在减少交易的税收发生或规划，使资产或服务转为另一关联方的价格变为纳税义务的方式为“转让定价”。

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Pakistan

Important amendments made In 2017 in the Income Tax Ordinance, 2001

Finance Act 2017, has brought certain amendments in the Income Tax Ordinance, 2001. New concepts of start-ups and e-commerce market place model have been introduced to encourage and promote the start-up culture in Pakistan and potentially attract foreign and local investors. Previously these sectors were not part of any tax regulations.

To prevent misuse of receipts/donations etc. received by NPOs, additional conditions have been introduced for NPOs to comply in order to be eligible to enjoy 100% tax credit

“财政法”2017年，对“2001年所得税条例”进行了一些修改。引进了初创企业和电子商务市场模式的新概念，以鼓励和促进巴基斯坦的创业文化，并可能吸引外国和本地投资者。以前，这些行业不属于任何税收规定。为防止非营利组织收到的收据/捐款等的滥用，引进额外条件有资格享受100%的税收抵免

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Russia

Main changes to the tax legislation of the Russian Federation

1. The Tax Code of Russia is supplemented by provisions on the validity of the tax bene-fit.
2. The Federal Tax Service of Russia has established that additional data on companies operating in the territory of Russia will appear on its website beginning June 1, 2018.
3. The Russian government has updated the list of facilities and technologies with high energy efficiency.
4. Evasion of payment of insurance premiums has become shall be regarded as a crime.
1. 俄罗斯联邦税法增加了关于税收利益有效性的条款。俄罗斯联邦税法的新的51.4号条款涉及降低税基和税额问题。(自2017年08月19日起生效)
2. 俄罗斯联邦税务局制定了，俄罗斯公司的新消息将会于2018年06月1日在该局的网站出现。(根据俄罗斯联邦税务局的2017年07月27日N MM B-7-14/582号的法令)
3. 俄罗斯政府更新了能源效率高的设施和技术，即增加了330.28.13.27, 330.28.13.28号压缩机，330.28.13.25号涡轮压缩机。(根据俄罗斯政府的2017年08月25日N1006号的法令)
4. 保险费逃避成为罪行。(自2017年08月10日起生效)

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UAE

A new tax regime in UAE from 1st January 2018 Value Added Tax (VAT)

It's a beginning of the transition and transformation of a tax-free country by introduction of VAT in UAE. UAE is also going to embrace one tax and one country policy. Unequivocally this phase of indirect tax-VAT transfiguration will enlighten the economy of UAE and pave the path for the implementation of smooth tax system in UAE. It's not beyond the knowledge that UAE is one of the most advanced and developed country but undoubtedly additional tax revenue to the Government of UAE will uplift the socio-economic environment and it would evenly place the country in line with the global transparent and regulatory framework.

这是阿联酋通过引入增值税的方式由免税国转型的开始。阿联酋也将拥抱一国一税政策。明确地说，这一阶段的间接增值税转型将开启阿联酋经济的新阶段，为建立阿联酋稳定的税收制度铺平道路。众所周知，阿拉伯联合酋长国是最先进和发达国家之一，但对阿联酋政府来说，增加的税收无疑将提升社会经济环境，并使国家符合全球透明和监管框架的要求。

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UK

UK residential property

The article outlines some major changes to UK tax legislation that affects owners of UK residential property which have been introduced within the last 24 months. These changes cover stamp duty land tax on the acquisition of UK residential properties, income tax on rental income and inheritance tax on the transfer of a UK residential property.

There are potentially tax efficient alternative ways to hold UK property investments, which include the use of a company and investing in commercial property. The tax benefit of these alternatives are briefly described in the remainder of the article.

本文章概述了英国税收立法的一些重大变化，该政策于24个月前开始实施，对英国住宅物业所有者的税收影响显著。这些变动包括对英国住宅物业的收购增收印花税，英国住宅物业租金收入所得税和在住宅物业转让时的遗产税的调整。

尽管如此，还是存在合理运用税收政策进行有效在英房地产投资的方法，包括使用公司持有住宅物业和投资商业物业等方法。这些方法的税收优惠将在本文的其余部分进行了简要描述。

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Malaysia



Common Reporting Standard (CRS) for the automatic exchange of financial account information

The Organisation for Economic Co-operation and Development (OECD) has introduced Common Reporting Standard (CRS) to put a global model of automatic exchange of information into practice for the purpose of tax compliance. It sets out the financial account information to be exchanged, the financial institutions required to report, the different types of accounts and taxpayers covered, as well as common due diligence procedures to be adhered by financial institutions.

Under the CRS, Financial Institutions in Malaysia are required to collect financial account information on non-residents and report to Inland Revenue Board of Malaysia (IRBM). IRBM will exchange this information with the participating foreign tax authorities of those non-residents.

Malaysia has committed to exchange the CRS information from 2018 and would also be receiving financial account information on Malaysian residents from other countries' tax authorities. This is a move towards ensuring that residents with financial accounts in other countries are complying with their domestic tax laws and act as a deterrent to tax evasion.

CRS obligations are imposed on Financial Institutions in Malaysia through the operation of the Income Tax (Automatic Exchange of Financial Account Information) Rules 2016 (CRS Rules). The implementation timeline are as follow:

Subject	Timeline
pre-existing Accounts cut-off date	30 June 2017
New Account	Opened or after 1 July 2017
Determination date whether Pre-existing Individual Account meet the high value threshold (exceeds USD1,000,000)	30 June 2017, 31 December 2017 and 31 December of subsequent calendar years
Determination date whether Pre-existing Entity Account meets the threshold for review (exceeds USD250,000)	
Review of Pre-existing High Value Individual Account must be completed by	30 June 2018
Review of Pre-existing Lower Value Individual Account must be completed by	30 June 2019

Subject	Timeline
Review of Pre-existing Entity	30 June 2019
Accounts must be completed by Reporting to IRBM	30 June 2018 and 30 June of subsequent year

Under the CRS Rules, Financial Institutions of Malaysia are required to collect financial account information from all non-residents and report to IRBM the information relating to the Reportable Jurisdictions by 30 June annually beginning 2018. List of Reportable jurisdictions will be published by 15 January 2018 and will be revised accordingly by 15 January in the following years.

Reporting of CRS Information will be in the OECD's CRS Extensible Markup Language (XML) Scheme and reported to IRBM through the IRBM's IT platform.

The CRS will lead to the disclosure of offshore financial assets of Malaysian tax residents by the relevant participating jurisdictions' tax authorities to the IRBM. The IRBM will have access to information on Malaysian tax residents' financial assets kept outside Malaysia. Malaysian tax residents, especially high net worth individuals and businesses must be prepared to provide evidence to support their tax position. 🇲🇾

Reference

Official Portal of the Inland Revenue Board of Malaysia
www.hasil.gov.my

Malta



Malta as a destination for expatriates

Malta is the smallest Member State in the European Union and is located in the Mediterranean Sea, between Sicily and North Africa.

In 2016, Malta was the fastest growing economy within the EU with 6.7% growth in GDP in nominal terms, had an unemployment rate of 4.8% and more than 7,500 new jobs were created in the private sector. The main contributing industries to the economy are iGaming, Financial Services, Tourism, Shipping and Real Estate.

Due to its Geographical location, friendly business environment and a country where English is well spoken, (together with other languages) Malta is well equipped to attract new Investment. Furthermore it has an excellent telecommunications infrastructure and direct flight service to various cities in Europe.

Complementing this business environment, Malta has a robust Banking system, a well-regulated Financial and Gaming sectors, as well as a business friendly tax regime.

Malta Joined the European Union in May 2004 and adopted the Euro currency in January 2008.

According to the Wall Street Journal, Malta ranked as the third best country for expatriates to live in. This is due to various characteristics, mainly:

1. A favorable weather, with hot summers and mild winters.
2. Has very long hours of sunshine throughout the year, with an average sunshine of 8.5 hours per day
3. Friendly business environment
4. A high standard of education
5. Most locals can speak English and other languages
6. A beneficial tax regime.

There are mainly 3 types of residence programs:

- d. IIP (Individual Investor Program)
- e. MRVP (Malta Residence & Visa Program)
- f. GRP (Global Residence Program)

Through the IIP, the applicant, if approved, will be issued with a Maltese passport. The other two programs, permit the applicant (again if approved) to reside in Malta and will be issued with a Maltese residency card.

Through these programs applicants would be considered as residents, but not domiciled in Malta, and therefore would be entitled to the following tax benefits:

5. Will be taxed only on income remitted to Malta or arising in Malta
6. If certain conditions are met, no tax is charged on money transferred to Malta
7. There is no wealth tax
8. No tax is charged on Capital gains that arise outside Malta.
9. Tax on Maltese company profits can effectively vary from 0 to 10%, usually the rate is 5%

The three programmes in brief:

	IIP	MRVP	GRP
Benefits	Maltese citizenship	Residence permit in Malta	Residence permit in Malta
	Right of establishment in E.U. & Switzerl	Right to reside and settle in Malta	Right to reside and settle in Malta
	Visa free travel to 168 Countries Including US	Freedom of Movement within Schengen area	Freedom of Movement within Schengen area

	IIP	MRVP	GRP
Requirements	€650,000 contribution	€30,000 contribution	€6,000 payable to government
	Purchase immovable property for a minimum of €350,000 or rent out at €16,000 per year	Purchase immovable property for a minimum of €320,000 or rent out at €12,000 per year	Purchase immovable property for a minimum of €275,000 or rent out at €9,600 per year
	Invest € 150,000 in Government bonds or other investment	Invest € 250,000 in Government bonds or other investment	A minimum Tax payment of €15,000 per year.

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Nepal



Brief analysis on 'Transfer Pricing' and 'Income Splitting' provisions of Nepal

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Income Tax Act, 2002 of Nepal has following provisions with respect to 'Transfer Pricing' and 'Income Splitting'.

1.1 Transfer Pricing

Section 33(1)

In any arrangement between persons who are associates, the Department may, by notice in writing, distribute, apportion, or allocate amounts to be included or deducted in calculating income between the persons as is necessary to reflect the taxable income or tax payable that would have arisen for them if the arrangement had been conducted at arm's length.

Section 33(2)

In making any adjustment under Section 33(1), the Department may-

- (a) re-characterize source and type of any income, loss, amount, or payment; or
- (b) allocate costs, including head office expenses, incurred by one person in conducting a business that benefit an associate or associates in conducting a business to the associates based on the comparative turnovers of the business.

Key Points

1. If there is any arrangement between the associate persons, the department or the offices may distribute, apportion or allocate the amount to be included or deducted in calculating income between the persons as is necessary to reflect the taxable income or tax payable that would have arisen for them if the arrangement had been conducted at arm's length.
2. 'Arrangement' means any arrangement or provision of any agreement, any deal in business among each other, promise, transaction, understanding, or any other provision, directly or indirectly, by a person himself or through more than one persons. 'Arm's length' means any purchase or sale of asset or service or business transaction or business deal among unrelated persons in market value. 'Market Value' means value on any transaction for the asset or service among unrelated person under general business transactions. In other words, 'market value' means any value as determined by market under normal circumstances among the unrelated parties for the purchase/sale of asset or service.

1.2 Income Splitting

Section 34(1)

Where a person attempts to split income with another person that is likely to cause reduction in tax, the Department may, by notice in writing, adjust amounts to be included or deducted in calculating the amount of each person to prevent any reduction in tax payable as a result of the splitting of income.

Section 34(2)

As reference in Section 34(1) to a person having attempted to split income includes, but is not limited to, a reference to a transfer of the following amounts so as to lower the total tax payable by the person or an associate, either directly or indirectly through one or more interposed entities, between the person and the associate;

- (a) amounts to be derived or costs to be incurred; or
- (b) an amount received or enjoyed by the transferee of an asset that is derived from the asset; or an amount paid or expenses incurred in owning the asset.

Section 34(3)

In determining under Section 34(2) whether a person is

seeking to split income, the Department shall consider the market value of any payment made for the transfer.

Key Points

If any person makes an arrangement to reduce the current or future tax by establishing an establishment of possibility of reducing tax is called 'Income Splitting'. Transfer Pricing is also one of types of 'Income Splitting' which happens only between related persons but 'Income Splitting' can happen even in other situations as well. Followings are the possibilities of 'Income Splitting' –

- By making inter-adjustment of progressive rates of taxes
- By making an adjustment of social or family establishment and tax base
- By making inter-adjustment of tax rebate or industrial rebates
- By making transfer of expense or income, which is not in reality
- By making transfer of expense of tax rates incentives income to general tax rates income
- By transforming business transactions to final withholding income transactions
- Any other arrangement with a view to reduce tax

Pakistan



Important amendments made in 2017 in the Income Tax Ordinance, 2001

New Concepts

Introducing concept of an "Online Marketplace" [Section 2(388)]

The Finance Act, 2017 has introduced the concept of an online marketplace and the same has been defined as an information technology platform run by an e-commerce entity over an electronic network that acts as a facilitator in transactions that occur between a buyer and a seller. A person running an online marketplace shall be subject to reduced / concessionary rate of minimum tax under section 113 of the Ordinance at 0.5% for the Tax Year 2018. Moreover, in terms of clause (28C) of Part II of the Second Schedule to the Ordinance inserted through the Finance Act, 2017 the rate of collection of advance tax on brokerage and commission for a person running an online marketplace shall be 5% which shall constitute final tax.

Introducing concept of “start-ups” [Section 2 (62A)]

A start-up has been defined as a business set-up by a resident individual, AOP or a company having turnover up to PKR 100 Million in the last five tax years, registered and certified by the Pakistan Software Export Board (PSEB) as an information technology entity.

For incentivizing start-ups, exemption has been accorded to profits earned by such entities in the tax year in which the entity is certified by Pakistan Software Export Board (PSEB) and the subsequent two tax years. Existing undertakings engaged in similar businesses incorporated or registered on or after July 1, 2012 are also entitled to this exemption subject to certification by Pakistan Software Export Board (PSEB). Furthermore, the Federal Government has also been empowered, through the Finance Act, 2017 to notify any business as a “startup” subject to specific conditions. Moreover, exemption has also been accorded to such “Start-ups” from levy of minimum tax under section 113 1 of the Ordinance in terms of sub-clause (xxix) of clause (11 A) of Part IV of the Second Schedule inserted through the Finance Act, 2017 as well as deduction of withholding tax upon receipt of payments specified in section 153 of the Ordinance in terms of clause (43F) Part IV of the Second Schedule to the Ordinance inserted through the Finance Act, 2017.

Tax credit for non-profit organizations, trusts or welfare institutions

Prior to Finance Act 2017, non-profit organizations, trusts and welfare institutions enjoyed 100% tax credit equal to the tax payable subject to fulfillment of the following conditions:

- (a) Return has been filed;
- (b) Tax required to be deducted or collected has been deducted or collected and paid; and
- (c) Withholding tax statements for the immediately preceding tax year have been filed.

Through Finance Act 2017, a new condition (d) has been added for availing this credit, which reads as under:

- (d) The administrative and management expenditure does not exceed 15% of the total receipts.

The rationale behind this amendment is to stop misuse of receipts/donations etc. received by NPOs and discourage them from spending such amounts on huge administrative salaries, vehicles etc.

Moreover, the newly inserted condition will not apply to non-profit organizations, if:

- (a) Charitable and welfare activities of the non-profit organization have commenced for the first time within the last three years; and

- (b) Total receipts of the non-profit organization during the tax year are less than one hundred million Rupees.

It may also be mentioned that this condition applies only to non-profit organization and not to “trusts” and welfare institutions.

Example:

XYZ is an NPO running a project for providing primary education free of cost to the needy. The NPO has appointed an administrative officer and administrative staff for recruiting teachers and staff and hiring of buildings for schools. The salaries payable to the administrative officer and staff and salaries payable to teachers and staff, for schools and other expenses are as under:

Receipts (donations, voluntary contributions, subscriptions)		PKR 3,200,000
Expenses		PKR 2,540,000
Total Administrative & Management expenses	PKR 240,000	
Total Project Expenses	PKR 2,300,000	

In this example 15% of the total receipts amounts to PKR 480,000 (15% of 3,200,000) whereas total administrative and management expenses are 240,000 which are less than 15% of total receipts, therefore the Non-profit Organization, namely XYZ, qualifies for 100% tax credit under, section 100C of the Ordinance.

There have been other changes as well which shall be rolled out in next editions. 🇷🇺

Russia



Major changes of tax legislation of the Russian Federation

- 2.1. The Tax Code of Russia is supplemented by provisions on the validity of the tax benefit since August 19, 2017.

According to the new article 54.1 of the Tax Code of Russia, it is possible to reduce the base or the amount of tax if all the following conditions are met:

- the organization has not distorted in the tax and accounting records or tax reports information about the facts of economic life, on the objects of taxation;
- the transaction or transaction is not made for the purpose of non-payment or incomplete payment of tax, as well as its offset or return;

- the counterparty or the person to whom the obligation under the transaction or transaction was transferred, performed it.

In this situation there should be no claims to the taxpayer, even if the primary documents were signed by an improper person, the counterparty violated the law on taxes and fees or it was possible to commit another legal transaction with the same economic result. Such circumstances are not considered as an independent basis for recognizing the tax benefit as unjustified.

The new provisions concern taxpayers, payers of fees, insurance premiums, tax agents and are applied at inspections effective after August 19, 2017.

- 2.2. The Federal Tax Service of Russia has established that additional data on companies operating in the territory of Russia will appear on its website beginning June 1, 2018 since August 8, 2017

The Federal Tax Service of Russia was expected to establish the additional data for the verification of counterparties on July 25, 2017, but it was postponed. Now, the establishment of data is expected on June 1, 2018.

Among the information available are:

- outstanding tax liabilities and penalties;
- tax offenses and liability for them;
- special tax regimes;
- participation in the consolidated group of taxpayers;
- the average number of employees, paid taxes and fees, income and expenses of the company for accounting.

Changes are provided by the Order of the Federal Tax Service of Russia of 27.07.2017 N MMV-7-14 / 582 @

- 2.3. The Russian government has updated the list of facilities and technologies with high energy efficiency since September 6, 2017.

There are more facilities and technologies included in the list. The most notable is the inclusion of the following in the list:

- compressors with efficiency for all compression levels of 87%;
- turbochargers with efficiency for all compression levels of 88%.

High energy efficiency facilities and technologies may qualify for accelerated depreciation for income tax.


Changes are provided by the Decree of the Government of Russia of 25.08.2017 N 1006

- 2.4. Evasion of payment of insurance premiums shall be regarded as a crime since August 10, 2017.

Criminal prosecution now threatens those who shy away from paying insurance premiums levied under

the Tax Code of Russia. These payments are included in article 199 of the Criminal Code of Russia, which previously concerned only taxes and fees. The lenient punishment under this article, as before, is a fine of 100 thousand rubles, while, the most severe punishment is imprisonment for up to 6 years with a three-year deprivation of the right to hold certain positions.

For the first offence, the perpetrators may be exempted from criminal liability, if they paid all outstanding tax liabilities and penalties.

Changes are provided by the Federal law from 29.07.2017 N 250-FZ. 

UAE



A new tax regime in UAE from 1st January 2018 Value Added Tax (VAT)

Predominantly, United Arab Emirates (UAE) which is a key business hub of the Middle East and playing a leading role in the region, has been a tax-free economy since independence and there are almost no taxes at all for companies or individuals in the country with exception to some specific entities in Banking and Oil & Gas sectors. The UAE Government has been historically managing its fiscal budget by way of revenue from the Oil & Gas sector, administrative and registration fees from companies as well as other forms of levies such as custom duty, road tax and municipal taxes on the hotel & tourism industry.

The UAE Government has announced to implement VAT legislation with effect from 1st January 2018. This dynamic announcement and implementation from January 2018 has marked an important step towards the much-talked about financial transparency, following international standards and transformation to a non-oil based economy.

The GCC Member States have approved the long anticipated 'Common VAT Agreement of the States of the Gulf Cooperation Council (GCC)' which aims to establish a common legal framework for the introduction of a general tax on consumption in the GCC known as VAT. The common VAT framework will form the basis for the introduction of a national VAT system by each Member State. While there are a number of challenges that still need to be addressed before it is implemented, VAT will undoubtedly help governments of the GCC countries to deliver on long-standing plans to cut their dependence on Oil & Gas revenue but still able to deliver high standard social and economic contribution in the interest of the residents. The implementing regulations for VAT regime which will set out the common framework and legislation are yet to be published by the UAE

Government. It is imperative that the establishment of clear rules & regulations and guidelines for the efficient administrative processes are vital to the successful and smooth roll out of VAT. Businesses in UAE (and GCC) have already started planning from impact assessment to the successful implementation of the VAT to ensure a well-planned and agile transition which is going to change the dynamics of their businesses under a new regulatory environment.

As per the Common GCC Agreement, the UAE Government has decided to impose a standard rate of 5% VAT which is one of the lowest in the World. Education, healthcare sectors and some specific supplies will be zero rated nonetheless local passenger transport, life insurance premiums and bare land supplies will be exempted.

Key highlights

- Effective from 1st January 2018
- Standard rate of VAT 5%
- Expected annual revenue to the UAE Government US\$4 Billion
- Applicable on both goods and services
- Mandatory threshold to register US\$ 100,000
- Over 400,000 entities are expected to register

It has been announced by the newly formed Federal Tax Authority (FTA) that the online VAT registration process will commence from the mid of September 2017 and the entities will have to file quarterly returns with the authority. We understand that it would be a challenge for the professional entities to handle such a voluminous work which will have to be handled and carried out with utmost accountability and responsibility. 🇦🇪

UK



UK residential property

The UK residential property market grown strongly in recent decades, not just in terms of property values but also rental income. The government has attempted to slow down the property market by implementing many changes in the UK tax legislation aimed at those owning UK residential properties. This article sets out the main changes to the UK tax rules and how UK residential property owners should approach the matter.

Stamp Duty Land Tax

Stamp Duty Land Tax ("SDLT") is payable by the purchaser on UK land and property transactions. A surcharge which increased the SDLT payable by 3% of the amount paid for the residential property was

recently introduced. For example, if £1million is paid for a property, the surcharge is £30,000. Therefore, the SDLT is £30,000 higher than it was under the previous rules. There are various exemptions from the surcharge but it applies to all properties acquired through companies.

Income tax issues

A rule has been introduced to restrict the tax relief on loan interest. This rule is gradually being phased in so it does not have full effect until the 2020/21 tax year, providing property owners time to consider their options. The restrictions on loan interest relief do not apply to properties owned by a company.

Another valuable tax relief was the wear and tear allowance which was a flat rate deduction given for properties let furnished (generally 10% of the gross rent) and can no longer be deducted in arriving at the taxable rental profit. A new deduction was introduced for the replacement of domestic items. This is less generous than the wear and tear allowance, as the deduction is being brought in line with amounts actually spent.

Inheritance tax issues

With effect from 6 April 2017, a UK residential property owned via a non-UK structure is treated as if it were owned directly. This would have resulted in many owners of UK residential property starting to become within the scope of UK inheritance tax on 6 April 2017 and now should be the time for such owners of UK residential property to implement inheritance tax planning.

The use of a more tax efficient alternative structure to acquire rental properties

The changes in UK tax legislation on UK residential properties has led to many UK residential property owners considering their options. There has been an increase in the number of UK residential property acquisitions via companies. Properties held via companies are not subject to the restrictions on loan interest relief so it suits those holding UK residential properties with large borrowings.

For a non-UK resident person, the use of a company restricts the UK tax on rental income to 20% and dividend income can be extracted from the company with no further tax charge.

UK commercial properties

The abovementioned changes to loan interest relief, SDLT and inheritance tax do not apply to commercial properties. Therefore, UK property investors may start to give commercial properties more consideration as they are now more tax efficient than residential properties. 🇬🇧

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